Minneapolis Community College

Financial Audit
For the Three Years Ended June 30, 1994

September 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Ms. Judith Eaton, Chancellor
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Ms. Diann Schindler, President
Minneapolis Community College

We have audited Minneapolis Community College (college) for the period July 1, 1991 through June 30, 1994 as further explained in Chapter 1. Our audit scope included general financial management, tuition, payroll, operating expenditures (including employee travel reimbursements and the president's expense allowance account), bookstore revenues and expenses, and the college's relationship with the Minneapolis Community College Foundation (foundation). We also audited selected aspects of the foundation for the period July 1, 1991 through June 30, 1995. We audited expense reimbursements to the foundation's executive director. We also reviewed other unusual transactions of the foundation. This has not been, however, a complete audit of all foundation activity. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We previously audited the college's federal financial aid programs in conjunction with our statewide audits of the State of Minnesota's annual financial statements and federal programs. We issued three separate management letters to the Community College System concerning federal financial aid during the audit period. The reports were dated June 25, 1993, June 24, 1994, and June 28, 1995, and covered fiscal years 1992, 1993, and 1994 respectively.

In recent years, we have concentrated our audit efforts on functional aspects of the Community College System as a whole, rather than individual campuses. Several factors prompted us to change that strategy for this year, however, and to conduct an audit of the Minneapolis Community College campus. First, our 1994 audit of federal financial aid programs revealed several potentially serious financial problems at the Minneapolis campus. We were also aware that the college had a budget deficit since fiscal year 1993. Finally, we knew that the college had experienced significant turnover in key management positions since our last audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the college complied with provisions of laws, regulations, contracts and grants that are significant to the audit.

In accordance with Minn. Stat. Section 3.975, this report will be referred to the Attorney General. Findings 8, 12, and 15 discuss potential overpayments to college employees and officials. Furthermore, findings 17 and 18 indicate potential violations of provisions of Minn. Stat. Chapter 309 governing charitable organizations. Minn. Stat. Section 3.975 requires us to report these issues to the Attorney General and the Legislative Audit Commission.

This report is intended for the information of the Legislative Audit Commission and the management of Minneapolis Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 29, 1995.

We thank the college staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 17, 1995

Report Signed On: September 26, 1995

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
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Minneapolis Community College

Financial Audit
For the Three Years Ended June 30, 1994

Public Release Date: September 29, 1995 — No. 95-40

Background

Minneapolis Community College (college) became part of the new Minnesota State Colleges and Universities (MnSCU) System on July 1, 1995. Prior to the merger, the college was under the management and control of the Minnesota Community College System. Dr. Jacquelyn Belcher served as president of the college throughout the audit period until April 7, 1995. Mary Retterer served as interim president through September 1, 1995. The college finances its operations through student tuition and fees and systemwide appropriations. It also receives funding from the Minneapolis Community College Foundation (foundation), a separate, nonprofit organization.

Our audit scope covered the period from July 1, 1991 through June 30, 1994. In certain situations, we expanded the scope to include transactions through June 1995. We audited financial management and control, tuition and fees revenue, administrative expenditures, and bookstore operations. We also reviewed the college's relationship with the foundation and certain foundation disbursements.

Conclusions

During the time period of our audit, overall financial management and controls at the college were weak. The college has operated with a deficit since fiscal year 1993. A high turnover of staff in key financial management positions, spending decisions based on unrealistic assumptions on the collectibility of large accounts receivable balances, and poor cash management practices contributed to its financial management problems.

The college and the foundation did not have an appropriate relationship. During the audit period, a college dean served as the foundation executive director and received over $20,000 in reimbursements from the foundation. Many of the reimbursements were not well documented and some were inappropriate. Also, the executive director must repay $3,135 in overpayments. In addition, the foundation did not meet the state's requirements to operate as a charitable organization, did not always use its funds to benefit the college, and inappropriately acted as a fiscal agent for another nonprofit organization. The foundation's financial operations and relationship with the college need to be significantly improved.

We also noted other significant concerns with financial controls at the college. Weak controls over employee travel expenses resulted in $1,386 in overpayments to former president Jacquelyn Belcher. Inadequate controls over payroll allowed the payroll clerk to inappropriately manipulate her own leave records by 81.75 hours. We also noted control weaknesses over the college's receipt process.

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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
Jim Riebe, CPA	Audit Manager
Michael Hassing	Auditor-in-Charge
Lori Kloos	Auditor
Dale Ogren	Auditor
Pat Ryan	Auditor

Exit Conference

The results of this audit were discussed with Minneapolis Community College and MnSCU officials at an exit conference on September 18, 1995. The following people attended the meeting. We also discussed other matters involving compliance with laws and regulations that we reported to management at the meeting.

Minnesota State Colleges and Universities:

Judith Eaton	Ed McMahon
Harry Peterson	Jim Harris
Al Finlayson	Glenn Wood

Minneapolis Community College:

Diann Schindler	Phillip Davis

Attorney General's Office:

Steven Liss	Nancy Joyer

Chapter 1. Introduction

On July 1, 1995, the State of Minnesota merged three state systems of higher education--the state universities, community colleges, and technical colleges--into one system, known as Minnesota State Colleges and Universities (MnSCU). Minneapolis Community College (college) was one of eighteen community colleges and three community college centers brought into MnSCU. Prior to the merger, the college was under the management and control of the Minnesota Community College System.

The college is headed by a president. Jacquelyn Belcher served as college president during the audit period until April 7, 1995. An interim president, Mary Retterer, succeeded Dr. Belcher. A new president, Diann Schindler, assumed responsibilities on September 1, 1995.

The college receives its funding through state appropriations and local receipts. The community college system office allocates a portion of the systemwide appropriation to the individual colleges based on a formula. The college also collects tuition and fees from students. The total of appropriations and local receipts establishes the spending authority for the college. The college full-year equivalent (FYE) enrollment was 2,615 for fiscal year 1992; 2,940 for fiscal year 1993; and 3,107 for fiscal year 1994.

The college accounts for its instructional and operational activities on the statewide accounting system. The college accounts for other activities, such as federal financial aid and bookstore transactions, through local records and bank accounts. The college refers to these local accounts as the All College Fund. The All College Fund is exempt from Department of Finance budgeting policies and procedures. Community college board policies govern the use of the All College Fund.

Table 1-1 provides a summary of college revenues and expenditures during the audit scope.

Table 1-1
Summary of Revenues and Expenditures
Fiscal Years Ended June 30, 1992 - 1994

	FY1992	FY1993	FY1994
Prior Year Carryforward	$ 494,693	$ 121,826	($247,393)
State Appropriations	6,079,061	6,679,068	6,586,827
College Revenues:			
Tuition and Fees	4,537,920	5,418,943	5,963,983
Federal Financial Aid	2,980,501	3,601,049	3,120,324
Other Federal Grants	944,817	1,263,332	1,256,626
Bookstore	1,212,904	1,380,143	1,325,253
Other	939,143	1,017,536	909,842
Subtotal Revenues	10,615,285	12,681,003	12,576,028
Total Resources	$17,189,039	$19,481,897	$18,915,462
Expenditures:			
Employee Payroll	$10,675,989	$11,811,885	$11,788,360
Federal Financial Aid	2,980,501	3,601,049	3,120,324
Bookstore	747,921	903,609	970,945
Administrative Disbursements	3,037,250	3,442,776	3,503,662
Total Expenditures	$17,441,661	$19,759,318	$19,383,291

Source: Statewide accounting system, college statements of representation, system summary of carryforward, and financial aid reports.

Chapter 2. Financial Management

Chapter Conclusions

The college needs to improve its overall financial management. The college has struggled with a fiscal deficit in recent years. Management needs to continue working on resolving the current financial deficit at the college. We found that the college had a process for establishing and monitoring its budget but did not react timely to indications of pending financial difficulties. The college needs to identify all necessary financial information required for accurate budget forecasting and develop reliable information systems to capture that data.

The college receives funding from both the state and through the collection of local receipts. The system office allocates appropriated funds to the individual campuses for both instructional and non-instructional operations. The state appropriation is based on a formula which includes average cost funding. Average cost funding incorporates a two-year enrollment lag. In other words, the college receives current year funding based on enrollment figures from two years ago. This two-year lag funding formula hurts a growing campus like Minneapolis, because the college must rely more heavily on fluctuating and unpredictable tuition revenue to fund current operations. The college retains tuition and other local receipts to arrive at the authorized spending level for the college.

Throughout the audit period, the community college system office (prior to the merger) monitored college budgets and spending plans, and allocated resources to individual campuses from funds appropriated to the community college system. However, the responsibility of financial planning, budgeting, and spending decisions rests with the individual campus administrations.

The college has been operating in a deficit since 1993. The college is currently working with Minnesota State College and University (MnSCU) system office to resolve the budget deficit and financial management problems at the school.

We focused our efforts on the following questions regarding the college's overall financial management:

- Did the college have a sufficient process for developing and monitoring budgeted and actual financial operations?
- Did the college take sufficient action to respond to budget difficulties?

We conducted a general review of the college's budgetary process. We discussed the budget process and deficit situation with a number of current and former college staff members and personnel from the system office. We reviewed a chronology of the college's fiscal deficit developed by the community college system office.

The college continues to struggle with a fiscal deficit. The budget problems are a management issue that require immediate corrective action. There will be difficult decisions to make regarding the budget. We found that the process to review budgeted and actual financial information was ineffective. The college did not react timely or aggressively enough to the indicators of potential financial problems presented at cabinet meetings. The college was overly optimistic in assessing the collectibility of accounts receivable, especially in the areas of tuition and foundation receivables.

1. The college has struggled with a fiscal deficit in recent years.

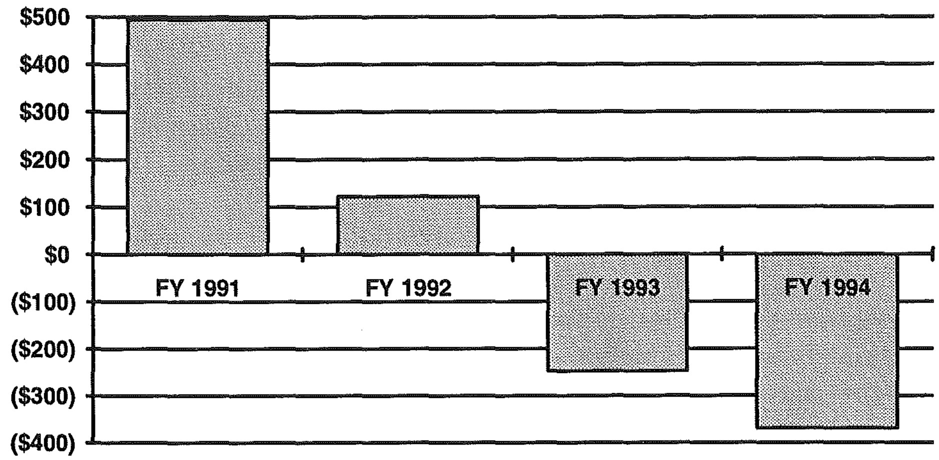
The college has been in an operating deficit since 1993. Several factors contributed to the fiscal problems at the college:

- Ineffective budget monitoring by college officials;
- Overly optimistic expectations for the collectibility of accounts receivable;
- Turnover of key financial personnel; and
- Extensive absences of the former president.

The college first acknowledged a budget deficit for fiscal year 1993 in August 1993, two months after the end of the year. At that time, college officials estimated a deficit of $150,000, but it ultimately grew to $247,393 when the final closing adjustments were made to the fiscal year 1993 accounts. In January 1994, the chancellor and finance director of the system met with the college president and dean for administrative services to discuss the deficit and a plan of action. As a result of the meeting, the college developed a plan that satisfied the system office. The plan included a shift to zero-based budgeting, developing a personnel budgeting information system, and placing a freeze on hiring and restraints on spending. The plan indicated that the deficit would be resolved by reducing the fiscal year 1994 budget by $247,393.

In October 1994, the system office again contacted the college president warning of a possible deficit for fiscal year 1994. The college conducted an internal analysis and identified a spending deficit, but also identified significant amounts in accounts receivable that would balance the budget upon collection. However, many of the receivables were subsequently never collected, and the college ultimately recorded a deficit of $368,389 in fiscal year 1994. These uncollectible receivables included $80,000 from the Minneapolis Technical College related to a joint telecommunications project, $40,000 from the college foundation, and over $40,000 in student tuition receivables. Figure 2-1 shows the history of the college's financial status from fiscal year 1991 through fiscal year 1994.

Figure 2-1
Summary of Carry Forward (In Thousands)
Fiscal Years 1991 - 1994



Source: Schedule of carry forward - Minnesota Community College System.

The deficit problems continued at the college during fiscal year 1995. The college laid off staff and administrators in December 1994 and again, as recently as July 1995. The former president left the college in April 1995 and an interim president was appointed. The system office has held meetings with the interim president and the new financial administrator of the college to discuss a new budget reduction plan for the college. The actual deficit figures for fiscal year 1995 are unavailable. However, the projected budget deficit is estimated to be in the $400,000 to $600,000 range. The latest plan for resolving the deficit specifies that the college will reduce it by a minimum of $100,000 each year for the next four years, and requires that the total deficit must be resolved within the four year period. The college has also taken steps to improve the collectibility and to reduce the size of student tuition accounts receivable. These steps include requiring a 50 percent down payment and only allowing financial aid deferments to those students awarded financial aid.

It is the college's responsibility to develop and adhere to a budget that is fiscally sound. During our audit period, the president had the ultimate authority for the budget and spending plans. The college's process for monitoring the budget involved various levels of management, including the president. The budget was discussed at weekly cabinet meetings. However, college officials did not react to information about potential financial difficulties. The college did not aggressively pursue realistic solutions to the problems. College officials tried to balance the budget through uncollectible accounts receivable. We were also told that the president imposed restrictions on staff contacting the system office regarding budget issues.

An additional component of a strong financial management structure is a knowledgeable staff. The college experienced a high level of turnover in administrators over the last five years. Since 1990, the college has had three presidents, one interim president, three deans of administration (chief financial officer), and four business office managers. This does not include turnover of other business office staff or other college administrators. The lack of continuity of staff is disruptive to the implementation of an effective financial management structure.

Another factor that college employees cited as contributing to its financial management difficulties was the absences of the former president from the campus. Several staff expressed concerns relating to the president's participation in organizations away from the college. The former president traveled extensively. We documented sixty-two different out-of-state trips from July 1991 through April 1995. Many of these trips were for conferences and meetings related to professional organizations in which the president actively participated.

Recommendation

- *The college must continue to work with the system office to resolve the budget deficit and financial management problems.*

2. The college did not perform some financial control procedures to ensure the accuracy and safety of college assets.

The college did not complete reconciliations of the bank accounts for the All-College account and the bookstore in a timely manner. It also did not reconcile the supporting ledgers to the general ledger for the All-College account. In addition, the daily cash reconciliation was not signed or dated ensuring prompt and independent preparation. The college did not control cash request transactions initiated by the bookstore. These controls are vital to the management of cash and availability of accurate financial information.

The business office had not reconciled the All-College checking account since August 1993. Additionally, the business office had not reconciled the All-College subsidiary ledgers to the general ledger since October 1994. At the start of our field work in April 1995, the business office had not reconciled the bookstore checking account since June 1994. The college cannot effectively manage cash without having current, accurate financial information available.

When the business office completed prior bookstore checking account reconciliations, large adjusting entries were carried forward month to month. These adjusting entries consisted of interest earned, service charges, debit memos, and financial aid receivables. The college did not post the adjusting entries to the bookstore's accounting records so they continued to appear as adjusting entries. The result of this process was incomplete and inaccurate financial information.

The bookstore requires additional cash at certain times during each quarter to provide change and to purchase used textbooks from students. The bookstore requests the cash from the bank by telephone and notifies the business office of a pending cash delivery. There is no system for monitoring the propriety of these cash request transactions. The transactions appear on the bank statement, but the business office does not verify documentation to support the propriety of the transaction.

Reconciliations are a key internal control to detect and prevent errors and irregularities. A timely and independent reconciliation of the checking account, subsidiary ledgers, and daily cash receipts will verify properly recorded financial activity. An independent person, other than someone who maintains the checking account and the subsidiary ledgers, should perform or verify the reconciliations on a timely basis. This timely and independent preparation would reduce the risk of undetected errors and irregularities.

Recommendations

- *The business office should improve its financial management of cash by performing control procedures such as :*
  - -- *performing complete and timely reconciliations of all checking accounts and subsidiary ledgers;*
  - -- *performing an independent review of the accuracy of reconciliations;*
  - -- *documenting the independent and timely completion of the daily cash report form by including a date and signature;*
  - -- *verifying the propriety of all bookstore cash request transactions; and*
  - -- *recording and posting all adjusting entries promptly.*

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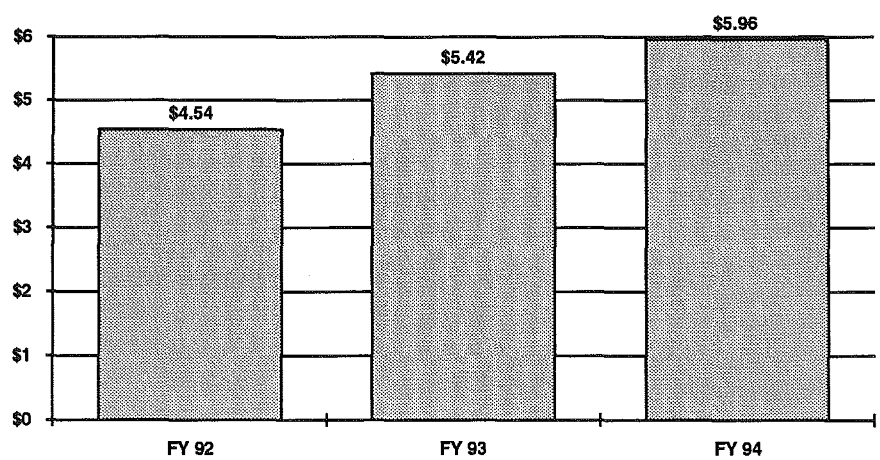
Chapter 3. Revenues

Chapter Conclusions

We noted several control weaknesses within the tuition process including lack of separation of duties and inadequate controls over continuing education receipts. We also question the college's policy allowing students who do not pay tuition and fees to attend classes. This policy resulted in a large tuition receivable balance that may not be collectible. The college did deposit tuition received accurately and timely and charged the appropriate fees.

We focused our audit of revenues at the college on tuition and fee receipts. Tuition and fee receipts account for about 77 percent of revenues collected at the college. Federal grants account for the majority of the remaining revenue. Tuition and fee revenues for the three year audit period are shown in Figure 3-1.

Figure 3-1
Tuition Revenue (In Millions)
Fiscal Years Ended June 30, 1992, 1993, 1994



Source: Statewide accounting system and community college system schedule of revenue.

The majority of tuition and fee revenue at the college is from tuition collected from students attending classes. The college also charges students general and course fees. General fees include application fees, technology fees, and student association fees. Students registering for specific classes pay additional course fees. Examples of course fees include film and video fees, golf fees, and applied music fees.

Minneapolis Community College

Students pay their tuition and fees at the college business office. Business office cashiers collect payments and enter transactions into a cash register. The cashiers also process the receipts through the community college information system (CCIS) and the statewide accounting system. The college deposits receipts daily.

The college performs a daily cash reconciliation as a standard control procedure. The college reconciles tuition receipts to ensure that all receipts are deposited and payments are posted properly to student accounts. The reconciliation compares payments posted to the CCIS to cash deposited into the tuition accounts in the statewide accounting system.

We focused our review of tuition and fee receipts on the following objectives:

- Was the internal control structure sufficient to ensure that all tuition and fees were collected?
- Was all tuition received deposited accurately and timely?
- Did the college charge the approved tuition and fees?

The methodology we used to audit revenue included interviewing key personnel to determine how the college processed tuition receipts. We gathered evidence about the adequacy of internal controls over tuition receipts, including the adequacy of the cash reconciliation process. We also searched for instances of noncompliance with applicable laws and policies. We chose a random sample of days when the business office received tuition and performed tests. We also tested attributes directly related to the reconciliation process.

As reported in the following findings, the college allowed students to attend classes without paying their total tuition, resulting in a large tuition receivable balance. It also did not have an adequate separation of duties over tuition receipts and did not adequately control tuition transactions to ensure the propriety of administrative adjustments and tuition waivers. Also controls were not adequate over community and continuing education receipts collected off campus. We also found the college did not follow proper procedures for ALLISS Grants. We concluded that the college accurately and timely deposited tuition received.

3. The college allowed students who did not pay tuition to attend classes, receive grades, and register for future classes.

The college had a liberal tuition collection policy during the audit period. It is the only community college that accepts promissory notes from students who cannot afford to pay their tuition before the due date. Other community colleges drop the students from classes if payment is not made by the due date unless the community college system office approved the colleges' plan for administrative deferments of tuition payments based on student hardship. We believe that Minneapolis Community College deferred tuition payments for other than hardship cases based on the amount of deferments it allowed. At Minneapolis Community College, if the student did not pay the total tuition, the student could pay a $100 deposit and sign a promissory note that would allow the student to attend class. The balance of the student's tuition would be due the last week of class. During the audit period, the college allowed students to receive grades and register for classes in subsequent quarters without paying their total tuition. This policy resulted in the college accumulating a large tuition receivables balance of which approximately $200,000 is over one year old and the collectibility is uncertain. The college continues to allow students who do not pay their fees by the tuition deadline to attend class, but the students will not be able to receive transcripts or register for classes the next quarter.

Recommendation

- *The college should require all students to pay tuition and fees by the specified due dates or not allow them to attend classes (unless the system office approves the college plan for administrative deferments).*

4. Minneapolis Community College did not have an adequate separation of duties over tuition receipts.

The college did not adequately separate tuition receipt duties because cashiers had the authority to independently make administrative adjustments and collect accounts receivable. Persons independent of the cashier function should perform these transactions. An administrative adjustment corrects an error or mistake made in entering a tuition receipt. The transaction is similar to voided transactions. A cashier could process an adjustment to alter a transaction even if the original transaction had been processed correctly.

Cashiers also collected payments on accounts receivable and entered the transactions into the CCIS system. A cashier in this position would have the ability to perform and conceal an irregularity. For proper separation of duties, employees who handle cash should not have the ability to independently perform administrative adjustments or collections on accounts receivable.

Recommendation

- *A person independent of the cashier function should perform administrative adjustments and accounts receivable collections. At a minimum, an independent person should review and approve adjustments and collections performed by cashiers.*

5. The college did not verify the propriety of tuition waivers.

The college did not reconcile tuition waivers authorized to tuition waivers issued. The terms and conditions of employment allow college employees to attend up to eight credits a quarter without paying tuition and fees. The college must monitor this activity to ensure compliance with regulations. The college maintains a record of all registrations with authorized tuition waivers. In addition, the system office produces a report for the college summarizing tuition waivers issued for each quarter. However, the college did not reconcile its record of tuition waivers to the tuition waiver report produced by the system office. Errors or irregularities could go undetected without a timely and independent reconciliation.

Recommendation

- *Minneapolis Community College should reconcile tuition waivers authorized to tuition waivers issued.*

6. The college did not follow established procedures related to the administration of ALLISS Grants.

The college did not follow ALLISS Grant rules. The program pays tuition for the first five credits of one class and a book allowance for students who have not been in school for at least seven years and do not have a college degree. The program does not pay for extra fees. ALLISS policies require that students pay all extra fees by the tuition due date or be dropped from the class. The college did not drop students who did not pay their extra fees.

Recommendation

- *The college should follow established guidelines related to ALLISS Grants and drop those students who do not pay their extra fees by the tuition due date.*

7. The college did not use the community college information system to register students or collect tuition receipts for students attending non-credit classes.

The college did not reconcile non-credit tuition receipts collected at its continuing education facility. The college's continuing education program operates at an off-campus facility. All class registrations and tuition collection takes place at this facility. The college collected approximately $200,000 from non-credit continuing education classes each of the last two years.

Continuing education staff prepare a roster of registered and paid students. Staff send the roster and tuition receipts to the college business office for deposit and entry into the statewide accounting system. The business office performs no reconciliations on these receipts. The continuing education division performs all accounting functions for these programs. The college does not record non-credit tuition receipts into the community college information system.

The college should require the continuing education program to use the registration and tuition collection functions at the business office. This would provide greater security over the receipts and stronger accountability of the financial transactions. Operating outside of these established control cycles increases the chance of errors and irregularities.

Recommendation

- *The college should require the continuing education program to operate within established registration and cash control procedures of the business office.*

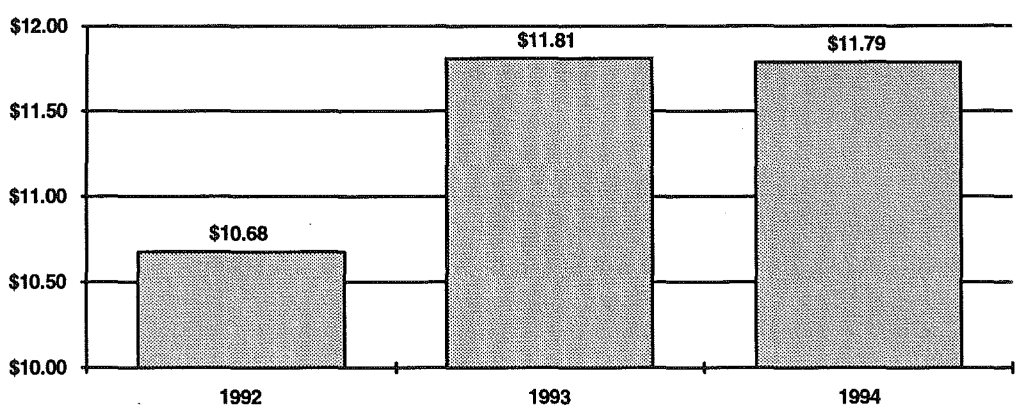
Chapter 4. Payroll

Chapter Conclusions

The college compensated employees according to applicable bargaining unit contracts. However, we noted that the college did not follow established payroll policies and procedures. An internal control weakness resulted in the college payroll clerk inappropriately claiming 81.75 hours of leave. We also found that the college did not maintain adequate employee leave records and was not in compliance with certain leave policies of the community college system.

Payroll represents the largest expenditure category for the college. Figure 4-1 shows the payroll expenditures for fiscal year 1992 to fiscal year 1994. Fiscal year 1993 payroll expenditures increased by approximately $1.1 million or ten percent over fiscal year 1992. This increase relates primarily to adding employees to the college's payroll in fiscal year 1993.

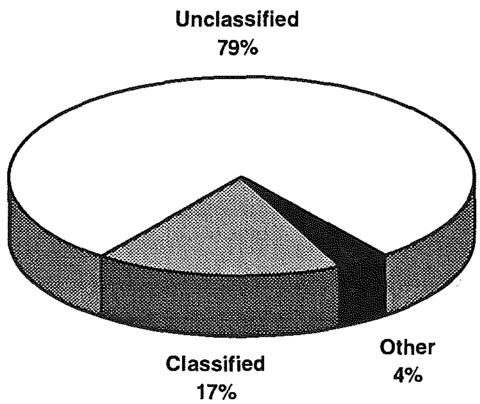
Figure 4-1
Summary of Payroll Expenditures (In Millions)
Fiscal Years Ended June 30, 1992, 1993, 1994



Source: Statewide accounting system and college statements of representation.

College employees are either in the classified or unclassified service. Unclassified employees include faculty, administrative assistants, directors, and administrators. Figure 4-2 presents the respective percentage of total payroll expenditures for unclassified and classified college employees for the three years ended June 30, 1994.

Figure 4-2
Payroll Expenditures by Type
Three Fiscal Years Ended June 30, 1994



Source: Statewide accounting system, college statements of representation.

All employees submit time reports as part of the biweekly payroll process. Supervisors review and approve the hours reported on their employee's timesheets and submit them to the personnel office. The personnel office prepares the payroll and the community college system office inputs the payroll into the state's central payroll system.

We focused our review of payroll on specific objectives related to the following questions:

- Did the college compensate personnel in wages and benefits according to applicable bargaining unit contracts?
- Were the leave balances maintained by the college and the state payroll system current and correct and did the college comply with community college system and Department of Employee Relations (DOER) leave policies?

To address these objectives, we reviewed classified and unclassified employee contracts. We tested employee payroll transactions to ensure that the college complied with bargaining unit contracts. We also tested employee leave balances to determine if they had been correctly maintained. While examining leave balances, we examined vacation leave upon separation to determine if the college had complied with DOER's policy regarding this matter. We reviewed the college's payroll policies and procedures and tested payroll transactions to determine if the college complied with these policies and procedures. In addition, we took a sworn statement from the college payroll clerk because of a number of inconsistencies in leave usage and compensatory time in that employee's payroll records.

The college followed the provisions of bargaining contract agreements when placing employees on the payroll and determining annual compensation. As reported in the following findings, however, we found that the college did not adequately control employee leave balances and did not reduce administrators' leave per Minnesota Community College System's policies. We also found several instances where college employees did not follow payroll policies and procedures.

8. Internal controls over the payroll process were not adequate to prevent or detect errors or irregularities.

We found that several payroll rosters did not have the personnel director's authorization. Additionally, in several instances, supervisors did not approve timesheets or leave requests. Also, the college did not have supporting documentation on file for several instances of leave taken by employees. Without these internal controls, errors and irregularities may occur in the payroll process and not be detected.

As a result of the weak internal controls, the payroll clerk entered inaccurate payroll transactions onto the payroll roster without detection. On several occasions, the college payroll clerk added compensatory time to the payroll clerk's own payroll transactions on the payroll roster. However, we found no supporting documentation for the compensatory time on authorization slips or on the clerk's timesheet. The payroll clerk also did not enter all personal leave taken onto the payroll roster. We questioned a total of 14 pay periods where we noted discrepancies in payroll transactions pertaining to the payroll clerk. These transactions totaled 97.25 hours of inconsistent or unaccounted for vacation, sick, and compensatory time. After taking a sworn statement from the employee, we concluded that 11 payperiods totaling 81.75 hours of leave are overstated on the payroll system for this employee.

Recommendations

- *Internal controls over the payroll process should be strengthened by:*

  -- *requiring proper authorization, approval, and review of timesheets, leave requests, and payroll rosters; and*

  -- *maintaining complete and accurate personnel and payroll records.*

- *The college should review and adjust the leave balances of the payroll clerk to the proper amount.*

9. Faculty leave records were inadequate and nonfaculty manual leave records do not reconcile to the leave balances on the state's personnel system.

The college personnel office did not keep accurate, up-to-date leave records for faculty members. The state payroll system does not automatically accrue leave for faculty members. Rather, the college personnel office must credit each faculty member with the appropriate number of leave days at the beginning of the contract year. It is also responsible for recording leave usage. However, it has not correctly posted leave taken by several faculty members to the leave records. Of the leave records we tested, fifty percent of the records had incorrect leave posted to the accounts or had mathematical errors when determining faculty leave balances. The personnel office also did not credit any leave accrual for part-time faculty or post leave taken by part-time faculty to its manual records. Currently, the personnel office has no records of leave available or used by part-time faculty members.

The personnel office also maintains manual employee leave records for non-faculty employees even though the central payroll system maintains leave balances for these employees. While testing payroll transactions, we found several instances of incorrect leave posted to the manual leave records. We also found many discrepancies between manual leave records and the leave balances shown on the state's payroll system. The official leave record is the state's payroll system for all nonfaculty employees. Therefore, the personnel office should inform college employees that it is the employees' responsibility to ensure the accuracy of the leave information on the state payroll system. The personnel office should also use the leave information on the state payroll system to control leave accruals and usage and discontinue maintaining manual leave records for nonfaculty positions.

We also found that the personnel office did not adjust administrators' annual leave on the payroll system to 34 days at the end of each fiscal year. According to Minnesota Community College System's Policies And Regulations, Section VI.05.02, administrators' annual leave must be reduced to 34 days or less once each fiscal year. The personnel office must make these adjustments manually. Currently, no adjustments have been made to the statewide system and many administrators have leave balances that exceed 34 days. For example, one administrator has 77 days of annual leave accrued on the system. If the college reconciled leave records on a regular basis, it would have recognized the need to manually submit adjustments to central payroll for administrators' annual leave at the end of each fiscal year.

Accurate leave records become essential when employees resign and annual and sick leave balances determine their severance pay. Furthermore, employment contracts impose limits on the amount of leave an employee may earn and maintain. It becomes extremely important to have reliable and accurate leave records to ensure that leave balances do not exceed these limits.

Recommendations

- *The personnel office should verify the accuracy of all faculty leave balances, including part-time faculty leave balances. Leave records should be updated timely and reviewed periodically to ensure the accuracy of the records.*

- *The college personnel office should adjust administrators' annual leave balances per Minnesota Community College System's Policies and Procedures. Necessary adjustments should be made to the state payroll system.*

- *The college personnel office should notify nonfaculty employees of their responsibility to ensure the accuracy of the leave information on the state payroll system and discontinue maintaining manual leave records for these employees. It should use the leave reported on the state's payroll system to monitor and control employee leave balances.*

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Chapter 5. Administrative Expenditures and Purchasing

Chapter Conclusions

The college followed proper purchasing procedures, paid invoices promptly, and recorded transactions accurately. The public information account expenses were proper and within annual limits. We question, however, purchasing alcohol from the president's expense account.

We focused our audit of administrative expenditures on non-payroll disbursements. As part of this review, we performed detailed analyses on travel expenses, employee expense reimbursements, the president's expense account (department head expense) and the public information account. We report on travel expenses and employee expense reimbursements separately in Chapter 6. Table 5-1 summarizes administrative expenditures for the three year audit period.

Table 5-1
Summary of Minneapolis Community College Administrative Expenditures
Fiscal Years Ended June 30, 1992, 1993, 1994

	1992	1993	1994
Non-payroll Personnel	$134,565	$177,693	$262,399
Rent	17,346	37,819	172,960
Printing	158,213	235,030	184,383
Purchased Services	309,122	299,914	287,549
Communication	152,154	193,106	199,996
Travel	89,827	120,006	102,469
Utilities	282,345	321,345	347,247
Student Activities	65,890	73,414	66,294
Memberships	39,312	49,820	54,001
Supplies	397,508	487,161	513,661
Equipment	200,799	185,654	169,692
Refunds/Transfers	153,409	197,156	225,510
Other	93,522	99,639	94,573
	$2,094,012	$2,477,757	$2,680,734

Source: Statewide accounting system.

The college initiates the purchasing and disbursement process. The community college system office provides administrative support for the disbursement process at the college, including final review and entering transactions into the statewide accounting system.

Minneapolis Community College

We focused our review of administrative expenditures on the following objectives:

- Did the college follow proper purchasing procedures?
- Were the college's invoices paid promptly and recorded accurately?
- Are expenses of the president's account proper and within annual limits?
- Are public information expenses proper and within annual limits?

The methodology used to audit administrative expenditures included interviewing key personnel to determine how the college processed disbursements. We gathered evidence about the adequacy of internal controls over disbursements including the adequacy of the encumbrance and purchase order processes. We also tested for compliance with applicable laws and policies. We tested a sample of disbursement transactions. In addition, we performed detailed tests and analysis on transactions of the president's expense account and the public information account.

We found that the college followed proper purchasing procedures and that public information expenses were proper and within annual limits. We also concluded that the college paid invoices promptly and recorded transactions accurately. We noted, however, that the college made an improper purchase of alcohol from the account.

10. The college purchased alcohol from the president's expense account.

The college made an improper expenditure from the president's expense account. The college purchased $210 worth of wine for a reception on July 30, 1993. We question the propriety of using public funds to purchase alcoholic beverages.

Recommendation

- *The college should not purchase alcoholic beverages with state funds.*

Chapter 6. Travel Expenses and Employee Reimbursements

Chapter Conclusions

Minneapolis Community College needs to strengthen controls and enforce established policies over the processing of employee travel expense reimbursements. College employees submitted affidavits rather than actual receipts, submitted claims for reimbursement on an untimely basis, and failed to receive prior authorization for out-of-state travel. The college overpaid the former president for travel expense reimbursements.

The college reimburses its employees for travel expenses incurred while on job-related duties according to the provisions of the respective bargaining unit contracts. Community College System Policy IV.03.04 provides the reimbursement guidelines for unclassified administrators. The college incurred and/or reimbursed its employees for travel and related expenses totaling \$89,827, \$120,006 and \$102,469 during the fiscal years ended June 30, 1992, 1993 and 1994 respectively.

Our objectives in testing employee travel reimbursements included verifying complete and adequate supporting documentation, proper authorizations, timeliness of reporting, and ensuring a reasonable purpose and benefit of the travel. We took a general sample of travel reimbursements to test from fiscal years 1992 through 1994 and expanded our testing into 1995 when necessary. In addition, we performed detailed testing on travel reimbursements made to administrators, specifically the former president and administrative deans. These individuals incurred the highest volume of travel reimbursements of college employees.

We documented that as college president, Dr. Belcher took sixty-two (62) out-of-state trips over the period from July 1991 through April 1995. This is an unusually high volume of trips for a college administrator. The state reimbursed Dr. Belcher for travel expenses and associated costs totaling \$19,386 during this period. This does not include amounts reimbursed to her directly from other organizations such as the American Council on Education (ACE), the American Association of Community Colleges (AACC), the Minneapolis Community College Foundation, or payments made directly to vendors from the college or these organizations to support her travels.

The college needs to provide greater control over travel costs and employee reimbursements. The college needs to follow established policies and procedures. The two areas with the most exceptions were identified as the lack of complete documentation and the late filing of reimbursement claims. The college also needs to improve the monitoring of reimbursements from outside organizations.

11. The college did not adequately control travel expenses.

The college did not enforce established procedures for reimbursing employee travel expenses. These procedures are designed to ensure accurate and prompt payment for valid expenses incurred for business reasons. By not following these procedures, the college is subjecting itself to the risk of paying for improper transactions.

We found that college employees submitted requests for expense reimbursement several months after incurring the expenses. The college policy requires employees to submit requests for reimbursement within two weeks after incurring expenses. The timely submission of expenses allows for a prompt resolution of questions, provides for more accurate information, and promotes effective financial and budgetary control of resources.

We also found that employees regularly submitted affidavits for expenses rather than actual receipts to support expenses claimed. State policy requires the submission of actual receipts for reimbursement. Additionally, the use of affidavits should be restricted to those situations in which a receipt cannot be obtained or is lost. Affidavits should be used on an exception basis only. It is difficult to ascertain the authenticity and accuracy of claims without proper evidence of actual payment.

We also noted instances where employees completed out-of-state travel authorization forms after the dates of travel. The Department of Finance policy requires employees to obtain authorization and submit an out-of-state travel authorization form prior to the first day of travel. This procedure exists to ensure that sufficient funds are available and that the trip and associated costs will provide a benefit to the employee or the college as a whole.

In addition, we found that the college did not monitor travel expenses reimbursed by third party organizations. College employees often participated in professional organizations or attended conferences sponsored by professional organizations. In some cases, these organizations paid for the expenses of an employee to attend a meeting or seminar. The employee or the college might incur some of the costs upfront, and then receive a reimbursement from the organization. The college should monitor this activity to ensure that reimbursement is obtained and received timely by the appropriate party.

Recommendations

- *The college should improve controls over the processing and monitoring of employee travel expense reimbursements. The college should require employees to:*

  -- *submit requests for reimbursement of expenses timely;*

  -- *submit actual receipts as support for expenses incurred while traveling, and*

  -- *obtain authorization for out-of-state travel prior to the first date of travel.*

- *The college should establish procedures for monitoring costs and reimbursements to employees participating in professional organizations.*

12. The college overpaid travel reimbursements of $1,386 to the former college president.

The college reimbursed former president Jacquelyn Belcher $1,386 for ineligible travel expenses. The president is allowed reimbursement for travel expenses incurred while conducting official business on behalf of the college. However, the college must ensure that expenses are allowable and only reimbursed one time.

The college over-reimbursed the president $194 for the cost of an airline ticket. The claimed reimbursement was for a ticket used to fly to Washington D.C. in August 1994. The president claimed a reimbursement of $384 for the total cost of the ticket. The president, however, had only incurrred an expense of $190 for the ticket. The remaining cost had been paid for by the college.

The college also reimbursed Dr. Belcher for the personal portion of an airline ticket that included both business and personal trips. The president purchased the airline ticket that included multiple destinations with personal funds. The ticket was for flights from Minneapolis to San Diego on July 15 and returning to Minneapolis on July 17, 1994; another flight to San Diego on July 18, 1994, with a return flight from Los Angeles to Minneapolis on July 21, 1994 (Dr. Belcher and Nick Maras drove to Los Angeles on July 19, 1994); and a round trip ticket to Phoenix traveling on August 27 and returning on September 5, 1994. The trip to Phoenix was personal. Dr. Belcher is only allowed reimbursement for those expenses directly related to state business. The amount of the ticket attributable to the personal trip was $432.

On three occasions, Dr. Belcher received reimbursements totaling $49.50 for meal allowances when the claimed meals were provided by airlines. These flights occurred in September 1993 and January 1994. State policy does not allow for personal reimbursement of meals provided on airlines. On another occasion, in February 1992, both the college and the foundation reimbursed Dr. Belcher $62.50 for the same meal expenses. The president submitted an affidavit claiming expenses to the college and the actual receipt to the foundation.

Minneapolis Community College

We identified several other occasions when Dr. Belcher indicated on the out-of-state travel authorization form that a third party organization would reimburse the college for her travel costs. The college approved the expenditures, relying on Dr. Belcher's assurance that the college would be reimbursed. We found some cases where organizations reimbursed the college directly. We also obtained evidence indicating that some organizations reimbursed Dr. Belcher directly for travel expenses incurred both personally and by the college. In some instances, we could not determine from the documentation whether Dr. Belcher requested the third parties to pay the reimbursement directly to her or to the college. We found no evidence, however, that the college was reimbursed for $648 of these expenses incurred on behalf of third parties. We believe Dr. Belcher is responsible for these funds because the college originally incurred the expenses based on her assurance that third parties would reimburse the expenses.

Recommendation

- *The college should seek repayment of $1,386 from former president Jacquelyn Belcher for the over payments of unallowable and unreimbursed travel expenses.*

Chapter 7. Bookstore

Chapter Conclusions

The bookstore operated efficiently and made a profit throughout the audit period. The bookstore followed adequate purchasing and disbursement procedures. It properly accounted for the sale of books and supplies. We found, however, that the college provided unauthorized discounts at the bookstore to employees.

The college processes bookstore operations through the Auxiliary Enterprise Fund. The bookstore records transactions for sales and expenditures in its own checking account. The bookstore sells new and used books, clothing, and supplies. Book sales account for about 85% of the bookstore's revenue. Table 7-1 shows bookstore operations for fiscal years 1992 through 1994.

Table 7-1
Bookstore Operations
Fiscal Years 1992 - 1994

	1992	1993	1994
Revenues:			
Book Sales	$ 876,856	$1,032,502	$1,093,306
Other Sales	132,357	136,152	231,947
Total Revenues	$1,009,213	$1,168,654	$1,325,253
Expenditures:			
Cost of Goods Sold	$ 747,921	$ 903,609	$ 970,945
Operating Expenses	192,949	166,709	246,142
Total Expenditures	$ 940,870	$1,070,318	1,217,087
Operating Income	$ 68,343	$ 98,336	$ 108,166

Source: MCC bookstore financial statements.

Bookstore employees manage the daily operations of the bookstore, including sales, preparing deposits, purchasing items for resale, and processing disbursements. The college business office is responsible for maintaining accounting records, signing checks, reconciling the checking account, and preparing financial reports. The bookstore's operating goal is to make books and supplies available to students at the lowest cost possible. To achieve this goal the bookstore's mark-up policy is to generate enough revenue to cover expenses.

Minneapolis Community College

We focused our review on the bookstore to revenues and expenses. Our objectives included addressing the following questions:

- Did the bookstore generate enough revenue to offset expenses?
- Did the bookstore follow proper purchasing and disbursement procedures?
- Did the bookstore properly account for the sale of books and supplies?
- Are the bookstore's assets adequately controlled and accounted for?

To address these objectives, we interviewed bookstore and business office personnel. We tested bookstore sales and expenditure transactions and related accounting procedures. We reviewed the bookstore's procedures related to the safeguarding of assets.

We concluded that the bookstore operated efficiently. It adhered to adequate purchasing and disbursement procedures. It also properly accounted for the sale of books and supplies. We questioned, however, the authority of the college to provide bookstore discounts to employees.

13. The college provided discounts at the bookstore to college employees.

The college provided all employees a 40 percent discount coupon to be used at the college bookstore. The college distributed the coupons to employees at the start of the school year. The coupons could be redeemed on selected bookstore merchandise, excluding textbooks, postage, and art or photography supplies. The bookstore could not quantify the dollar value of discounts provided to college employees, but did tell us that approximately fifty coupons were redeemed.

We did not find any authority for the college to implement this program. By providing an advantage to its employees that is not available to the general public, the college violated the state's code of ethics, Minn. Stat. Section 43A.38. Furthermore, the students actually subsidized employees taking advantage of this promotion through lost profits at the bookstore.

Recommendation

- *The college should not provide unauthorized benefits to employees.*

Chapter 8. Minneapolis Community College Foundation

Chapter Conclusions

The college and foundation have not established an appropriate relationship. The college and foundation inappropriately reimbursed the foundation's executive director, who was also a college dean. The foundation spent funds in ways that did not benefit the college. The foundation also did not comply with state requirements for a charitable organization, and acted beyond its legal authority when it became the fiscal agent for another nonprofit organization.

The Minneapolis Community College Foundation is a private nonprofit organization created to support the programs and students at the college. The foundation has its own board of directors, Articles of Incorporation, and by-laws. The foundation has no employees. During the audit period, a college dean served as the foundation's executive director and administered its daily operations. The college also provided additional administrative support, including staff and space. The foundation maintained its own financial records and accounts. State law requires the foundation, as a charitable organization, to have an independent audit of its financial statements.

The foundation's last complete financial audit was for the fiscal year ended June 30, 1992. It is currently undergoing a financial audit of fiscal years 1993 and 1994. In addition, during 1994, the community college system's internal auditor and an Attorney General representative reviewed selected activity of the foundation's operations.

Our plan was to review the foundation's relationship with the college. However, because the foundation had not had a financial statement audit since fiscal year 1992, and due to a number of allegations brought to our attention regarding the foundation, we performed a more in-depth review. The review consisted of discussing operations with foundation staff, reviewing prior audit reports, and performing detailed tests of reimbursements to the executive director and college president.

We found several instances of double payments and incomplete documentation for expenses reimbursed to Mr. Nick Maras, the foundation's executive director. We obtained a sworn statement from Mr. Maras in order to determine the propriety of these transactions.

We found that the college and the foundation had not established an appropriate relationship. The responsibilities of each organization, including staffing, allowable administrative expenses, and financial support were not appropriately defined. The college has not updated its operating contract with the foundation since 1986. The foundation has operated with weak financial controls over the disbursement of funds and the maintenance of financial records. In addition, the foundation became involved in financial and operational arrangements that do not provide a direct benefit to the college or its students. Furthermore, the foundation had its status as a charitable organization suspended by the Attorney General's Office in October 1994.

14. The college has not established an appropriate relationship with its foundation.

We found overlapping lines of authority and decision-making, a lack of independence by the foundation, and a lack of appropriate oversight by the college. In addition, foundation funds were not always used to benefit the college.

The foundation is a private nonprofit organization created solely for the purposes of raising funds to maintain and enhance programs and operations of the college. The college has effectively delegated its fundraising capacity to the foundation. Thus, the foundation is able to take advantage of the college's reputation and goodwill to solicit funds on its behalf. Furthermore, as a private nonprofit organization, the foundation's fundraising efforts are not constrained by spending regulations and controls imposed on state agencies. Under this structure, it is appropriate and even necessary for the foundation to operate with a degree of independence from the college. On the other hand, the college has an obligation to ensure that foundation funds are used solely to benefit the college. This obligation should, however, be achieved through external oversight and enforcement of a contract with the foundation and not through direct control of the foundation.

We are concerned that clear lines of authority to distinguish the separate roles and identities of the college and the foundation have not been established. In particular, we are concerned that a college official assumed a significant decision making role for the foundation. The college's dean of community services -- its authorized agent for oversight of the foundation -- was also the foundation's executive director. Therefore, this one individual represented both the college and the foundation and was responsible for soliciting funds, authorizing expenditures, and signing checks. We also observed that former college president, Dr. Jacquelyn Belcher, exerted significant influence over foundation spending decisions. As a result, it was unclear which organization was truly in control of the decision-making process at the foundation.

The Attorney General's Office first raised concerns about a potential conflict of interest involving the decision-making authority of the foundation in a report to the system office and college management on May 12, 1994. In its report, the Attorney General's Office recommended that the college employee should not be involved in the management or policy decisions of the foundation. However, at the time of our audit, the college had made no changes in personnel or responsibilities related to oversight of the foundation.

We are also concerned that the college has not established an effective means to ensure that it receives full value from its relationship with the foundation. The college official serving as the executive director estimated spending half his time on foundation business, although the college paid his full salary. The college also paid some other expenses directly associated with foundation business. We found that the college paid mileage and parking reimbursements of $1,245 related to the foundation's executive director traveling on foundation business. The college should not be financing expenses directly associated with foundation activities. Although the college may provide the foundation with certain services or facilities, it must ensure that it receives benefits that outweigh the value of those services or facilities.

The college has a contract with the foundation; however, it has not been updated since 1986. The contract should establish and enforce several essential aspects of the relationship between the college and the foundation, such as:

- Establish a basis for the college to measure its value. The contract should specify any services or facilities that the college agrees to provide to the foundation. It should also require that the foundation pay all direct expenses associated with its activities.

- Limit foundation administrative expenses to only those that are reasonable and necessary. The college must also insist that expenses be for its benefit. The foundation must not be allowed to divert funds to other purposes.

- Require the foundation to maintain an appropriate status as a tax exempt, charitable organization.

- Require adequate financial records, documentation, and financial controls. The foundation should be required to submit annual, audited financial statements on a timely basis. Also, the college must have access to foundation records, if necessary.

In findings 16 - 18, we discuss a variety of problems resulting from the weaknesses in the college's relationship with the foundation. In addition, our review of foundation records revealed weaknesses in the foundation's control over its financial transactions. We found many transactions lacked sufficient documentation. Reimbursement payments to the executive director were not always properly authorized by a board member. Other transactions were not supported by actual receipts or invoices. The foundation was unable to provide adequate documentation for payments made during the period April through July 1992. We found several instances that did not comply with the foundation policy requiring two signatures on checks over $500. On other occasions, we found multiple checks for slightly less than $500 drafted on the same day to the same vendor, apparently to circumvent the foundation's policy.

Recommendations

- *If the college wishes to conduct fundraising through a private nonprofit foundation, it must establish an appropriate relationship with the foundation. The relationship must allow the foundation to operate with an appropriate level of independence from the college, but ensure the foundation funds are spent solely to benefit the college.*

- *The college needs to update its contract with the foundation on an annual basis. The contract must be amended to provide an effective mechanism for financial monitoring and oversight. The college must also enforce these important contractual provisions.*

- *The college should obtain a reimbursement of $1,245 from the foundation for the travel expenses it paid for foundation-related mileage and parking.*

15. The college and the foundation overpaid a college official by $3,135 for unallowable expenses during the period of July 1991 through June 1995.

Mr. Nick Maras, the college's dean of community services and the foundation's executive director, received $3,135 in unallowable reimbursements during the period July 1991 through June 1995. The college paid Mr. Maras $1,378 for unallowable expenses. He was also double reimbursed $1,757 from the foundation for expenses claimed twice.

As a state employee within the executive branch of state government, Mr. Maras is entitled to reimbursement of certain expenses incurred while traveling on behalf of the state and the college. The foundation does not have specific expense reimbursement policies; however, the foundation bylaws indicate that officers or directors shall be compensated for reasonable expenses, as approved by the Board of Directors.

We found that the state made five reimbursements to Mr. Maras for unallowable travel expenses totaling $1,378.

- On three of these transactions, the college paid airfare or hotel charges directly to the vendors. Mr. Maras claimed the same expenses on a personal employee expense report. These expenses totaled $950.

- On a transaction in April 1994, Mr. Maras did not deduct a travel advance from his settlement payment. This resulted in an overpayment of $111.

- We questioned the expenses Mr. Maras incurred in Los Angeles on the day following a conference in San Diego. In July 1994, Mr. Maras and former president Jacquelyn Belcher traveled to Los Angeles at the conclusion of an educational conference they had attended in San Diego. Mr. Maras claimed $317 of state expenses for meals, hotel, and car rental directly related to the trip to Los Angeles. Dr. Belcher did not claim additional expenses related to the trip to Los Angeles. Mr. Maras told us that he accompanied Dr. Belcher to Los Angeles at her request. We did not obtain a reasonable explanation for the business purpose or any benefit provided to the college to justify the additional expenses of this trip.

We also found that on three instances, the college and the foundation reimbursed Mr. Maras for the same expenses. Mr. Maras claimed the same expenses on both a state employee expense reimbursement form and on the foundation's request for payment form. This resulted in an overpayment to Mr. Maras of $76.

We also found on 13 different occasions throughout the audit period, the foundation reimbursed Mr. Maras twice for the same expenses. In these cases, Mr. Maras submitted a request for payment to the foundation for reimbursement of various meal expenses and other charges. Subsequently, he would submit another request for payment with some of the same expenses. On some of the original payment requests, Mr. Maras submitted receipts to support the expenses. On the subsequent requests, he would submit only his monthly credit card statement as documentation for the expenses. The double payments from the foundation totaled $1,681.

It should be noted that as the foundation's executive director, Mr. Maras controlled the foundation checkbook and was the primary check signer. Although he did not sign his own reimbursement checks, he was one of the authorizing signatures on the request for reimbursement form. We found that not all of his payment request forms had a second authorizing signature.

Recommendation

- *The college should seek reimbursement of the $3,135 of unallowable expense payments from Mr. Nick Maras.*

16. The foundation has made many questionable disbursements with no apparent benefit to the college or its students.

The foundation is organized to raise and disburse funds for the promotion and betterment of Minneapolis Community College and its students. As stated in Article III of the foundation's Articles of Incorporation,

> The purposes of this corporation are ... exclusively for the benefit of Minneapolis Community College, its students, and the advancement of education.

However, we found many disbursements that did not contain a documented purpose and the benefit to the college was not readily apparent.

In particular, we questioned many reimbursements to the foundation's executive director, Mr. Nick Maras. The foundation reimbursed Mr. Maras a total of $20,597 during the period July 1991 through June 1995. Many of these expenditures were identified as related to activities for a separate nonprofit organization, the Communities of Color Institute, and other college program activities. These expenditures were predominantly for meal reimbursements to Mr. Maras and other individuals. Mr. Maras usually submitted receipts for the meal reimbursements, but did not identify the purpose of the meeting or guests in attendance.

Other questionable disbursements of the foundation include golf outings, donations to other foundations, scholarships to non-Minneapolis Community College students, liquor purchases (for state and college funded events), clothing purchased through the college bookstore, financial awards to faculty and administrative staff, gifts to college employees, and reimbursements to former college president Earl Bowman and to the husband of former president Dr. Jacquelyn Belcher. The foundation also paid for a health club membership for Dr. Belcher. In most of these cases, there was not sufficient documentation to support the purpose or identify the persons participating in the events. We also questioned the value or benefit provided to the college or its students for many of these transactions.

The foundation also spent thousands of dollars each year providing luncheons, parties, and banquets for college staff. Again, the foundation did not justify the purpose or benefit of these expenditures.

Recommendation

- *The college should insist that the foundation clearly document the purpose and participants of all events and transactions processed on behalf of the college.*

17. The foundation was not in compliance with Minnesota charitable organization registration requirements.

Minn. Stat. Section 309.52, requires charitable organizations to file a registration statement with the Attorney General prior to soliciting funds within the state. In addition to the registration statement, Minn. Stat. Section 309.53 requires charitable organizations to file an annual report that includes audited financial statements. The Attorney General can suspend and withdraw the organization's charitable registration for failure to file the necessary reports. The foundation has not been in compliance with these requirements since January 1994.

On October 10, 1994, the Attorney General officially notified the foundation that its registration as a charitable organization within Minnesota was no longer in effect and its registration was withdrawn. The foundation is currently undergoing a financial statement audit for fiscal years 1993 and 1994. The Attorney General issued the foundation a follow-up letter on July 12, 1995 indicating that its registration will not be activated until a final audit report is filed. The foundation has not had a completed financial audit since the fiscal year 1992 audit issued on June 3, 1993. The audit reports are due to the Attorney General's office six months after the end of the fiscal year. Therefore, the fiscal year 1993 registration was due on December 31, 1993.

The foundation is prohibited from soliciting contributions without an active registration statement. However, the foundation continued to collect contributions. It is not known if the foundation contacted its donors concerning the loss of its charitable organization status.

Recommendation

- *The college should insist that the foundation comply with the required registration regulations pertaining to charitable organizations.*

18. The foundation had exceeded its legal authority by serving as fiscal agent of the Communities of Color Institute.

The foundation served as the fiscal agent for the Communities of Color Institute (CCI) from April 1992 through June 1995. The CCI is a nonprofit organization established to provide training on organizational management and fundraising to other nonprofit organizations staffed by and serving people of color. The college provided space and other administrative resources to the CCI. The foundation deposited CCI donations and grants and disbursed its funds through the foundation's bank accounts. The foundation received grants on behalf of the CCI. This arrangement was in violation of the Minnesota Community College Policy and Procedures for support groups (VII.01.1) and the foundation's own Articles of Incorporation.

This issue was first reported to the chancellor of the community college system on May 12, 1994 by the Office of the Attorney General. The system did not take any further action against the foundation or the CCI. As of May 15, 1995, the CCI obtained its own status as a tax exempt organization pursuant to IRS Section 501(c)(3).

Without being recognized as a charitable organization prior to May 15, 1995, the CCI could not officially solicit charitable contributions or grant funds. The foundation received these funds on behalf of the CCI. Therefore, the foundation was raising funds beyond its authorized mission of supporting the college and its students. This would be a direct violation of the Articles of Incorporation and the college's contract with the foundation.

Furthermore, the foundation subsidized the financial operations of the CCI throughout the period the foundation served as fiscal agent to the CCI. As of June 13, 1995, we calculated that the CCI owed the foundation more than $45,000 from financial support provided by the foundation. These are funds that the foundation should have provided to the college and its students in the form of programs and scholarships.

Recommendations

- *The college should prohibit the foundation from entering into financial or contractual arrangements that have no benefit to the college.*

- *The college should insist that the foundation recover financial restitution from the Communities of Color Institute for the $45,000.*

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Minneapolis Community College

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September 26, 1995

Mr. James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following is the response of Minneapolis Community College to your office's findings and recommendations in the financial audit of the college for the three years ending June 30, 1994.

I have reviewed carefully the findings and recommendations contained in your report. As you will note in my response, the college agrees with your findings and has identified the specific actions that will be taken to address your concerns. In all cases, the corrective action has either been taken or will be taken immediately. Executive Dean Phil Davis will have overall responsibility for implementation of these changes.

Please accept my thanks for the exemplary manner in which you and your staff have conducted the audit. Your report will be invaluable to me as the new president of Minneapolis Community College and it will help me to ensure the stability and vitality of the college as we strive to meet the education and training needs of the people of the Twin Cities.

The college's specific responses to your findings are as follows:

1. The college has struggled with a deficit in recent years.

The college agrees with the finding of the auditor.

On August 21, 1995, Interim President Mary Retterer submitted to the Minnesota State Colleges and Universities Chancellor, Judith Eaton, a plan to balance Minneapolis Community College's FY 96 operating budget and repay the debt accumulated by the college during the 1994-95 biennium. The plan was approved by Chancellor Eaton on August 30, 1995.

President Diann Schindler and Executive Dean Phil Davis will meet regularly with MnSCU staff to monitor compliance with the budget plan and make adjustments as needed.

2. The college did not perform some financial control procedures to ensure the accuracy and safety of college assets.

The college agrees with the finding of the auditor.

The college will reconcile the All-College account and auxiliary enterprise account on a monthly basis, using an employee who does not have responsibilities for maintaining checking accounts. The business office manager, Marilyn Smith, will review and approve reconciliations of all bank statements. Both the signatures of Ms. Smith and Executive Dean Phil Davis will be required for a reconciliation to be considered complete.

Effective immediately, the business office manager will review, approve, and sign the daily cash report.

The bookstore will have the business office manager request the cash and sign for its delivery and redeposit into the bookstore account. The bookstore will record and post all adjustments promptly.

3. The college allowed students who did not pay tuition to attend classes, receive grades, and register for future classes.

The college agrees with the finding of the auditor.

Effective November 1, 1995, the college will require all students to pay tuition and fees by the specified due dates unless the students have received a financial aid award or have a third-party guarantee of payment of their tuition and fees.

By December 1, 1995, President Schindler will submit a deferment plan to Chancellor Eaton describing how the college will make administrative adjustments in extenuating circumstances.

4. Minneapolis Community College did not have an adequate separation of duties over tuition receipts.

The college agrees with the finding of the auditor.

The Community College Information System (CCIS) produces a report of all administrative adjustments and the business office manager will be reviewing and approving all adjustments on a weekly basis.

5. The college did not verify the propriety of tuition waivers.

The college agrees with the finding of the auditor.

Effective immediately, the registrar will review the tuition waiver report produced by the system office to reconcile tuition waivers authorized to tuition waivers issued.

6. The college did not follow established procedures related to the administration of ALLISS Grants.

The college agrees with the finding of the auditor.

Effective immediately, the business office manager will cancel the registration of ALLISS Grant recipients who fail to pay the additional fees required by the tuition due date.

7. The college did not use the community college information system to register students or collect tuition receipts for students attending non-credit classes.

The college agrees with the finding of the auditor.

Effective December 1, 1995, the college will require students to send payments for non-credit courses directly to the business office, which will use the CCIS system to post non-credit receipts.

8. Internal controls over the payroll process were not adequate to prevent or detect errors or irregularities.

The college agrees with the finding of the auditor.

The college will enforce existing internal controls, requiring proper authorization, approval, and review of timesheets, leave requests and payroll rosters; and maintain complete and accurate personnel and payroll records. Human Resources Director Maureen Moeglin will ensure compliance with the existing internal controls policies and procedures to verify the accuracy of payroll records. She also will establish procedures that require independent review and approval of alterations made to payroll or leave records by the payroll clerk.

President Schindler has directed that an investigation be conducted of the actions and records maintained by the payroll clerk. Based on the findings of that investigation, the college will take personnel actions as warranted.

9. Faculty leave records were inadequate and nonfaculty manual leave records do not reconcile to the leave balances on the state's personnel system.

The college agrees with the finding of the auditor.

Human Resources Director Maureen Moeglin will take immediate steps to ensure that:

- the leave records of all faculty (full and part-time) are accurate and are properly maintained on regular basis.
- the leave records of administrators are correctly balanced and in agreement with the state payroll system.

The human resources director will investigate whether unauthorized leave was taken by current or former college employees. If so, the human resources director will take action to recover the appropriate funds.

The human resources director will formally notify all non-faculty employees of their responsibility to ensure the accuracy of the leave information on the state payroll system and will discontinue the practice of maintaining manual leave records for these employees. The college will use the information provided on the state's payroll system to monitor and control employee leave balances.

10. The college purchased alcohol from the president's expense account.

The college agrees with the finding of the auditor.

Executive Dean Phil Davis will ensure that state funds are not used to purchase alcohol. All cost center managers will be notified in writing that alcohol may not be purchased with state funds. Notifications will be sent by October 6, 1995.

11. The college did not adequately control travel expenses.

The college agrees with the finding of the auditor.

Minneapolis Community College has suspended most in-state and out-of-state travel. In-state travel is permitted only to attend required college meetings and out-of-state travel is permitted only with the president's approval.

President Schindler will immediately undertake the following actions:

- amend college policy 2.5.7 to include a deadline for the submission of employee travel expense reimbursement requests.
- amend college policies to require employees to submit actual receipts as support for expenses incurred while traveling. The college will use collective bargaining agreements, DOER policies, and MnSCU policies as a guide in amending its internal policies.
- issue a written notice to all employees reminding them of the current policy requiring the advance approval of the president for all out-of-state travel requests.
- establish procedures for monitoring costs and reimbursements to employees participating in professional associations.

12. The college overpaid travel reimbursements of $1,386 to the former college president.

The college agrees with the finding of the auditor.

The business office manager will immediately bill former president Jacquelyn Belcher for repayment of the overpayments of travel expenses.

13. The college provided discounts at the bookstore to college employees.

The college agrees with the finding of the auditor.

On September 21, 1995, Executive Dean Phil Davis instructed the bookstore to discontinue the practice of granting to college employees special discounts that are not part of cost reductions offered to students and all other customers.

Findings 14 to 18 deal with the operations of the Minneapolis Community College Foundation and the foundation's relationship with the college. The foundation is a separate legal entity governed by an independent board. The college cannot respond to the findings on behalf of the foundation board. Once the legislative auditor's report is released, the college administration will meet with the foundation board to present the findings and discuss the corrective actions to be taken.

The college will begin immediately to reassess its overall relationship with the foundation.

The Chancellor's office will draft guidelines governing the overall relationship between the Minnesota State Colleges and Universities and independent nonprofit foundations established for the benefit of the individual institutions.

14. The college has not established an appropriate relationship with its foundation.

The college agrees with the finding of the auditor.

The original contract between the college and the foundation stated that the college would provide support, not leadership, to the foundation. It is clear that the actions of some college employees exceeded that agreement. The college will, in any future contract with a foundation, clearly define the roles and responsibilities of each entity.

The college will insist that the foundation repay any travel expenses incorrectly billed.

15. The college and the foundation overpaid a college official by $3,135 for unallowable expenses during the period of July 1991 through June 1995.

The college agrees with the finding of the auditor.

The college will bill Community Services Dean Nick Maras, who also serves as executive director of the foundation, for unallowable travel expenses and for any amounts for which he was reimbursed by both the college and the foundation. The college also will encourage the foundation to recover double payments it made to Mr. Maras.

16. The foundation has made many questionable disbursements with no apparent benefit to the college or its students.

The college agrees with the finding of the auditor.

The college will, in any future contract with a foundation, clearly define the foundation's purpose and reporting requirements.

17. The foundation was not in compliance with Minnesota charitable registration requirements.

The college agrees with the finding of the auditor.

The college will in any future contract with a foundation, require compliance with statutes governing charitable organizations in the state.

18. The foundation had exceeded its legal authority by serving as fiscal agent of the Communities of Color Institute.

The college agrees with the finding of the auditor.

The college will, in any future contract with a foundation, require the foundation to restrict its activities to areas that support college-related programs. Future contracts will prohibit the foundation from entering into any arrangements with other organizations, unless activities of those organizations clearly benefit the college.

The college will use whatever authority it has to compel the foundation to collect any misspent funds. Recovery of these funds will be among the issues discussed with the foundation as the college reassesses its relationship with the foundation.

Sincerely,

Diann Schindler

Diann Schindler
President