



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Rainy River Community College
July 1, 1997, through June 30, 2000



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR
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Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Mr. Allen Rasmussen, President
Rainy River Community College

We have audited Rainy River Community College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included: financial management, tuition and fees, payroll, operating expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. 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 *Governmental 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 Rainy River 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 Rainy River Community College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 9, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 14, 2000

Report Signed On: November 6, 2000

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Financial Management	5
Chapter 3. Tuition and Fees	7
Chapter 4. Payroll Expenditures	9
Chapter 5. Operating Expenditures	11
Chapter 6. Bookstore Operations	13
Chapter 7. Student Financial Aid	15
Status of Prior Audit Issues	19
College Response	21

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Carl Otto, CPA	Auditor-In-Charge
Connie Stein	Auditor
Irene Hass	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Rainy River Community College and the MnSCU system office at the exit conference held on October 20, 2000:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Kim McLaughlin	Internal Auditor
Deb Winter	Director of Campus Assistance

Rainy River Community College:

Allen Rasmussen	President
Brenda Nicholson	Business Manager

Report Summary

Rainy River Community College made significant improvements in financial management areas since the last audit. The college separated duties to improve internal control over the local bank accounts, tuition and fees, and bookstore activities. In addition, the college consolidated most of its bank accounts and reconciled its financial activity in these accounts. The college operated within available financial resources and generally complied with applicable legal provisions and management's authorization. However, the college still needs to resolve some issues to improve its financial management systems.

Key Findings:

- Rainy River Community College did not perform periodic reconciliations of total financial activity between the MnSCU and MAPS accounting systems in fiscal year 2000. The Northeast Service Unit performed monthly reconciliations until June 1999. (Finding 1, page 6)
- The college did not reconcile the MnSCU accounting system general ledger accounts for federal financial aid for funds carried forward from fiscal year 1999 to 2000. (Finding 2, page 14)
- The college did not prepare complete financial statements to monitor enterprise fund activities including student housing and the bookstore. (Finding 3, page 17)

Agency Response:

In its response, Rainy River Community College agreed with the report's findings and recommendations and is taking corrective action to resolve the issues.

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Chapter 1. Introduction

Rainy River Community College is a two-year college that is part of the Minnesota State Colleges and Universities (MnSCU) system. Allen Rasmussen is the president of the college. The mission of Rainy River Community College is to provide students with the collegiate level skills necessary to be successfully employed in occupations related to their training. The college serves approximately 1,200 students and is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Secondary Schools.

Table 1-1 shows financial activity for Rainy River Community College for fiscal year 1999. The college finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the system-wide appropriation to its individual institutions based on a formula. These activities are accounted for in the General Fund. The Special Revenue Fund includes federal student financial aid. The Enterprise Fund includes financial activities from the bookstore, food service, and student housing.

Rainy River Community College

Table 1-1
Rainy River Community College
Revenues, Expenditures/Expenses, and Changes in Fund Balance
Fiscal Year Ended June 30, 1999

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Revenues:			
State Appropriations	\$2,826,808	\$ 0	\$ 0
Tuition and Fees	862,085	70,560	10,760
Sales and Services, Net ⁽²⁾	1,357	7,868	33,566
Room and Board	0	0	134,933
Federal Grants	0	655,160	0
State Grants	197,783	0	0
Private Grants	174,197	0	0
Other Income	15,760	0	58,169
Total Revenues	<u>\$4,077,990</u>	<u>\$733,588</u>	<u>\$237,428</u>
Expenditures/Expenses:			
Salaries	\$3,089,868	\$ 247,662	\$ 82,722
Purchased Services	409,647	23,486	18,835
Utilities	95,874	0	35,371
Contract/Consultants	53,081	600	830
Supplies	123,466	20,374	22,503
Financial Aid	163,888	378,114	(319)
Capital Expenditures	50,032	0	12,650
Debt Service-Interest	99,994	0	314
Other Expenses	70,714	33,738	6,316
Total Expenditures/Expenses	<u>\$4,156,564</u>	<u>\$703,974</u>	<u>\$179,222</u>
Transfers:			
Transfers In	\$ 8,051	\$ 2,000	\$ 0
Transfers Out	<u>(24,621)</u>	<u>(13,756)</u>	<u>(2,000)</u>
Net Transfers	<u>\$(16,570)</u>	<u>\$(11,756)</u>	<u>\$(2,000)</u>
Change in Fund Balance ⁽⁴⁾	\$(95,144)	\$ 17,858	\$ 56,206
Beginning Fund Balance	<u>734,383</u>	<u>357</u>	<u>423,480</u>
Ending Fund Balance ⁽³⁾	<u><u>\$639,239</u></u>	<u><u>\$ 18,215</u></u>	<u><u>\$ 479,686</u></u>

Note 1: This statement is prepared using the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from Generally Accepted Accounting Principles (GAAP) in the following ways: 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. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not include all assets such as accounts receivable and prepaid assets, or long-term liabilities such as debt and compensated absences. Compensated absence liabilities at June 30, 1999, were \$270,787; \$4,704; and \$730 for the General Fund, Special Revenue Fund, and Enterprise Fund, respectively.

Note 2: Enterprise funds do not include all allocable costs such as rent, utilities, or depreciation. Enterprise Fund sales and services of \$33,566 include gross sales of \$189,458 less cost of goods sold of \$155,892.

Note 3: The June 30, 1999, fund balance for the General Fund includes an undesignated operating reserve of \$452,983, as calculated by the college. The college is required to maintain a reserve according to board policy. The remaining balance was restricted for various commitments and other obligations.

Note 4: The change in fund balance for the Enterprise Fund was reduced by \$17,532 which was erroneously shown in MnSCU accounting as transfers in.

Source: Prepared by MnSCU accounting staff and adjusted by OLA.

Chapter 2. Financial Management

Chapter Conclusions

Rainy River Community College operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that assets were safeguarded. The college complied with applicable legal provisions regarding local bank accounts. However, the college did not perform periodic reconciliations between the MnSCU and MAPS accounting systems. Finally, the college maintained an appropriate relationship with its foundation.

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

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates state appropriation funds to Rainy River Community College, and all universities and colleges, based upon an allocation formula. In addition, the college, like other campuses, retains the tuition and other receipts it collects to determine the basis for the annual budget. Once the college determines its authorized spending level, it allocates spending budgets to various administrative and academic departments. The business office monitors cost center budgets using monthly MnSCU accounting budget reports.

The college is affiliated with the Rainy River Community College Foundation, an autonomous, non-profit organization. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds other activities that benefit the public educational mission of the college. A private CPA firm audits the foundation.

Audit Objectives and Methodology

Our review of Rainy River's financial management structure focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources and in compliance with applicable legal provisions and management's authorization?

Rainy River Community College

- Did the college's internal controls provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college properly account for and control local bank accounts?
- Did the college have an appropriate operating relationship with related organizations such as its foundation?

To address these objectives, we interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the individual program areas we audited. We gained an understanding of management controls, such as budget monitoring and reconciliations, in place over the state treasury and local bank activities. We reviewed security privileges to determine whether the college adequately limited employee access to its computerized business systems. State treasury and local bank transactions posted to MnSCU accounting were analyzed to determine if the college properly recorded revenues and expenditures. Local bank activity was also reviewed to determine sufficiency of collateral assigned. Finally, we reviewed the college's contractual agreement with its foundation.

Conclusions

Rainy River Community College operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that assets were safeguarded. The college complied with applicable legal provisions regarding local bank accounts. However, the college did not perform periodic reconciliations between the MnSCU and MAPS accounting systems. Finally, the college maintained an appropriate relationship with its foundation.

1. Rainy River Community College did not perform periodic reconciliations between the MnSCU and MAPS accounting systems.

Rainy River Community College did not periodically reconcile financial activity recorded on the MnSCU accounting system to MAPS in fiscal year 2000. The Northeast Service Unit performed monthly reconciliations of the college's financial activities through fiscal year 1999. The college did complete daily confirmations of receipts and disbursements between the accounting systems. However, the college did not verify total financial activity between the two systems. The college did not review the proper postings of its appropriation allotments and transfers between accounts on the accounting systems. We noted that there was a difference in the appropriation balance between the two systems at December 31, 1999, of about \$11,000. In addition, the college was not readily able to identify the transfers between fund types for reporting purposes since it had not reconciled the financial activity recorded on the systems. By not timely performing this reconciliation, the college and MnSCU staff will not have accurate data for financial decisions.

Recommendation

- *Rainy River Community College should perform periodic reconciliations of the MnSCU to MAPS financial activity.*

Chapter 3. Tuition and Fees

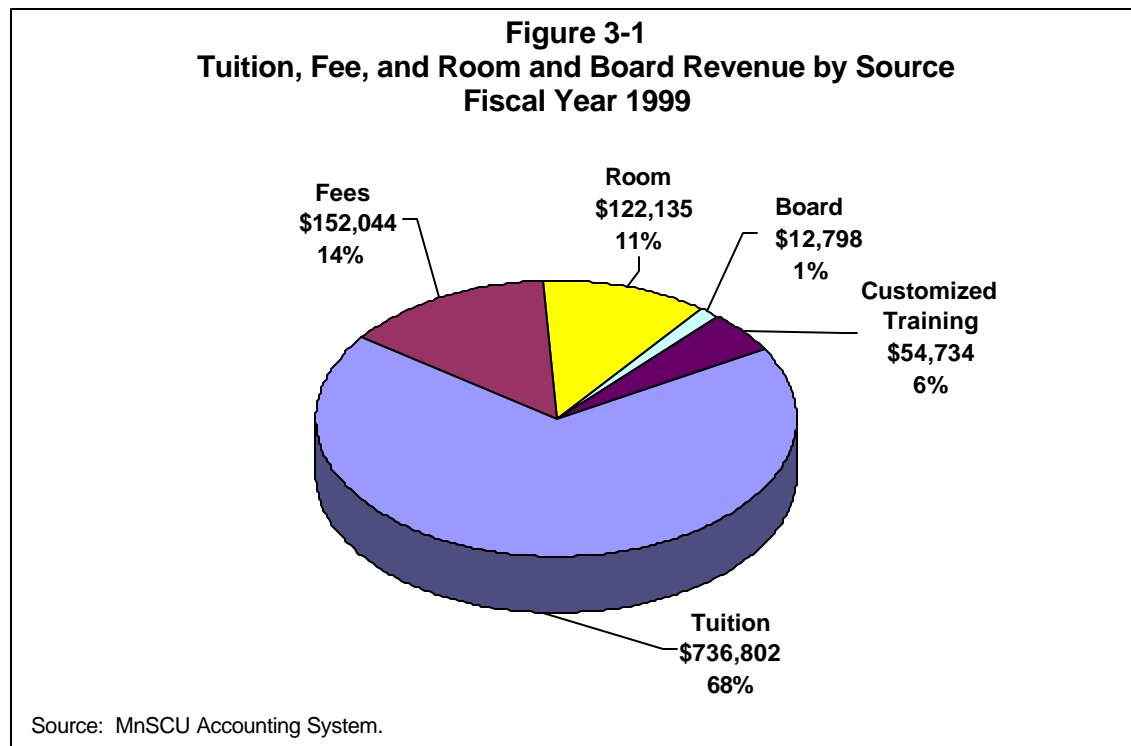
Chapter Conclusions

Rainy River Community College's internal controls provided reasonable assurance that tuition, fee, and room and board receipts were adequately safeguarded, promptly deposited, and accurately recorded in the accounting records. The college complied with the material finance-related legal provisions and management's authorization for the items tested.

Rainy River Community College collected tuition, fee, and room and board receipts from students enrolled in campus programs. Tuition was based on the number of credits earned by students enrolled for each term. Fees were also assessed for various student activities and parking. In fiscal year 1999, the college changed from a quarter system to a semester system. For the spring 2000 semester, the resident tuition rate was \$67.50 per semester credit.

The college collected revenue from customized training, which included non-credit continuing education and contract training courses. The college designed continuing education courses for the public, and developed contract-training courses to meet the educational needs of specific businesses or industries.

Figure 3-1 shows tuition, fee, and room and board revenue for fiscal year 1999.



Rainy River Community College

Audit Objectives and Methodology

Our review of Rainy River's tuition, fee, and room and board revenue focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that tuition, fee, and room and board receipts were adequately safeguarded, promptly deposited, and accurately recorded in the accounting records?
- Did the college comply with the material finance-related legal provisions and management's authorization concerning tuition, fee, and room and board revenue?

To address these objectives, we interviewed college employees to gain an understanding of the internal control structure in place over assessing, collecting, depositing, and recording tuition, fee, and room and board revenue. We reviewed authorized rates, student registrations, billings, waivers, and MnSCU accounting records to determine if the college charged students the appropriate rates, collected the amounts due, and properly recorded revenue transactions. Also, we reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all revenue collections in compliance with applicable legal provisions. We performed detailed tests of transactions and analytical procedures.

Conclusions

Rainy River Community College's internal controls provided reasonable assurance that tuition, fee, and room and board receipts were adequately safeguarded, promptly deposited, and accurately recorded in the accounting records. The college complied with the material finance-related legal provisions and management's authorization for the items tested.

Chapter 4. Payroll Expenditures

Chapter Conclusions

Rainy River Community College's internal controls provided reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records. The college complied with material finance-related legal provisions and management's authorization for the items tested.

Payroll was the college's largest operating cost in fiscal year 1999, which totaled \$3.4 million or 68 percent of total expenditures. In 1999 the college employed 30 full-time faculty, 22 part-time faculty, and 30 administrative staff. College employees are covered by the following compensation plans:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Middle Management Association (MMA)
- Minnesota Association of Professional Employees (MAPE)
- Excluded Administrators Plan
- Commissioner's Plan
- Minnesota Community College Faculty Association (MCCFA)

Rainy River Community College contracted with Hibbing Community College to process their payroll and personnel information. Hibbing also ensured payroll expenditures were properly recorded in the accounting system.

Audit Objectives and Methodology

Our review of Rainy River's payroll expenditures focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and management's authorization?

To address these objectives, we obtained an understanding of the internal control structure over the personnel and payroll process. We interviewed employees regarding monitoring of computer system clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested payrate increases for management's authorization and compliance with

Rainy River Community College

bargaining unit agreements. We also summarized, reviewed, and compared payroll transactions to appointments for a sample of employees.

Conclusions

Rainy River Community College's internal controls provided reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records. The college complied with material finance-related legal provisions and management's authorization for the items tested.

Chapter 5. Operating Expenditures

Chapter Conclusions

Rainy River Community College's internal controls provided reasonable assurance that operating expenditures were properly authorized and accurately recorded in the accounting records. The college complied with material finance-related legal provisions and management's authorization for the items tested.

The college expended approximately \$713,000 for supplies, purchased services, contract services, equipment, and improvements in the year ended June 30, 1999. The general process established by the college for purchases included the use of requisitions and purchase orders. To make a purchase, employees are required to complete a Non-Personnel Requisition form authorized by the appropriate college dean or the president. The business manager verifies that sufficient funds are available and the proper cost center and object code are on the form. The requisition form is forwarded to the college account clerk/cashier for input into the MnSCU Purchasing Control System to prepare a purchase order. The working copy of the requisition and purchase order is forwarded to the college administrative secretary. The bookstore account clerk receives all goods and equipment, verifies and signs the packing slip, and forwards the packing slip to the business manager. The business manager receives the invoice, forwards the packing slip and invoice to the college administrative secretary who matches the purchase order and/or requisition with the invoice and packing slip, and codes the invoice for payment. This information is then given to the account clerk/cashier for payment.

The college completed a college-wide fixed asset inventory in January 1998. The college uses the MnSCU inventory system module for assets over \$2,000 and sensitive items of lesser value. The college also created an internal database for fixed assets under \$2,000, including leased computers which do not have fixed asset numbers attached to them.

Audit Objectives and Methodology

Our review of Rainy River's operating expenditures focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that operating expenditures were properly authorized and accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and management's authorization concerning operating expenditures?

To address these objectives, we interviewed college employees to gain an understanding of the internal control structure in place over the purchasing and payment processes. We reviewed a sample of expenditure transactions to determine if they were properly authorized, processed, and

Rainy River Community College

recorded. We also reviewed expenditures to determine if the college complied with material finance-related legal provisions.

Conclusions

Rainy River Community College's internal controls provided reasonable assurance that operating expenditures were properly authorized and accurately recorded in the accounting records. The college complied with material finance-related legal provisions and management's authorization for the items tested.

Chapter 6. Bookstore Operations

Chapter Conclusions

The college's internal controls provided reasonable assurance that bookstore receipts and disbursements were adequately controlled and in compliance with material finance-related legal provisions and management's authorization. However, we noted that annual financial statements used to monitor student housing and bookstore activities did not reflect all operating costs. In addition, as discussed in Finding 1, the college did not reconcile its total financial activity between the MnSCU and MAPS accounting systems.

The college operates a bookstore that sells textbooks, supplies, clothing, and other miscellaneous items to students. One full-time employee who is responsible for all bookstore operations and accounting functions manages the bookstore. The college cashier as well as a student worker supports the bookstore manager during the academic year.

The college prepared financial statements for the bookstore operation. The bookstore had sales and supply expenses of approximately \$169,000 and \$134,000, respectively, for fiscal year 1999 as shown on the MnSCU accounting system. The college did not allocate all costs relating to the bookstore, such as rent, utilities, or indirect costs. College personnel indicated that a portion of the bookstore profits was used to support the food service operation, which generally operates at a loss.

Audit Objectives and Methodology

Our review of the college's bookstore operations focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that bookstore revenues and expenditures were properly authorized and accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and management's authorization concerning bookstore operations?
- Did the college have an effective process to monitor the status of the bookstore's annual financial activities?

To address these objectives, we interviewed college employees to gain an understanding of the internal control structure in place over bookstore operations. We reviewed a sample of receipt and expenditure transactions to determine if they were properly authorized, processed, and accurately recorded in the accounting system. We also reviewed these transactions to determine if the college complied with material finance-related legal provisions.

Rainy River Community College

Conclusions

The college's internal controls provided reasonable assurance that bookstore receipts and disbursements were adequately controlled and in compliance with material finance-related legal provisions and management's authorization. However, we noted that annual financial statements used to monitor student housing and bookstore activities did not reflect all operating costs.

2. Prior Recommendation Not Resolved: The college did not prepare complete financial statements to monitor enterprise fund activities.

The college did not prepare complete financial statements for the enterprise fund including the student housing and bookstore activities. The financial statements did not include all operating costs. The college did not account for the enterprise activities' share of rent, utilities, or indirect costs. The student housing and bookstore are auxiliary enterprises and should account for operations in a manner similar to a private business. An income statement reflecting all operating costs would allow college management to make informed pricing and other business decisions.

Recommendation

- *The college should prepare complete financial statements to monitor enterprise fund activities.*

Chapter 7. Student Financial Aid

Chapter Conclusions

Rainy River Community College's internal controls provided reasonable assurance that student financial aid transactions were properly administered in accordance with applicable federal regulations. However, the college did not properly establish its general ledger accounts for federal financial aid in MnSCU accounting and did not show the linkage to the respective bank accounts. The college's controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid for the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

The college participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. Table 7-1 shows federal financial aid payments made to students during the 1999-2000 academic year.

Table 7-1
Federal Financial Aid Expenditures
1999-2000 Academic Year

<u>CFDA</u> <u>Number</u>	<u>Program</u>	<u>Total</u> <u>Expenditures</u>
84.032	Federal Family Education Loans (FFEL)	
	Subsidized Stafford Loans	\$159,323
	Unsubsidized Stafford Loans	\$ 27,567
84.063	Federal Pell Grant	\$325,638
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)	\$ 21,200
84.033	Federal Work-Study (FWS)	\$142,812
84.038	Perkins Loan Program	\$ 25,350

Source: College Student Financial Aid System (PC_SAFE) as of June 2000.

Students generally received the Federal Pell Grant as the first source of financial assistance. The federal government did not limit Pell Grant awards to the college. All eligible students received awards. The maximum Pell Grant award for each student during the 1999-2000 award year equaled \$3,125. The federal central processing system determined each student's Pell Grant eligibility and award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

The Federal Family Education Loan Program includes Subsidized Stafford Loans. The student borrower applies for the loan from a private lender. The school certifies the promissory note for qualifying students. The federal government guarantees the loan in case of default or

Rainy River Community College

cancellation. The federal government pays the interest to the lender while the student attends school and during certain deferment periods. The maximum loan for a student is determined by grade level and the amount previously borrowed.

The Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant are additional sources of federal financial aid. The federal government share must not exceed 75 percent of total expenditures. The state contributes the remaining 25 percent of the program funding.

The college also participated in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The college packages Minnesota State Grants along with federal financial aid. The Higher Education Services Office establishes eligibility requirements for the state grant program and reimburses the college for eligible grant disbursements. For fiscal year 2000, the college disbursed Minnesota State Grants totaling \$121,188.

Rainy River Community College used three information systems to package, award, disburse, and record student financial aid in fiscal year 2000. The college used a stand-alone financial aid system (PC SAFE) to award and package financial aid, the Integrated Student Records System (ISRS) to disburse aid, and the Loan Management System to administer Perkins Loans. The financial aid system electronically received and stored financial aid application data. The system interfaced with the student records and loan management systems. PC SAFE software posed many problems for the college and alternative processes were developed to ensure that aid was properly awarded. Beginning in fiscal year 2001, the college will replace PC SAFE with the ISRS financial aid module.

Audit Objectives and Methodology

Our review of the college's student financial aid program focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it properly recorded financial activities in the accounting system and managed federal and state student financial aid programs in compliance with applicable laws and regulations?
- Did the college comply with applicable federal requirements for managing federal cash?

To address these objectives, we interviewed employees from the college's financial aid and business offices to gain an understanding of the internal control structure. We evaluated and tested controls over compliance for determining student eligibility and for packaging, awarding, disbursing, and recording federal and state financial aid. We also evaluated and tested the college's federal cash management procedures.

Conclusions

Rainy River Community College's internal controls provided reasonable assurance that student financial aid transactions were properly administered in accordance with applicable federal regulations. However, the college did not properly establish its general ledger accounts for federal financial aid in MnSCU accounting and did not show the linkage to the respective bank

Rainy River Community College

accounts. The college's controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid for the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

3. The college did not properly establish its general ledger accounts for federal financial aid and did not show the linkage to the respective bank accounts.

The college did not reconcile the federal financial aid general ledger account balances in MnSCU accounting between fiscal years 1999 and 2000. The college stopped using the separate local bank account for financial aid at the end of fiscal year 1999. The college consolidated most of its bank accounts in fiscal year 2000 into the "All College Fund" checking account. The "All College Fund" checking account is used for state and local activities, including financial aid.

The college did not properly reconcile the old and new general ledger accounts for federal financial aid. In addition, the college did not establish the linkage from the general ledger accounts for financial aid to the respective bank accounts for fiscal year 1999 and 2000. Each bank account has related general ledger accounts indicating where the funds belong in MnSCU accounting. As of June 30, 2000, the MnSCU general ledger accounts associated with the bank accounts showed that there was a variance between the old and new financial aid general ledger accounts as shown in Table 7-2.

Table 7-2
Rainy River Community College
General Ledger and Bank Account Analysis
As of June 30, 2000

	<u>General Ledger Total</u>
Local Checking Account	
General Ledger #	
056300 Federal Work-Study - old	\$38,323
056200 SEOG – old	11,053
056100 Pell Grants - old	114
054430 Other	<u>632</u>
Total	<u>\$50,122</u>
All College Fund Checking Account	
General Ledger #	
056350 Federal Work-Study	\$(40,428)
056250 SEOG	(15,770)
056150 Pell Grants	<u>34,172</u>
Total	<u>\$(22,026)</u>

Source: MnSCU General Ledger as of June 30, 2000.

The largest variance between the old and new account balances relates to Pell Grants. Since there is limited financial aid activity during the summer, financial aid accounts should have a minimal balance. While the other financial aid accounts have smaller

Rainy River Community College

variances, the balances transferred from fiscal year 1999 to 2000 should have been the exact amounts.

Recommendation

- *The college should reconcile the MnSCU general ledger accounts, resolve the balances in the federal financial aid accounts, and determine the appropriate linkage between the general ledger and bank account balances.*

Status of Prior Audit Issues As of July 14, 2000

Most Recent Audits

College Audit

Legislative Audit Report 97-53, issued in November 1997, covered the period July 1, 1995, through June 30, 1997. The audit cited 13 audit findings related specifically to Rainy River Community College. The department implemented or substantially resolved 12 of the 13 findings.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Rainy River Community College.

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 for the year ended June 30, 1998. This report did not include any findings related specifically to Rainy River Community College.

State of Minnesota Audit Follow-Up Process
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<p>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. 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.</p>

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October 30, 2000

State of Minnesota
Office of the Legislative Auditor
Mr. James R. Nobles, Legislative Auditor
100 Centennial Building
668 Cedar Street
St Paul MN 55155

Dear Mr. Nobles:

We have received and reviewed your draft audit of Rainy River Community College for the period July 1, 1997 through June 30, 2000 and concur with your findings. Our response to your findings and recommendations is attached.

Your comments and conclusions reflected the progress made by the MnSCU system and our campus in the last three years. Thank you for your support and suggestions as we have worked through this challenging transition. I can assure you that we have already taken steps to resolve the findings and recommendations on this audit report.

Sincerely,

/s/ Allen Rasmussen

Allen Rasmussen
President

Cc; Renee Redmer

Recommendation 1: Rainy River Community College should perform periodic reconciliations of the MnSCU and MAPS financial activity.

As stated in the audit report, the college performs daily reconciliations of the cash receipt and disbursement transactions. We are in the process of training staff to perform monthly reconciliations between the MnSCU and MAPS systems. This will identify any discrepancies or posting errors. MnSCU has developed a series of queries to help identify problem areas. These periodic reconciliations will assure that all transactions are accurately recorded in both systems.

Recommendation 2: The college should prepare complete financial statements to monitor enterprise fund activities.

The MnSCU System Office is currently implementing a procedure for campuses to allocate indirect costs to their auxiliary enterprise operations. We have attended training sessions and are in the process of implementing the procedure on our campus.

Recommendation 3: The college should reconcile the MnSCU ledger accounts, resolve the balances in the federal financial aid accounts, and determine the appropriate linkage between the general ledger and bank account balances.

The college recognizes that we must complete the process of combining the federal financial aid bank account and the general college fund bank account. We will properly identify the balances remaining in the old general ledger accounts and post the appropriate transactions to reflect an accurate account balance in the new general ledgers.

Conclusion

We appreciate the Legislative Auditor recognizing the accomplishments we have achieved over the last three years. It is our goal to resolve these three issues by December 31, 2000. Brenda Nicholson is responsible for the resolution of these issues.