
Secretary of State

State of Oregon

DEPARTMENT OF EDUCATION

Office of Community College Services

Special Review

July 1, 1995, through December 31, 1996



Audits Division

Secretary of State

State of Oregon

DEPARTMENT OF EDUCATION

Office of Community College Services

Special Review

July 1, 1995, through December 31, 1996



Audits Division



Secretary of State

Audits Division

Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol Building
Salem, Oregon 97310

Bret West, Interim Commissioner
Office of Community College Services
255 Capitol Street NE
Salem, Oregon 97310

This audit encompasses a review of the Office of Community College Services for the period July 1, 1995, through December 31, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with laws, rules and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we made inquiries of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our report includes recommendations to improve controls over cash receipts, expenditures and federal grant reporting. Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

John N. Lattimer
State Auditor

Fieldwork Completion Date:
April 17, 1997

T A B L E O F C O N T E N T S

	<u>Page</u>
STATE AUDITOR’S REPORT	iii
SUMMARY	vii
INTRODUCTION	
ORGANIZATION AND FUNCTIONS.....	1
FINANCIAL ACTIVITIES	1
SCOPE AND METHODOLOGY	1
AUDIT RESULTS	
REPORT ON INTERNAL CONTROL.....	3
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	4
FINDINGS AND RECOMMENDATIONS	
CONTROL OVER CASH RECEIPTS	5
APPROVAL OF EXPENDITURES	5
REPORTING OF FEDERAL EXPENDITURES	6
REPORT DISTRIBUTION	8
COMMENDATION.....	8

SUMMARY

The Office of Community College Services (OCCS) provides leadership and technical assistance and distributes funding to each of the state's 17 community colleges. The Commissioner for Community College Services, appointed by the State Board of Education, serves as the executive head of OCCS.

OCCS is supported by general fund appropriations, federal funds, and fees from General Educational Development testing and other services. Most of these funds are passed through to community colleges. OCCS spent about \$2.7 million for operations during our eighteen-month audit period.

Our audit covered the period July 1, 1995 through December 31, 1996. Our scope included an evaluation of internal control, tests of revenue and expenditures, and a review of compliance with federal regulations and contractual agreements.

Our report recommends OCCS:

- Retain validated back-up documentation to support cash receipts.
- Establish procedures to require all expenditures be approved for payment by management.
- Develop a system to monitor expenditures for each federal grant throughout the grant period, so that corrective action can be taken if expenditures are not conforming to federal requirements.

In its responses, which are included in this report, the agency generally agreed with the recommendations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

There are 17 community colleges in the state of Oregon. The community colleges are controlled by locally elected boards and provide college transfer programs, professional-technical education programs, and developmental education in the communities they serve. The Office of Community College Services (OCCS) provides leadership and technical assistance and distributes funding to each of the 17 community colleges. The Commissioner for Community College Services, appointed by the State Board of Education, serves as the executive head of OCCS.

FINANCIAL ACTIVITIES

OCCS received general fund appropriations for the 1995-97 biennium of \$322 million for distributions to community colleges and \$2 million for operations. OCCS also receives federal funds and fees for the General Educational Development testing program, sales of testing materials, and other adult education-related fees. In addition, \$7 million was budgeted to be transferred in from the Workers' Compensation Reemployment Assistance Reserve during the current biennium. Most OCCS moneys are passed through to community colleges. During the eighteen month period of our audit, OCCS expended \$2.7 million for operations and distributed \$259 million to community colleges.

OCCS contracts for accounting services with the Department of Education.

SCOPE AND METHODOLOGY

We reviewed internal controls at the Office of Community College Services and tested transactions for the period July 1, 1995 to December 31, 1996. The transactions were

tested to evaluate the effectiveness of internal controls and compliance with laws and regulations.

Specifically, we:

- Reviewed controls over receipts and revenue.
- Tested expenditures for authorization, supporting documentation, and accuracy.
- Reviewed compliance with federal and other grant requirements.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON INTERNAL CONTROL

The management of the Office of Community College Services is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit, we obtained an understanding of internal control. With respect to the internal control system, we obtained an understanding of the design of relevant controls and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control system and its operation that we consider 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 internal controls that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report on financial data. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of this report.

A material weakness is a condition in which the design or operation of one or more of the specific internal control

components does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls that we consider to be material weaknesses as defined above.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the Office of Community College Services (OCCS) is the responsibility of management. As part of our audit, we performed tests of OCCS's compliance with certain provisions of laws and regulations related to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is described in the FINDINGS AND RECOMMENDATIONS section of this report.

FINDINGS AND RECOMMENDATIONS

CONTROL OVER CASH RECEIPTS

The Office of Community College Services (OCCS) has not retained back-up documentation for its cash receipts.

OCCS contracts for accounting services with the Department of Education (department). One of the services the department provides is the processing of cash receipts. A department employee uses a validating machine to imprint serial receipt numbers on both the checks received and the back-up documentation. Another department employee processes the daily deposit and prepares a manual listing of OCCS receipts. She then delivers the original back-up documentation to an OCCS employee. The OCCS employee retains the back-up, but does not file it, for three or four months. Then she throws it away.

To assure adequate internal control, original documentation should be maintained. Failure to keep original documentation increases the possibility of misappropriation of receipts.

We recommend that all validated back-up documentation for receipts be kept on file with the related deposit slips.

AGENCY RESPONSE:

Until this audit, management was not aware that back-up documentation was being forwarded to OCCS staff rather than retained by Department of Education accounting staff. Steps have already been taken to ensure that cash receipts are properly retained.

APPROVAL OF EXPENDITURES

OCCS has not properly authorized all of its expenditures. Out of 42 expenditure vouchers tested, we found 7 (or 17 percent) that did not contain evidence the transactions were appropriately authorized by an OCCS employee.

The Oregon Accounting Manual requires satisfactory documentary evidence that disbursements are properly authorized. Lack of appropriate authorization increases the possibility of inappropriate expenditures.

We recommend that procedures be established to require all expenditures be approved for payment by OCCS management.

AGENCY RESPONSE:

All expenditures cited did have management approval prior to the initiation of obligations. Management and fiscal staff will, however, review the approval process to ensure that proper signatures and documentation are retained.

REPORTING OF FEDERAL EXPENDITURES

OCCS receives federal funds from the United States Department of Education for adult basic education. There are a number of requirements associated with receiving these funds. OCCS does not adequately monitor spending to assure compliance with these requirements and has submitted inaccurate expenditure information to the federal government.

The final federal financial report submitted to the federal government for the adult basic education grant for the 1994 grant year, which was available for obligation between July 1, 1994 and September 30, 1996, did not agree to the agency's expenditure records. The OCCS submitted budgeted expenditures in the reports instead of actual expenditures. The total expenditures reported to the federal government exceeded expenditures per the accounting records by \$31 thousand.

Based on the actual expenditure amounts for the 1994 grant year, OCCS failed to meet a requirement that at least ten percent of grant funds be used for teacher training, and that at least fifteen percent of grant funds be used for teacher training and special projects combined.

There were also errors in the first annual report submitted for the 1995 grant year, which will not expire until September 30, 1997. In addition, based on expenditures to

date, OCCS may have difficulty complying with the training and special project required percentages again for the 1995 grant year.

In part, these problems occurred because OCCS does not monitor compliance during the year, but waits until year-end to determine whether requirements have been met. At that time, transfers are made between grant years to achieve the desired percentages. For the 1994 grant, the percentages were not achieved even with transfers of expenditures from the 1995 grant.

We recommend that OCCS develop a system to monitor expenditures for each grant throughout the grant period, so that corrective action can be taken if percentage and matching goals are not being met. We also recommend that OCCS file a corrected report for the 1994 grant.

AGENCY RESPONSE:

Several factors caused staff assignments to shift in late 1996 and early 1997. Because of shifting workloads and changing responsibilities, the attention paid to federal reporting was not up to the level necessary to ensure timely, accurate reporting. In early 1997 an existing position was reclassified to Fiscal Coordinator 2, ensuring sound fiscal management in the future. The person in this position is currently working on reviewing and revising OCCS federal reports.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Office of Community College Services and its management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Department of Education and the Office of Community College Services during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Joel Leming, CPA, Audit Administrator
Sheila Orton, CPA
Jennifer Stinson