



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Riverland Community College
July 1, 1997, through June 30, 2000



Financial Audit Division

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- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Gary Rhodes, President
Riverland Community College

We have audited Riverland Community College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included tuition and fees, employee payroll, administrative expenditures, and bookstore revenue. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Riverland Community College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Riverland Community College, and management of the Minnesota State Colleges and Universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 7, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 9, 2001

Report Signed On: June 4, 2001

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Patrick Ryan	Team Leader
Marisa Zenk	Auditor
Tim Haag	Intern

Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Riverland Community College at the exit conference held on May 24, 2001:

Riverland Community College:

Dr. Gary Rhodes	President
Karen Snorek	Vice President Finance, Facilities, MIS
Brad Doss	Business Manager

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director, Internal Audit
Marilyn Hansmann	Regional Internal Audit Coordinator

Report Summary

Overall Audit Conclusion:

Riverland Community College's budgetary controls provided reasonable assurance that it operated within available resources. Except as noted below, the college's internal controls provided reasonable assurance that assets were safeguarded, and financial activities were properly recorded in the accounting system and complied with applicable legal provisions.

Key Findings:

- Riverland Community College did not adequately restrict certain computer security clearances. The college should limit access and periodically monitor security clearances to ensure an adequate separation of duties and prevent unauthorized access to data. (Finding 1, page 6)
- Riverland Community College did not record the correct occurrence dates in the MnSCU accounting system for supplies and equipment expenditures. The occurrence date determines the college's liabilities at year-end for financial reporting purposes. The college should ensure that the occurrence date recorded in the accounting system is the date that goods were received. (Finding 2, page 15)
- Riverland Community College did not have adequate controls over some bookstore activities including inventory control, voids and refunds, and third-party billings. (Finding 3, page 23)

Riverland Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, employee payroll, administrative expenditures, and bookstore revenue for the period July 1, 1997 through June 30, 2000. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The college's response is included in the report.

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Riverland Community College

Chapter 1. Introduction

Riverland Community College was formed July 1, 1996, with the consolidation of Austin Community College, Minnesota Riverland Technical College-Austin, and South Central Technical College-Albert Lea. The college has campuses located in Austin and Albert Lea and an educational center in Owatonna.

Riverland Community College is a two-year college that offers accredited programs in liberal arts, automotive services, cosmetology, nursing, medical imaging/radiography, occupational and physical therapy, and electrical construction. The college is accredited by the Commission on Institutes of Higher Education of the North Central Association of Colleges and Schools. The college had an enrollment of 2,028 full-year equivalent students during the 2000 academic year. Dr. Gary Rhodes became the president of Riverland Community College on August 17, 1998.

Riverland Community College finances its operations primarily from state appropriations and student tuition and fees. Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, special revenue funds, enterprise funds, and trust funds for the fiscal year ended June 30, 2000.

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**Table 1-1
Sources and Uses of Funds ⁽¹⁾
Fiscal Year Ended June 30, 2000**

	General Fund	Special Revenue Fund	Enterprise Fund ⁽²⁾	Trust Fund
Revenues:				
State Appropriations	\$11,558,117	\$ 0	\$ 0	\$ 0
Tuition and Fees	5,111,451	202,537	64,046	0
Sales and Services ⁽³⁾	387,891	20,322	209,876	0
Room and Board	3,277	0	0	0
Federal Grants	11,414	1,770,988	0	0
State Grants	134,535	930,728	0	0
Private Grants	0	830	0	4,372
Other Income	297,692	13,105	20,589	19
Total Revenues	<u>\$17,504,377</u>	<u>\$2,938,510</u>	<u>\$294,511</u>	<u>\$4,391</u>
Expenditures/Expenses:				
Salaries	\$13,094,622	\$ 471,804	\$128,753	\$ 0
Purchased Services	1,650,481	161,439	112,810	260
Utilities	646,448	226	21	0
Contract/Consultants	185,615	17,732	8,000	0
Supplies	1,388,412	139,190	3,029	904
Financial Aid	2,836	2,174,988	0	800
Capital Expenditures	245,365	11,653	0	0
Debt Service – Interest	209,151	0	0	0
Other	423,688	92,972	26,522	1,694
Total Expenditures/Expenses	<u>\$17,846,618</u>	<u>\$3,070,004</u>	<u>\$279,135</u>	<u>\$3,658</u>
Transfers:				
Transfers-In	\$ 140,052	\$ 444	\$ 0	\$ 0
Transfers-Out	0	(1,560)	0	0
Net Transfers	<u>140,052</u>	<u>(1,116)</u>	<u>0</u>	<u>0</u>
Change in Fund Balance	(202,189)	(132,610)	15,376	733
Beginning Fund Balance	<u>2,331,137</u>	<u>216,098</u>	<u>757,483</u>	<u>5,111</u>
Ending Fund Balance ⁽⁴⁾	<u>\$ 2,128,948</u>	<u>\$ 83,488</u>	<u>\$772,859</u>	<u>\$5,844</u>

Note (1): This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Agency Fund and Capital Project Fund financial activities are not included in Table 1-1. Beginning and ending fund balances do not reflect assets such as accounts receivable and prepaid assets, or long-term liabilities such as debt and compensated absences. Compensated absences as of June 30, 2000, were estimated at \$1.1 million for the General Fund.

Note (2) Enterprise funds do not include all allocable costs such as utilities and administrative costs.

Note (3) Enterprise fund sales and services are shown net of cost of good sold as follows:

Sales and Services – Gross	\$770,490
Cost of Goods Sold	<u>560,614</u>
Sales and Services – Net	<u>\$209,876</u>

Note (4) The Board Designated Reserve for the General Fund at June 30, 2000, is \$874,848. An additional \$974,000 represents college initiatives and carryforward amounts and another \$280,000 represents funds dedicated for state grant and repair and replacement programs.

The Enterprise Fund Balance consists of \$374,000 for the college bookstore inventory, \$295,000 for Perkins and college loans, and an additional \$77,000 in funds dedicated for parking projects.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. The college's internal controls provided assurance that state treasury and local bank account financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not adequately restrict certain computer security clearances.

In addition, we found that the college established appropriate operating relationships with its foundations.

Riverland Community College uses the MnSCU accounting system to record its financial activity and to process transactions. MnSCU accounting interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury for certain activities. MnSCU requires all campuses to use the MnSCU accounting system to account for money maintained in the state treasury and in local bank accounts outside the state treasury. Riverland Community College administers certain funds, such as agency accounts and enterprise activities, in a local bank account. The local bank account also serves as the college's state depository for the transfer of funds into the state treasury.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Riverland Community College and all other MnSCU campuses based on an allocation formula. Riverland Community College, like all other MnSCU institutions, retains its tuition and other dedicated revenues to arrive at total available resources.

Riverland Community College is affiliated with the Riverland Community College Foundation and the Albert Lea Campus Foundation, which are non-profit organizations. Each foundation exists primarily to provide student scholarships, enrichment opportunities for faculty, and special capital acquisitions for the college. The foundations have their own board of directors, articles of incorporation, and by-laws. The college provided administrative support to the foundation. Foundation financial statements are prepared annually and subjected to an external audit by a CPA firm.

Riverland Community College

Audit Objectives and Methodology

The primary objective of our review of Riverland Community College's financial management was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did the college establish an appropriate operating relationship with its foundations?

To answer these questions, we interviewed college staff to gain an understanding of the MnSCU accounting system as it pertained to each of the individual program areas discussed in the following chapters. We gained an understanding of internal controls in place over the local bank accounts and the programs included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we reviewed the college's budgetary process with college administrators. We also reviewed the administration of security privileges to determine whether the college adequately restricted access to its computerized business systems. Finally, we reviewed the college's agreements with its foundations.

Conclusions

Riverland Community College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. The college's internal controls generally provided reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we found that college did not adequately restrict certain computer security clearances. This is discussed further in Finding 1. In addition we found that the college established appropriate operating relationships with its foundations.

1. PRIOR FINDING PARTIALLY RESOLVED: Riverland Community College did not adequately restrict certain computer security clearances.

Riverland Community College did not adequately monitor or control access to its computerized business systems. Those systems included the MnSCU accounting system and the SCUPPS and SEMA4 personnel/payroll systems. We identified the following system security weaknesses:

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- Five Riverland Community College employees had incompatible clearances to the MnSCU accounts receivable module. The clearances gave the employees full access to perform a variety of cashiering, accounts receivable, receipt correction, and tuition waiver functions. The college provided this level of access to employees in order to promote better customer service to students by enabling students to register for classes and pay tuition at the same location on campus. Individuals who perform cashiering functions, however, should not have access to adjust accounts receivable records or process waivers. Providing employees who handle cash the ability to post non-cash waivers increases the risk that cash shortages could be concealed. The cashiers' ability to cancel or adjust accounts receivable records increases the risk of errors or irregularities occurring and going undetected.
- Three college personnel had incompatible clearances to initiate payroll transactions on SEMA4 and human resource transactions on SCUPPS. Access to both SEMA4 and SCUPPS transactions could allow an employee to make unauthorized personnel changes and use those transactions to initiate improper payroll transactions.
- One system office employee had a high level of access to the MnSCU accounting module. Although the system office employee needed inquiry access, the clearance to update the college's records was unnecessary. Granting unneeded access to individuals makes the college vulnerable to unauthorized transactions.

Recommendations

- *Riverland Community College should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.*
- *Riverland Community College should periodically monitor its security clearances to ensure that only authorized individuals have the level of access needed to perform their job responsibilities.*

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Chapter 3. Tuition, Fees, and Customized Training Receipts

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that tuition, fees, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict access to the accounts receivable system.

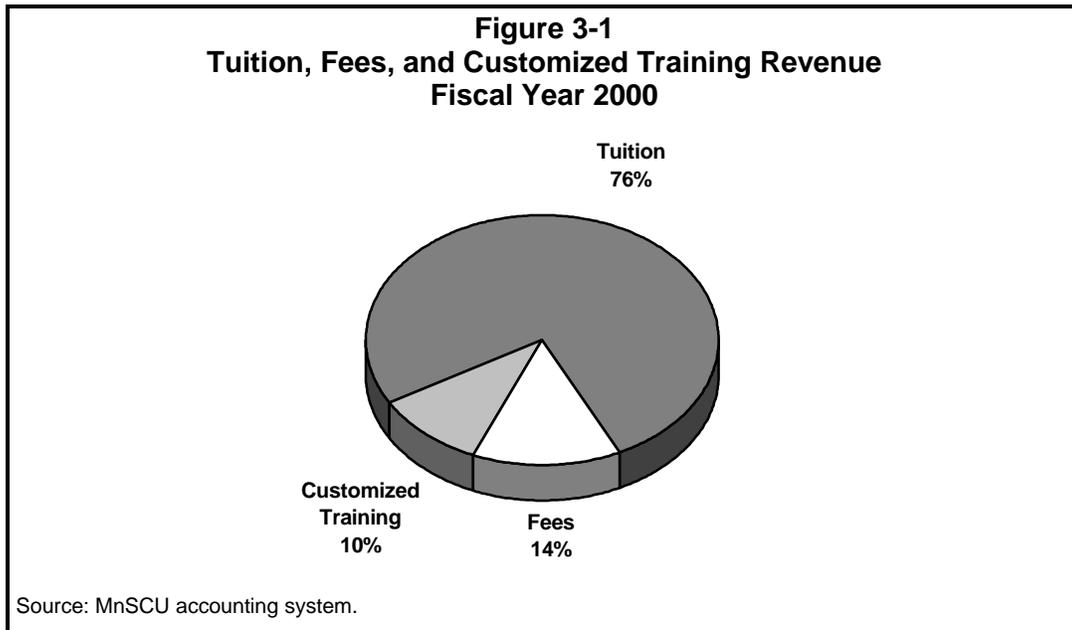
The college complied with legal provisions related to tuition, fees, and customized training programs for the transactions tested.

Riverland Community College collected approximately \$5.45 million in tuition and fees during fiscal year 2000. The college registered, billed, and collected tuition and fees on the College Information System during fiscal years 1998 and 1999. Beginning in fiscal year 2000, the college implemented the new MnSCU Integrated Student Record System (ISRS) accounts receivable module to register and bill students and collect tuition. The MnSCU accounts receivable module automatically charged student accounts when students registered for classes.

Board authorized tuition rates for the 1999 - 2000 school year were \$67.75 per credit for residents of Minnesota and other states participating in tuition reciprocity programs. Tuition rates for nonresidents amounted to \$135.50 per credit.

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education and contract training courses. The college has customized training centers located in Owatonna and on the Albert Lea and Austin East campuses. The college offered continuing education courses to the public and entered into contracts to develop training courses to meet the educational needs of specific businesses or industries. The college also used the ISRS to register students in customized training courses. Customized training revenue accounted for ten percent of the college's tuition and fee revenue in fiscal year 2000. Figure 3-1 shows the breakdown of the revenue by type for fiscal year 2000.

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Audit Objectives and Methodology

The primary objective of our review of Riverland Community College’s tuition, fees, and customized training receipts was to answer the following questions:

- Did the college’s internal controls provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with the significant finance-related legal provisions concerning tuition?

To meet these objectives, we interviewed college employees to gain an understanding of controls over college revenue. We reviewed tuition and fee rates, account receivable records, and MnSCU accounting records to determine if the college charged students appropriate rates and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed the college’s procedures for monitoring and collecting outstanding account receivable balances.

Conclusions

Riverland Community College’s internal controls provided reasonable assurance that tuition, fee, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and processed in accordance with applicable legal provisions and management’s authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict access to the accounts receivable system. In addition, for the revenue transactions we tested, the college complied with finance-related legal provisions.

Chapter 4. Employee Payroll

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that employee payroll expenditures were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict the payroll clerk's security clearances in MnSCU's personnel and payroll system. Also, a contractor's employees had excessive ability to update the college's personnel data.

For the items tested, the college complied with the significant finance-related legal provisions concerning payroll, including employee bargaining unit agreements.

Employee payroll represents the largest operating cost for Riverland Community College. The college spent \$13,230,252 on employee payroll (not including student payroll and miscellaneous payroll expenditures) during fiscal year 2000. As of June 30, 2000, Riverland Community College employed approximately 134 faculty and 115 other staff. College employees are represented by a number of personnel plans and bargaining unit agreements including United Technical College Educators (UTCE), Excluded Administrators Plan, American Federation of State, County, and Municipal Employees (AFSCME), and Minnesota Community College Faculty Association (MCCFA), among others.

The college maintained separate human resources and payroll offices to handle personnel and payroll transactions. The college used the state's payroll system (State's Employee Management System or SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll and human resources transactions. Salary and payrate history is maintained in SCUPPS and is used to manage and monitor compensation paid to faculty and staff. SCUPPS assignment codes identify different types of instructional and non-instructional assignments for faculty appointments. Human resource staff input personnel transactions and monitor faculty leave. Payroll staff ensured the accuracy of employee payroll data.

The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions. To perform its contractual duties, the contractor needed access to certain retirement data on the MnSCU State Colleges and Universities Personnel and Payroll System. The security clearance granted by the MnSCU system office provided broader access than needed, including the ability to create an employee, modify personnel data, and update faculty assignments and salaries. As a result, the college may be vulnerable to unauthorized transactions.

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The MnSCU system office should either design a unique security group to restrict the contractor's access to the minimum level necessary to fulfill its contractual duties, or develop a method of monitoring the contractor's security clearances to timely detect unauthorized transactions that could potentially occur. The MnSCU system office believes that an indemnity clause in the agreement with the contractor protects MnSCU against any loss that it may sustain due to the inappropriate access. Ultimately, the system office, rather than any individual college, needs to resolve this weakness to protect the colleges' data and further ensure that unauthorized transactions do not occur.

Audit Objectives and Methodology

The primary objective of our review of Riverland Community College's employee payroll expenditures was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with material finance-related legal provisions concerning payroll?

To answer these questions, we obtained an understanding of the internal control structure over the personnel and payroll processes. We interviewed college human resource and payroll employees to gain an understanding of the computerized systems used by the college, and we observed procedures used to process and reconcile payroll transactions. We reviewed the system security clearances for payroll and human resource staff. We examined classified and unclassified assignments and performed detailed tests to support our conclusions. We also examined employee leave balances maintained by the college.

Conclusions

Riverland Community College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting system and complied with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict the payroll clerk's security clearances in SCUPPS. Also, as discussed earlier in this chapter, a contractor's employees had excessive ability to update the college's personnel data. For the items tested, the college complied with the material finance-related legal provisions concerning payroll.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that administrative expenditures were accurately reported in the accounting records and complied with applicable legal provisions and management's authorization. However, we found that Riverland Community College did not record the correct occurrence dates in the accounting system for supplies and equipment expenditures.

For the items tested, Riverland Community College complied with significant finance-related legal provisions.

During the audit period, Riverland Community College's administrative expenditures included payments for non-payroll items, such as purchased services, supplies, equipment, professional and technical contracts, travel, utilities, and supplies for resale. Administrative expenditures for the college totaled \$5,173,099 for fiscal year 2000.

The purchasing process at Riverland Community College begins when a faculty member or another employee completes a requisition for purchase and forwards it to the business office. The business office prepares a purchase order and initiates the purchase. The business office sends the invoice to the department receiving the goods or services where appropriate staff authorize the payment. Business office personnel process the payment on the MnSCU accounting system.

The college follows a similar process when purchasing capital equipment. In addition, the business office records all fixed asset purchases exceeding \$2,000, as well as all computers regardless of price, in the MnSCU equipment module. The business office updates the equipment module, recording changes, transfers, retirements, and other dispositions of assets. In addition, the college takes an inventory of its fixed assets every two years. Table 5-1 provides a breakdown of material administrative expenditures in fiscal year 2000.

Table 5-1
Material Administrative Expenditures
Fiscal Year 2000

Purchased Services	\$1,227,149
Supplies	1,170,323
Supplies For Resale	928,196
Consultant/Contract Services	705,160
Utilities	573,120
Travel Expenses	343,361
Equipment Purchases	<u>225,790</u>
Total	<u>\$5,173,099</u>

Source: MnSCU accounting system.

Audit Objectives and Methodology

The primary objective of our review of Riverland Community College's administrative expenditures was to answer the following questions:

- Did the college's internal controls provide assurance that administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For those items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures?

To answer these questions, we interviewed college employees to gain an understanding of the internal control structure over the procurement and disbursement processes for administrative expenditures. We examined security access to determine who can initiate payments in MnSCU accounting. We also performed analytical reviews and tested transactions to determine if the college appropriately procured goods and services and properly authorized, disbursed, and recorded expenditures in the accounting system. Finally, we reviewed the college's process to record and track its fixed assets.

Conclusions

Riverland Community College's internal controls provided reasonable assurance that administrative expenditures complied with applicable legal provisions and management's authorization. However, we found that Riverland Community College did not record the correct occurrence dates in the accounting system for supplies and equipment expenditures. We discuss this issue in Finding 2. For the items tested, Riverland Community College complied with significant finance-related legal provisions.

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2. Riverland Community College did not record the correct occurrence dates on the MnSCU accounting system for supplies and equipment expenditures.

Riverland Community College did not record the correct occurrence dates on the accounting system for supplies and equipment expenditures. The occurrence date is intended to capture the date the college received the goods. That date is used to identify the college's liabilities for financial reporting purposes. We tested nine supplies and equipment expenditure transactions and found the occurrence dates were incorrect for all of them. Staff entered the invoice date into the system for eight of the transactions. The college used the purchase order date for the other transaction. The college used these dates because it did not document the date the goods were received. Incorrect occurrence dates may cause the financial statement amounts for year-end accrued liabilities to be misstated.

Recommendation

- *Riverland Community College should ensure that the occurrence date recorded on the accounting system is the date that goods were received.*

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Chapter 6. Student Financial Aid

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that it managed its financial aid programs in compliance with applicable federal and state program requirements. College controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system.

For the items tested, Riverland Community College complied with applicable federal requirements concerning the receipt of federal funds.

Riverland Community College used the MnSCU Integrated Student Record System (ISRS) financial aid module to package and award financial aid in fiscal year 2001. The financial aid module interfaces with other modules within ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor and accepts and stores the institutional financial aid application and tax data from the student. The system compares data provided by the student to the Student Aid Report. Any discrepancies between the two sets of data, beyond established tolerances, are identified through a verification process.

The system enforces compliance with the legal requirements of the financial aid programs. These legal requirements are defined through a set of system edits and activated at the discretion of the institution. Through an interface into the accounts receivable module, the system automatically ensures that awards and disbursement of aid to the students are kept in balance. Awards are adjusted if enrollment is reduced below a certain credit level at the time of disbursement. The system interfaces these adjusted expenditures into MnSCU accounting.

The college participates in a variety of federal financial aid programs. Table 6-1 summarizes program expenditures for fiscal year 2000.

Riverland Community College

Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 2000

<u>CFDA #</u>	<u>Program</u>	<u>Amount</u>
84.032	Federal Family Education Loan (FFEL)	\$2,028,798
84.063	Pell Grant	\$1,181,241
84.007	FSEOG	\$138,670
84.033	Federal Work-Study (FWS)	\$104,186
84.038	Perkins Loan	\$16,580

Source: College Federal Financial Aid information reported to the MnSCU system office for fiscal year 2000.

Students generally received the Federal Pell Grant as the first source of financial assistance. The federal government did not limit Pell Grant funding to the college; all eligible students received Pell Grant awards. The student's enrollment level, cost of education, and the family's ability to pay determine eligibility for the grant. The maximum Pell grant was \$3,125 for the 1999-2000 school year and \$3,300 for the 2000-2001 school year.

The Federal Family Education Loan (FFEL) program includes Stafford Subsidized and Unsubsidized loans. The student borrower applies for the loan from a private lender. The school certifies student eligibility. The federal government guarantees the loan in case of default or cancellation. The federal government pays the interest to the private lender on Subsidized Stafford loans while the student is in school and during certain deferment periods. For Unsubsidized Stafford loans, the interest accrues from the date of origination and is the responsibility of the borrower. The grade level and the amount previously borrowed determine the maximum FFEL amount for a given student.

The Federal Work-Study Program (FWS) and Federal Supplemental Education Opportunity Grant (FSEOG) are additional sources of federal financial assistance. The federal government funds 75 percent of the total expenditures in the FSEOG and FWS programs. The state contributes 25 percent of the funding for the two programs. The Federal Perkins Loan Program provides low-interest loans to needy students. The college acts as a lender, using both federal funds and a state match.

Riverland Community College also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office (MHESO). The college packages Minnesota state grants along with federal financial aid. MHESO determines eligibility for the state grant program and reimburses the college for qualified disbursements. State grant disbursements to students totaled \$760,260 for fiscal year 2000.

Audit Objectives and Methodology

The primary objective of our review of Riverland Community College's financial aid was to answer the following questions:

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- Did the college's internal controls over packaging and awarding of state and federal financial aid provide reasonable assurance that eligible students received aid in the appropriate amounts?
- Did the college's internal controls provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?
- For the items tested, did Riverland Community College comply with applicable federal requirements over the receipt of federal funds?

To meet these objectives, we interviewed employees from the college's financial aid and business offices, discussed processing logic and controls, and tested controls over compliance for key finance-related compliance requirements. Our methodology was significantly influenced by the automated nature of the college's financial aid system. We extracted and analyzed the financial aid system tables and related data to gain assurances that computerized application controls functioned properly. In addition, we reviewed college records and tested controls to ensure compliance with regulations governing federal cash management and reporting federal expenditures.

Conclusions

Riverland Community College's internal controls provided reasonable assurance that it managed its financial aid programs in compliance with applicable federal and state program requirements. Computerized controls are used to edit eligibility, package and award grants and loans to students, verify enrollment, and interface balances into the ISRS accounts receivable module. College controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system.

For the items tested, Riverland Community College complied with applicable federal requirements concerning the receipt of federal funds.

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Chapter 7. Bookstore Revenue

Chapter Conclusions

Riverland Community College's internal controls provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, the Albert Lea bookstore did not have adequate procedures for handling void and return transactions, did not provide an adequate separation of duties when handling third party charges, and lacked an independent review of the book buy-back process. Both the Albert Lea and Austin bookstores lacked adequate internal controls to provide reasonable assurance that bookstore inventory was accurately counted and recorded in the accounting system.

For the items tested, the college complied with significant finance-related legal provisions concerning bookstore revenue and cash collections.

During our audit period, Riverland Community College operated bookstores on the Austin and Albert Lea campuses. The bookstores sell a variety of merchandise including books, supplies, and apparel. The college employs two coordinators at the Austin campus bookstore and one coordinator at the Albert Lea campus bookstore. The three bookstore coordinators report to the business office manager.

The Austin campus bookstore used a point-of-sale computer system called Redwing to process sales transactions. The college also used the system to maintain inventory and accounts receivable records. Staff generate daily reports from the Redwing system to summarize daily sales transactions. The Albert Lea bookstore uses a cash register to record financial transactions.

Riverland Community College recorded \$759,378 in revenue for the bookstores in fiscal year 2000. Table 7-1 shows the revenue by bookstore and type.

Riverland Community College

Table 7-1
Bookstore Revenue
Fiscal Year 2000

	<u>Albert Lea</u>	<u>Austin</u>
Sale of New Books	\$145,854	\$261,425
Sale of Non-course Books/Magazines	47,649	165,684
Sale of Used Books	6,581	72,479
Sale of Supplies and Services	6,986	24,156
Sale of Apparel	4,375	10,914
Sale of Misc. Supplies and Beverages	4,020	5,290
Other Revenue	<u>3,052</u>	<u>912</u>
Total	<u>\$218,517</u>	<u>\$540,860</u>

Source: MnSCU accounting system.

Audit Objectives and Methodology

The primary objective of our review of Riverland Community College's bookstore revenue was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that bookstore revenue collections were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- For those items tested, did the college comply with the significant finance-related legal provisions concerning bookstore revenues?

To address these questions, we interviewed the bookstore coordinators and business office personnel to gain an understanding of the internal control structure over the collection of bookstore revenues. We tested samples of transactions to determine if the college had accurately recorded the bookstore receipts on the MnSCU accounting system.

Conclusions

Riverland Community College's internal controls provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, the Albert Lea bookstore did not have adequate procedures for handling void and return transactions, did not provide adequate separation of duties when handling third party charges, and lacked an independent review of the book buy-back process. Both the Albert Lea and Austin bookstores lacked adequate internal controls to provide reasonable assurance that bookstore inventory was accurately counted and recorded in the accounting system. We discuss these issues in Finding 3. For the transactions tested, the college complied with significant finance-related legal provisions concerning bookstore revenue.

Riverland Community College

3. PRIOR FINDING PARTIALLY RESOLVED: Riverland Community College did not have adequate controls over some bookstore activities.

During our review of bookstore operations, we found a lack of controls over bookstore operations including inventory control, voids and returns, third party billings, and the book buy-back process. We discuss each of these issues in the following paragraphs.

Bookstore coordinators at both Austin and Albert Lea perform the annual inventory counts at the bookstores. The business office manager recorded the inventory adjustments in the MnSCU accounting system. No one independent of the bookstore operations, however, compared the bookstore physical inventory results with the inventory records. As of June 30, 2000, bookstore inventories totaled approximately \$42,000 for the Albert Lea campus and \$185,000 at the Austin campus. Without an independent review of inventory results, there is a risk that theft or errors could occur and not be detected.

The Albert Lea bookstore coordinator did not document voids and return transactions. The bookstore coordinator would write the reason for the void on the register tape, but no one reviewed it. Customers who returned items purchased with financial aid vouchers completed and signed return slips. No supporting documentation was prepared, however, for returns not charged to financial aid. Void and return transactions are sensitive transactions because they represent decreases to cash collections. The lack of documentation and review of these transactions increases the risk that amounts recorded as voids or returns were inaccurate or inappropriate.

The Albert Lea bookstore lacked an adequate separation of duties over third party accounts receivable transactions. The bookstore coordinator billed the third parties for bookstore charges, collected payments on the receivables, and posted receipts to the accounts and the accounting system. Having one individual responsible for all aspects of the accounting cycle increases the risk that monies collected could be credited to the account but not deposited.

The college also needs to modify the book buy-back procedures at the Albert Lea campus. There was no independent review of the book buy-back process at the Albert Lea campus bookstore, and certain transactions were not recorded in the accounting system. An out-of-state book company buys used books from the students at the end of each semester. The Albert Lea bookstore coordinator buys books for both the college and the company. The bookstore receives a commission for buying books for the book company. We reviewed the May 2000 buy-back process and found a commission of \$227 in cash that was not recorded on the accounting system or deposited. The bookstore coordinator stated that the commission was used to pay for returns at the bookstore. Without an independent review of the book buy-back process, errors or irregularities could occur and go undetected.

Recommendations

- *Someone independent of bookstore operations should review physical inventory results.*

Riverland Community College

- *The Albert Lea bookstore should document void and return transactions. Someone independent should review these transactions.*
- *The college should separate duties over third-party accounts receivable transactions.*
- *The Albert Lea bookstore should deposit receipts from book buy-backs and someone independent should review the results of the book buy-back process.*

Status of Prior Audit Issues As of April 9, 2001

Most Recent Audits

College Audit

Legislative Audit Report 98-51, issued in September 1998, covered the college's material activities and programs including tuition, fees and customized training receipts, employee payroll, administrative expenditures, student financial aid, and bookstore revenue. The report contained 17 findings. The college implemented recommendations for 14 of the findings. We have repeated portions of three prior findings in the current report as Findings 1 and 3.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, **Legislative Audit Report 00-11**, issued in March 2000, and **Legislative Audit Report 99-19**, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the years ended June 30, 2000, 1999, and 1998, respectively. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal programs. These reports did not include any findings related specifically to Riverland Community College.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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May 31, 2001

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

Riverland Community College has just completed our financial and compliance audit with the Office of Legislative Auditor. Riverland Community College has three findings that we would like to address in this response letter.

Finding 1

Riverland Community College did not adequately monitor or control access to its computerized business systems.

Five Riverland Community College employees had incompatible clearances to the MnSCU accounts receivable module.

Responsible Person: Brad Doss, Business Manager
Karen Snorek, Vice President of Finance & Administration
Done by: 4/20/01

Three of the Riverland Community College employees have had their security changed to not allow waivers. One employee will be doing customer waivers and the other employee will be doing employee waivers. The Vice President of Employee & Public Relations will be approving the employee waivers and the Business Manager will be reviewing the customer waivers on a monthly basis.

Three college personnel had incompatible clearances to initiate payroll transactions on SEMA4 and human resource transactions on SCUPPS.

Responsible Person: Karen Snorek, Vice President of Finance & Administration
Gary Rhodes, College President
Done by: 6/30/01

One of the employees has had their security changed so that it is in compliance. Office of

Albert Lea Campus
2200 Tech Drive
Albert Lea, MN 56007
(507) 379-3300 • (800) 333-2584

Austin Campus
1900 Eighth Avenue NW
Austin, MN 55912
(507) 433-0600 • (800) 247-5039

Owatonna Center
245 Eighteenth Street SE
Owatonna, MN 55060
(507) 455-5880 • (800) 205-4987

the Legislative Auditor will inform the college of the other two employees and the college will then change security to conform.

One system office employee had a high level of access to the MnSCU accounting module.

Responsible Person: Karen Snorek, Vice President of Finance & Administration
Gary Rhodes, College President
Done by: 5/24/01

System office has informed the college that the security for the one employee has been reduced to a level that is acceptable.

Finding 2

Riverland Community College did not record the correct occurrence dates on the MnSCU accounting system for supplies and equipment expenditures.

Riverland Community College will use a stamp that will be put on all invoices that will request the date the item was received and the signature of the person that approves the invoice to be paid. This date will then be the date that will be used in ISRS.

Responsible Person: Brad Doss, Business Manager
Karen Snorek, Vice President of Finance & Administration

Done By: 07/01/01

Finding 3

Riverland Community College did not have adequate controls over some bookstore activities.

Bookstore coordinators at both Austin and Albert Lea perform the annual inventory counts at the bookstores.

Responsible Person: Brad Doss, Business Manager
Karen Snorek, Vice President of Finance & Administration
Done By: 6/30/01

The Austin Bookstore staff will do the annual inventory in Albert Lea and the Albert Lea Bookstore staff along with the part time Austin Bookstore staff will do the annual inventory count in Austin. The Business Manager will do a spot check of approx. 10% of the inventory.

The Albert Lea Bookstore Coordinator did not document voids and return transactions.

Responsible Person: Brad Doss, Business Manager
Done By: 4/30/01

The Bookstore Coordinator has developed a form to document voids and returns.

The Albert Lea Bookstore lacked an adequate separation of duties over third party accounts receivable transactions.

Responsible Person: Brad Doss, Business Manager
Done By: 7/01/01

Starting with Summer semester billings for Albert Lea Bookstore will be done by the Business Office staff in Albert Lea.

The college also needs to modify the book buy-back procedures at the Albert Lea campus.

Responsible Person: Brad Doss, Business Manager
Done By: 7/01/01

Commission checks will be requested from Buy Back companies and we will no longer accept cash or credit them on our billings that we owe them.

/s/ Gary L. Rhodes

Gary L. Rhodes, Ed.D.
College President

/s/ Karen Snorek

Karen Snorek
Vice President of Finance & Administration

/s/ Brad Doss

Brad Doss
Business Manager