

Financial-Related Audit

**Rochester Community and Technical
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).

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

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Mr. Donald Supalla, President
Rochester Community and Technical College

We have audited Rochester Community and Technical College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included general financial management, tuition and fees, payroll, purchasing and operating expenditures, and the bookstore. 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 also require that we design the audit to provide reasonable assurance that Rochester Community and Technical College complied with the 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 for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Rochester Community and Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 13, 2001.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
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End of Fieldwork: April 13, 2001

Report Signed On: July 9, 2001

Rochester Community and Technical College

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Audit Participation

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

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Tom Donahue, CPA	Audit Manager
Michael Hassing, CPA	Audit Director
Kathy Fisher	Auditor
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Exit Conference

We discussed the findings and recommendations with the following representatives of Rochester Community and Technical College and the MnSCU system office at an exit conference held on June 25, 2001:

Rochester Community and Technical College:

Don Supalla	President
Gary Swenson	Director of Business Services
Ruth Siefert	Business Office Supervisor

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
Deb Winter	Director of Campus Assistance
John Asmussen	Executive Director of Internal Auditing
Marilyn Hansmann	Regional Internal Audit Coordinator

Report Summary

In general, we found Rochester Community and Technical College to be well managed and fiscally responsible. We found that the college operated within its available resources and complied with material finance-related legal provisions. However, we identified certain internal control weaknesses that could impact on the college's ability to safeguard assets and to correctly record financial activities in its accounting systems.

Key Findings and Recommendations:

- Rochester Community and Technical College did not adequately control access to its business systems. The college should periodically review system security and limit employee access to the functions needed to complete their job responsibilities. (Finding 1, page 7)
- Rochester Community and Technical College did not have an adequate process to document, authorize and monitor backdated transactions. The college should develop a process to monitor and control backdated transactions. In addition, the college should deposit all tuition and fee collections promptly. (Findings 3 and 4, pages 11 and 12)
- Rochester Community and Technical College did not timely draw federal funds to cover Pell Grant disbursements. The college should correct and resubmit the rejected Pell Grant records to obtain federal reimbursement. (Finding 6, page 22)

Rochester Community and Technical College

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Rochester Community and Technical College

Chapter 1. Introduction

Rochester Community and Technical College is one of 35 colleges and universities included in the Minnesota State Colleges and Universities (MnSCU) system. The college is located at the University Center Rochester, a 480-acre campus serving southeastern Minnesota. The University Center Rochester campus is also home to the University of Minnesota and Winona State University Rochester. Together, through a unique partnership, the three institutions collectively combine to offer over 100 programs and 150 credential options from certificates to doctorates. Rochester Community and Technical College is the largest component of the University Center Rochester. It offers nearly 70 programs and 100 credential options. The MnSCU Board of Trustees appointed Mr. Donald Supalla as president of Rochester Community and Technical College effective June 21, 2000. He had served as interim president since 1997.

Rochester Community and Technical College had 3,166 full-time equivalent students enrolled in credit classes during the 1999-2000 school year. Enrollment increased approximately 3.6 percent over the previous year. The college also provided non-credit and customized training in essential skills and computer programs. In fiscal year 2000, the college provided training to nearly 10,000 students in non-credit and credit-based workforce initiatives.

In 1998 and 2000, the Legislature approved three major capital projects for the Rochester Community and Technical College. The Legislature appropriated over \$15 million towards the renovation of the college's telecommunication infrastructure, to develop a new media center, and to construct a new horticulture center and a regional recreation and sports center. The college has partnered with the city of Rochester for the construction of the sports center. In addition, the college has received additional appropriations for athletic fields and an internal campus road system.

Rochester Community and Technical College is affiliated with the Rochester Community and Technical College Foundation, a separate, non-profit organization. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts, which were audited annually by a CPA firm. The college has a written agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants that benefit the educational mission of the college. According to the foundation's audited financial statements, it provided \$152,528 in student scholarships during fiscal year 2000.

Rochester Community and Technical College finances its operations from three main sources: state appropriation allocations, tuition and fees, and federal grants. Table 1-1 provides a summary of the college's financial activity for fiscal year 2000.

Rochester Community and Technical College

**Table 1-1
Rochester Community and Technical College Revenues,
Expenditures/Expenses, and Changes in Fund Balance
Fiscal Year Ended June 30, 2000**

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenues:				
State Appropriations	\$13,472,450	\$ 0	\$ 0	\$ 0
Tuition and Fees	8,621,202	390,635	139,745	0
Sales and Services, Net	50,239	35,213	895,908 ⁽³⁾	0
Federal Grants	0	2,906,044	0	5,202
State Grants	254,309	1,145,021	0	1,446
Private Grants	203,056	10,144	713	113,068
Other Income	1,295,960	9,699	116,069	0
Total Revenues	<u>\$23,897,216</u>	<u>\$4,496,756</u>	<u>\$1,152,435</u>	<u>\$119,716</u>
Expenditures/Expenses:				
Salaries	\$17,333,685	\$1,305,310	\$ 242,722	\$ 0
Purchased Services	1,931,232	130,199	166,609	0
Utilities	932,632	0	6,167	0
Contracts, Consultants	967,622	64,548	15,000	0
Supplies	2,082,724	161,343	133,438	0
Financial Aid	0	2,623,965	47,529	125,733
Capital Expenditures	783,155	2,651	4,670	0
Debt Service-Interest	185,039	0	0	0
Other	294,792	210,087	83,287	0
Total Expenditures/Expenses	<u>\$24,510,881</u>	<u>\$4,498,103</u>	<u>\$ 699,422</u>	<u>\$125,733</u>
Transfers:				
Transfers-In	\$ 191,869	\$ 57,955	\$ 4,237	\$ 13,500
Transfers-Out	79,167	45,908	5,000	0
Total Transfers	<u>\$ 112,702</u>	<u>\$ 12,047</u>	<u>(\$ 763)</u>	<u>\$ 13,500</u>
Change in Fund Balance	(\$ 500,963)	\$ 10,700	\$ 452,250	\$ 7,483
Beginning Fund Balance	<u>3,701,878</u>	<u>117,600</u>	<u>3,996,950</u>	<u>1,581</u>
Ending Fund Balance	<u>\$ 3,200,915</u>	<u>\$ 128,300</u>	<u>\$4,449,200</u>	<u>\$ 9,064</u>

Note 1: The statement is prepared on 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 appropriations, differs from generally accepted accounting principles. 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 criterion 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 reflect assets, such as certain accounts receivable and prepaid assets, or long-term liabilities, such as debt and compensated absences.

Note 2: Compensated absence liabilities at June 30, 2000, were \$1,752,868, \$65,859, and \$33,209 for the General Fund, Special Revenue Fund, and the Enterprise Fund, respectively. These liabilities represent the amount due college employees for accrued vacation leave, sick leave, and compensatory leave at June 30.

Note 3: Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and Services, Gross	\$2,255,818
Cost of Goods Sold	<u>1,359,910</u>
Sales and Services-Net	<u>\$ 895,908</u>

Note 4: The General Fund ending balance included an unrestricted reserve of \$1,273,689, as calculated by the college. The reserve was part of the college's operating budget for which no use is currently planned. The remaining fund balance was restricted for various commitments, including future retirement and severance payments, departmental activities, and other obligations.

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

Chapter 2. Financial Management

Chapter Conclusions

Rochester Community and Technical College operated within available resources and generally complied with applicable legal provisions and management's authorization. In addition, the college's internal controls provided reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems. The college also maintained an appropriate relationship with its foundation. However, the college did not adequately control access to its business systems or maintain sufficient collateral over local bank accounts.

Rochester Community and Technical College used the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system, the Minnesota Accounting and Procurement System (MAPS), to generate warrants from the state treasury. The MnSCU system office also requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury. During the audit period, Rochester Community and Technical College administered its funds in two primary local bank accounts. The main checking account served as the state depository for transfer of funds into the state treasury. The second account was used for managing the federal cash requests of the financial aid programs.

Budgetary Controls

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Rochester Community and Technical College and all colleges and universities based on an allocation formula. In addition, the college, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

Once Rochester Community and Technical College determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The college established individual cost centers for each department or office to monitor its budget status. College management also monitors projected versus actual student enrollment to ensure that sufficient tuition will be received to support the spending budget. The college builds a reserve balance into its budget formula. As of June 30, 2000, Rochester Community and Technical College had about a five percent budget reserve, or approximately \$1,274,000. MnSCU Policy 5.10 specifies that colleges and universities reach a five to seven percent reserve by the end of fiscal year 2001.

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General Financial Management

The college currently uses the MnSCU Integrated Student Record System (ISRS) for almost all of its financial and student registration processes. One exception is that the college is currently not using ISRS for customized training class registrations. However, the college plans to implement this system in the near future.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's financial management focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it had properly recorded its financial activities on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that it had an appropriate operating relationship with related organizations?

To answer these questions, we interviewed college staff to gain an understanding of the college's use of MnSCU accounting for programs in our audit scope. We also gained an understanding of the management controls, including budget monitoring and reconciliations of local bank accounts. We reviewed local bank activity to determine compliance with legal provisions governing collateral. We also reviewed the college's relationship with its foundation. Finally, we reviewed security privileges to determine whether the college had adequately restricted access to computerized business systems.

Conclusion

Rochester Community and Technical College operated within available resources and generally complied with applicable legal provisions and management's authorization. In addition, the college's internal controls provided reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems. The college also maintained an appropriate relationship with its foundation. However, as discussed in Finding 1, Rochester Community and Technical College did not adequately control access to its business systems. The college also did not maintain sufficient collateral for its local bank accounts, as discussed in Finding 2.

Rochester Community and Technical College

1. Rochester Community and Technical College did not adequately control the access of certain employees to its accounting systems.

Rochester Community and Technical College did not adequately administer and control access to its MnSCU business systems. The college has the primary authority and responsibility to protect and control access to its data through the MnSCU business systems. Therefore, the college needs to ensure that its employees have the appropriate access to data to perform their job responsibilities. In addition, the college has the responsibility to challenge or question the access to its data by other individuals who are not college employees. Without the proper security controls, the college is at risk for possible unauthorized or fraudulent transactions to occur.

Our review of administration of computer system security disclosed the following weaknesses:

- Two former human resource personnel had update access to SCUPPS. In addition, an employee at another institution had access to the college's database.
- Three former employees from the business office continue to have update access to the accounting modules. In addition, four employees have access for positions they no longer possess.
- Five former employees had update access to the accounts receivable module. In addition, three current employees had incompatible profiles based on the highest level of access within the accounts receivable module.
- Two admissions office employees had inappropriate access to the office management security group and the award maintenance group. This access is not related to their current job responsibilities. In addition, a cashier had access to the loan maintenance group, which was not needed.
- One former employee of the financial aid office continued to have access to the financial aid module.
- We also noted that certain system office employees had clearance to update data in various ISRS modules, including the accounting, accounts receivable, the State Colleges and Universities Personnel and Payroll System (SCUPPS), and financial aid modules.

In addition, 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 SCUPPS. 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. The college's staff was unfamiliar with these employees and the reason for their access.

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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.

Recommendations

- *The college should periodically review system security and limit employee access to the functions needed to complete their job responsibilities. In addition, the college should eliminate any incompatible access.*
- *The college should develop a procedure notification that would immediately terminate an employee's access to data upon that employee's termination of employment.*

2. Rochester Community and Technical College did not maintain sufficient collateral for its local bank accounts.

Rochester Community and Technical College did not maintain the legally required amount of collateral for its local bank accounts. State law requires the local bank to pledge collateral of at least 110 percent of funds on deposit. For the period July 1999 through December 2000, the college had collateral statements for only five of the eighteen months. According to those statements, the college had sufficient collateral for only one of the five months. Differences between the highest daily cash balance and collateral ranged from \$29,000 to \$619,000. In October 2000, the college had the bank increase its collateral amount. This increase was sufficient for the November bank balances, but did not meet the requirement for December. The college needs to monitor the bank account balances and the amount of pledged collateral on a periodic basis to ensure the college has sufficient collateral.

Recommendation

- *The college should periodically monitor its bank account balances to ensure that collateral pledged to secure the balances is sufficient.*

Chapter 3. Tuition, Fees, and Other Revenue

Chapter Conclusions

Rochester Community and Technical College's internal controls provided reasonable assurance that revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, the college does not have an adequate process to document, authorize, and monitor backdated transactions.

For the items tested, except for not depositing all customized training program receipts promptly, the college complied with applicable finance-related legal provisions.

Rochester Community and Technical College offers both undergraduate credit based and non-credit based courses. The college collected approximately \$24.9 million in credit and non-credit tuition and fees during fiscal years 1998 through 2000.

Credit-Based Tuition and Fee Revenue

The college collected tuition for undergraduate credit courses at the Minnesota resident rate of \$42.75 and a non-resident rate of \$85.50 per quarter credit for fiscal year 1998. The college switched to a semester term for fiscal year 1999 and charged a resident rate of \$66.75 and a non-resident rate of \$133.50 per semester credit. In fiscal year 2000, the college charged a resident rate of \$68.75 and a non-resident rate of \$137.50 per semester credit.

The college also collected various fees from students, including application fees, student association fees, student life and activity fees, health services fees, parking fees, and technology fees. The college assesses the fees charged to students on a per-credit basis.

Prior to July 1999, the college maintained registration, billing, and accounts receivable information for each student on the College Information System, which interfaced with the MnSCU accounting system. In July 1999, the college converted to MnSCU's new Integrated Student Record System (ISRS). The ISRS contains various student data and registration modules to directly register, bill, and record tuition collections from students and interfaces directly with MnSCU accounting.

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Customized Training and Other Non-Credit Courses

Rochester Community and Technical College also collected revenue for non-credit courses, including customized training courses and continuing education courses. The college offered continuing education courses to the general public and developed contract-training courses to meet the educational needs of a specific business or industry. The college is currently using the Workforce Education Database system to register, invoice, and monitor payments from students. Prior to July 1999, the college used the ACEWARE system. The college is working on integrating its customized training program registrations into the ISRS.

Table 3-1 shows the breakdown of tuition, fees, and non-credit revenue collected for fiscal years 1998 through 2000.

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Tuition	\$5,974,468	\$6,458,868	\$6,958,934
Fees	1,233,752	1,107,814	1,438,698
Non-Credit Revenue	<u>307,279</u>	<u>642,670</u>	<u>816,599</u>
Total	<u>\$7,515,499</u>	<u>\$8,209,352</u>	<u>\$9,214,231</u>

Source: MnSCU accounting system.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College’s tuition and fee revenues focused on answering 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, fees, and other revenue?

To address these objectives, we interviewed college employees to gain an understanding of the controls over billing, collecting, depositing, and recording tuition, fees, and non-credit tuition revenue. We reviewed student registrations, accounts receivable records, and MnSCU accounting records to determine if the college charged students appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on the MnSCU accounting system. We also analyzed the college’s procedures for processing sensitive transactions such as waivers, backdated transactions, voids, and refunds. We also reviewed bank deposit documentation to determine if the college complied with applicable legal provisions regarding prompt deposits.

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Conclusion

Rochester Community and Technical College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as discussed in Finding 3, the college does not have an adequate process to document, authorize, and monitor backdated transactions.

For the items tested, except for not depositing all customized training program receipts promptly, as discussed in Finding 4, the college complied with applicable finance-related legal provisions.

3. Rochester Community and Technical College does not have an adequate process to document, authorize, and monitor backdated transactions.

Currently, the college does not have a process in place to review or monitor backdated transactions. The college has not developed any specific criteria to determine when the cancellation of registration records should be backdated or recorded as waivers. In addition, the college has not limited the number of staff authorized to enter these types of transactions into the accounting system.

The college has the ability to eliminate a student's obligation to pay tuition by changing the registration date to fall within the allowable drop/add period. This is known as a backdated transaction. These transactions are particularly sensitive since they eliminate the student's obligation and reduce the amount of revenue earned by the institution.

The accounts receivable module in the ISRS allows users to eliminate a student's tuition and fee charges by backdating registration records. MnSCU Policy 5.12, *Refunds, Withdrawals, and Waivers*, allows institutions discretion when canceling tuition charges. For example, a student is allowed to drop a class without obligation if done prior to the institution's established "drop date."

Rochester Community and Technical College has extended the option to include switching classes of equal credits up to four days after the established drop date. In order to process the change request, the college reverses the original registration from the ISRS with a backdated transaction. However, system users can backdate a student's drop date at any time to reflect a date prior to the required drop date. We noted that full-time employees in the admissions and records office had the ability to enter backdated transactions.

For fiscal year 1999, the college backdated charges of approximately \$121,352, assuming all of the tuition charges were at the Minnesota resident rate. In fiscal year 2000, the college backdated charge transactions totaling approximately \$147,263. We did not determine the amount of credits added by students that would offset these backdated charge transactions. We reviewed five backdated transactions and noted that three of the five transactions should have been recorded as waivers since the students had met the college's policy for being financially

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obligated. In addition, a waiver transaction may provide a better audit trail. The college was unable to provide the authorized drop card for one transaction.

Recommendation

- *Rochester Community and Technical College should develop a policy for processing backdated transactions. The policy should address the required documentation and necessary review and approval. In addition, the college should develop a process to monitor the volume of backdated transactions and to limit the number of users with the ability to enter backdated transactions.*

4. Rochester Community and Technical College did not deposit all receipts in excess of \$250 daily.

The college did not always deposit funds daily as required by state law. We identified receipt transactions related to the customized training and continuing education programs that were not timely deposited. Minn. Stat. Section 16A.275 requires that the college deposit all receipts in excess of \$250 daily.

In testing non-credit tuition receipts, we found that five of eight deposits tested during the period from July 1997 to June 2000 were made more than four business days after receipt. During fiscal year 1998, the college did not make one deposit until 22 business days following receipt.

The college assumes additional risks of loss or theft of funds by not timely depositing funds. In addition, the college loses potential interest or investment earnings when it does not promptly deposit funds.

Recommendation

- *Rochester Community and Technical College should deposit receipts totaling \$250 or more on a daily basis, as required by Minn. Stat. Section 16A.275.*

Chapter 4. Bookstore and Other Enterprise Fund Activities

Chapter Conclusions

Rochester Community and Technical College's internal controls provided reasonable assurance that Enterprise Fund activities were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the college did not use the correct occurrence date when recording bookstore financial activity in the MnSCU accounting system.

For the items tested, Rochester Community and Technical College complied, in all material respects, with the significant finance-related legal provisions concerning Enterprise Fund operations.

Rochester Community and Technical College recorded the financial activities of its bookstore in the Enterprise Fund during fiscal years 1998 through 2000. The Enterprise Fund also included food service commissions, vending commissions, parking operations, and other miscellaneous activities. The Enterprise Fund balance as of June 30, 2000, was \$4,449,200.

The bookstore is the largest activity in the Enterprise Fund. The total bookstore revenue for fiscal year 2000 was \$2,104,105 and expenses totaled \$1,741,687. The bookstore accepts cash, checks, and credit card charges. It also establishes student charge accounts for students who receive financial assistance from third-party payers. The bookstore operates a point-of-sale register and inventory system. The bookstore processes sales through one main cash register. At the end of the day, the cash register receipts are counted and locked in the safe. The following day, the bookstore manager reconciles the receipts with the register report and takes the funds to the business office for deposit. The bookstore manager enters summarized sales information into the MnSCU accounting system. To order books or supplies, the bookstore prepares a purchase order. Upon receipt, the bookstore forwards the purchase order, vendor's invoice, and a pay order form to the business office for payment. The college maintains its book inventory on the point-of-sale system. The bookstore monitors other items on a perpetual inventory system. The bookstore conducts a physical count of inventory at the end of the year.

The college contracted with a private vendor to provide food service to students and faculty. The cafeteria provided breakfast, lunch, and snacks. The vendor provided the college with a commission based on a monthly flat rate plus a percent of total sales at the end of the year. The total food service commission revenue for fiscal year 2000 amounted to \$10,000.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's Enterprise Fund revenue and expenses focused on answering the following questions:

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- Did the college design internal controls to provide reasonable assurance that bookstore and food service collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management’s authorization?
- Did the college provide reasonable assurance that bookstore disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management’s authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore and food service operations?

We interviewed bookstore and business office staff to determine how they processed receipts and disbursements. We tested supporting documentation for sales and bookstore disbursements. We also performed an analytical review of receipt and expenditure transactions. We reviewed available reports showing the financial results of the fund activities. In addition, we followed up on prior audit findings.

Conclusions

Rochester Community and Technical College’s internal controls provided reasonable assurance that Enterprise Fund revenue collections and expense transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management’s authorization. However, as discussed in Finding 5, the college did not use the correct occurrence date when recording bookstore financial transactions on the MnSCU accounting system.

For the items tested, Rochester Community and Technical College complied, in all material respects, with the significant finance-related legal provisions concerning the Enterprise Fund’s operations.

5. The college did not use the correct occurrence date for recording bookstore financial activity in the MnSCU accounting system.

Rochester Community and Technical College was not currently using the occurrence date field in MnSCU accounting when recording bookstore disbursement transactions. The occurrence date field was designed to record the date of obligation, which is the date the goods or services were received. This date is particularly important at the end of the year in determining the appropriate year for financial reporting purposes. The college did not enter any date into the occurrence date field. As a result, the date defaulted to the date the college entered the transaction. The college should use the occurrence date field to provide accurate financial information.

Recommendation

- *Rochester Community and Technical College should record the date that goods or services were actually received when processing bookstore disbursement transactions.*

Chapter 5. Payroll

Chapter Conclusions

Rochester Community and Technical College's controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning payroll. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict employee access to its human resource and payroll systems.

Rochester Community and Technical College employed 434 staff, consisting of 239 faculty, 9 administrators, and 186 professional and support staff. The college's payroll expenditures of \$18 million during fiscal year 2000 were approximately 56 percent of total college expenditures. Employees at Rochester Community and Technical College are members of the following compensation plans:

- Minnesota Community College Faculty Association,
- United Technical College Educators Plan,
- American Federation of State, County, and Municipal Employees,
- Minnesota Association of Professional Employees,
- Middle Management Association,
- Excluded Administrators Plan, and
- Commissioner's Plan.

The college used the State Employees Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. SEMA4 contained pay rate information and calculated employee biweekly payments.

Human resource personnel updated SCUPPS appointments and salaries. The payroll personnel collected employee timesheets for update of SEMA4 mass time entry and were responsible for ensuring proper recording of payroll expenditures in MnSCU accounting.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's payroll transactions focused on answering the following questions:

Rochester Community and Technical College

- Did the college's internal controls provide reasonable assurance that payroll expenditures were accurately recorded 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 made inquiries of college staff to gain an understanding of the internal control structure over the payroll and personnel processes. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. We also reviewed and tested employee leave balances maintained by the college.

Conclusions

Rochester Community and Technical College's controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning payroll. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict employee access to its human resource and payroll systems.

Chapter 6. Purchasing and Administrative Expenditures

Chapter Conclusions

Rochester Community and Technical College's internal controls provided reasonable assurance that assets were safeguarded and purchased services, consultant contracts, supplies, and equipment expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, the college complied with significant finance-related legal provisions concerning administrative expenditures.

Rochester Community and Technical College spent approximately \$15 million during the audit period on operating expenditures for purchased services, consultant contracts, supplies, and equipment. The college's administrative and academic departments initiated purchase requests and submitted them to the business office for processing. The college used the MnSCU Purchase Control System, which encumbered available funds. The business office ordered the goods and services, following MnSCU guidelines to solicit bids and select vendors. After the college received the goods or services, the business office matched the invoice and the requisition before processing payment. The college entered equipment purchases greater than \$2,000 into the ISRS equipment module and assigned a state fixed asset number.

Table 6-1 shows a breakdown of the college's non-payroll administrative expenditures during the audit period.

Table 6-1
Purchasing and Administrative Expenditures
Fiscal Years 1998 to 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Supplies	\$1,965,151	\$2,186,311	\$1,670,971	\$5,822,433
Contracts	1,224,778	1,105,108	1,882,130	4,212,016
Purchased Services	537,486	1,191,250	1,402,356	3,131,093
Equipment	<u>956,199</u>	<u>412,914</u>	<u>790,476</u>	<u>2,159,589</u>
Total	<u>\$4,683,615</u>	<u>\$4,895,583</u>	<u>\$5,745,932</u>	<u>\$15,325,131</u>

Source: MnSCU accounting system.

Rochester Community and Technical College

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's purchased services, contracts, supplies, and equipment expenditures focused on the following questions:

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

To meet these objectives, we interviewed Rochester Community and Technical College employees to gain an understanding of the internal control structure over the expenditure process. We reviewed a sample of expenditure transactions in each area to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if the college complied with MnSCU policies and other material finance-related legal provisions.

Conclusions

Rochester Community and Technical College's internal controls provided reasonable assurance that assets were safeguarded, and administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures.

Chapter 7. Student Financial Aid

Chapter Conclusion

Rochester Community and Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. However, as previously discussed in Chapter 2, Finding 1, the college did not sufficiently control access to its business systems, including the financial aid module. The college's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts.

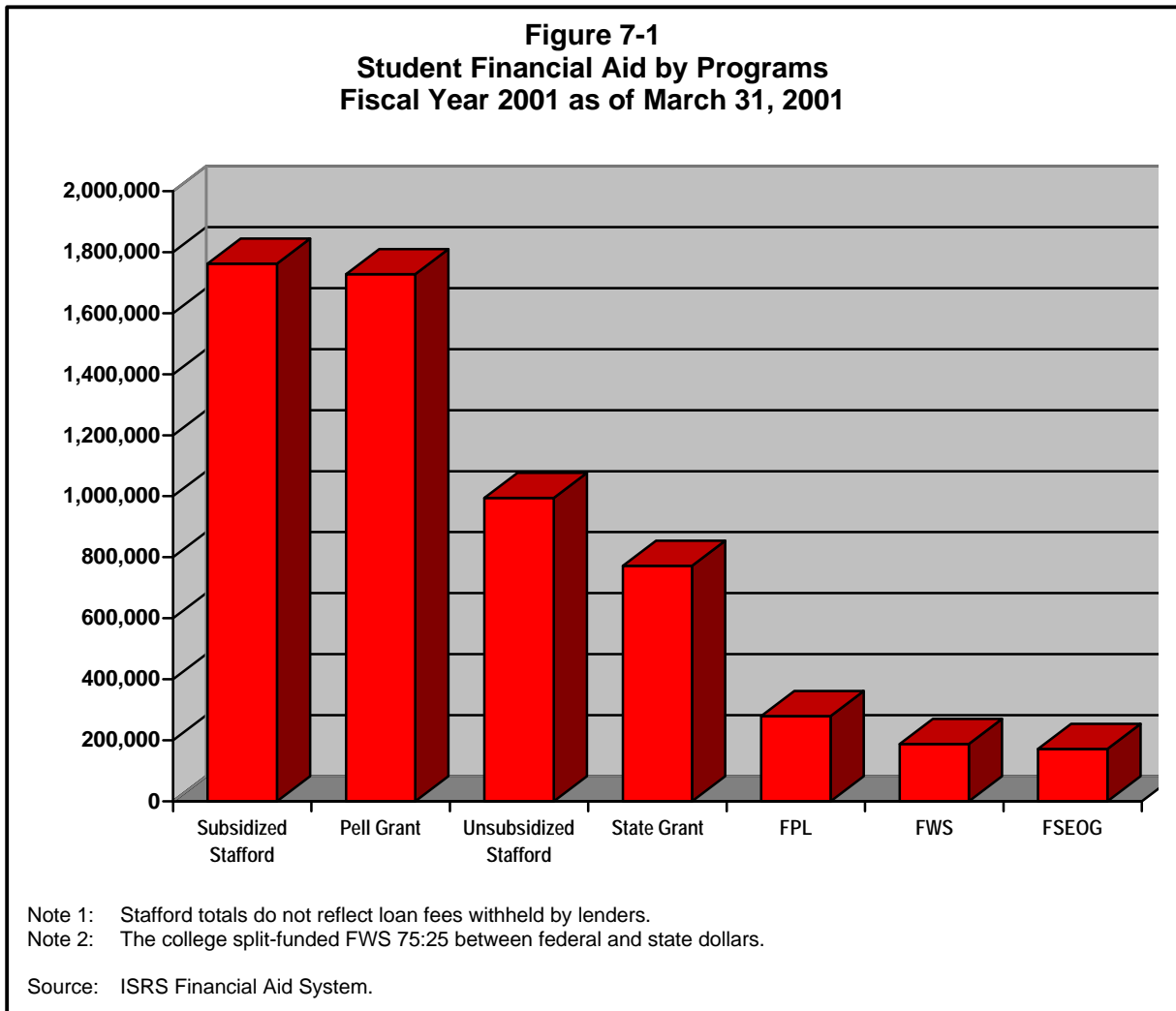
For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, the college did not timely draw down federal funds to cover its Pell Grant disbursements. In addition, the college did not delay a Stafford loan disbursement to a student in compliance with federal regulations. The college believes this system software issue has been corrected by MnSCU's Information Technology Services.

Rochester Community and Technical College participates in the following federal student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (includes subsidized and unsubsidized Stafford loans) (CFDA #84.032)
- Federal Work Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program (CFDA #84.007)
- Federal Perkins Loan (FPL) Program (CFDA #84.038)
- Minnesota State Grant Program

We reviewed each of these programs. Figure 7-1 shows financial aid expenditures by program for fiscal year 2001, as of March 31, 2001.

Rochester Community and Technical College



Students completed an application for financial aid and submitted it to a federal central processing unit. The college received the information for enrolled students and used the ISRS financial aid system to package, award, and disburse financial aid to students.

Students generally receive the Federal Pell Grant as the first source of assistance. Since the federal government did not limit Pell Grant awards to the college, all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 2000-01 award year equaled \$3,300.

Under the FFEL Program, private lenders provide the loan principal to eligible students, and the federal government guarantees the loan. For Subsidized Stafford Loans, the federal government pays the interest to the lender 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 maximum FFEL program amount for a given student is determined by the borrower's grade level and the amount previously borrowed.

Rochester Community and Technical College

Under the FWS Program, students worked at on or off campus jobs. The college paid these students an hourly wage for their hours worked. The college's maximum FWS award for each student during the 2000-01 award year equaled \$5,000.

The college awarded FSEOG to students with exceptional financial need. For FSEOG, the college defined exceptional financial need as students with an expected family contribution of \$0. The college's maximum FSEOG award for each student during the 2000-01 award year equaled \$1,000.

The college awarded Federal Perkins loans to students who demonstrated exceptional financial need. For Federal Perkins loans, the college defined exceptional financial need as students with an expected family contribution of \$500 or less. The student's payments begin nine months after the student ceases to be enrolled as at least a half-time student, and interest at five percent begins to accrue at that time. The college's maximum Federal Perkins loan award for each student during the 2000-01 award year equaled \$3,000.

The Minnesota Higher Education Services Office establishes eligibility requirements for the State Grant program and provides funds to the college. The college awarded State Grants to students who were Minnesota residents and had financial need. The State Grant award is based on the number of registered credits, expected family contribution, and Pell Grant award.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's student financial aid programs, as of March 2001, focused on answering the following questions:

- 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?
- Did the college's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?
- For the items tested, did the college comply with applicable federal requirements over receiving federal funds?

To address these questions, 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, packaging and awarding, and disbursing and recording federal financial aid. We also evaluated and tested the college's federal cash management procedures.

Rochester Community and Technical College

Conclusions

The college's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. However, as previously discussed in Chapter 2, Finding 1, the college did not sufficiently control access to its business systems, including the financial aid module. The college's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, as discussed in Finding 6, we found that the college did not timely draw down federal funds to cover its Pell Grant disbursements. In addition, the college did not delay a Stafford loan disbursement to a student as required by federal regulations. The college believes this system software issue has been corrected by MnSCU's Information Technology Services.

6. The college did not timely draw down federal funds to cover its Pell Grant disbursements.

The college did not timely obtain federal reimbursement for its Pell Grant disbursements. The college provides funds for payment of federal Pell Grants to its eligible students. The college then submits Pell payment data reports to the U. S. Department of Education for reimbursement. However, the college did not submit Pell payment data reports to the U. S. Department of Education after each Pell Grant disbursement.

The college did not receive federal reimbursement of Pell Grant funds within five days of disbursement in about 77 percent of the grant payments. In some cases, the college did not receive Pell Grant reimbursements for 41 days after it disbursed the grants. In our opinion, a reasonable amount of time between the disbursements and the reimbursement of federal funds is five days.

The U. S. Department of Education reimburses federal Pell Grant funds once it receives and accepts the college's disbursement records. As of March 31, 2001, Rochester Community and Technical College had not addressed 55 rejected Pell Grant disbursement records included on Pell payment data reports throughout the year. The total awards for those students was nearly \$41,000. The college will not receive federal reimbursement for those disbursements until the college corrects and resubmits the records to the U. S. Department of Education.

Recommendations

- *The college should establish procedures to ensure it receives federal funds to cover its Pell Grant disbursements within a reasonable time frame.*
- *The college should correct and resubmit the rejected Pell Grant records to obtain federal reimbursement.*

**Status of Prior Audit Issues
As of April 13, 2001**

Most Recent Audits

College Audit

Legislative Audit Report 98-28, issued in April 1998, covered the period July 1, 1995, through June 30, 1997. The audit report cited seven audit findings related specifically to Rochester Community and Technical College. The college implemented all seven of the 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, or the Single Audit, for the year ended June 30, 1999. This report did not include any findings specifically related to Rochester Community and Technical 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, or the Single Audit, for the year ended June 30, 1998. This report did not include any findings specifically related to Rochester Community and Technical 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. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's 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.

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July 5, 2001

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Rochester Community and Technical College for the period from July 1, 1997 through June 30, 2000. Rochester Community and Technical College's formal written response to the six audit findings is attached.

I want to thank Thomas Donahue, audit manager, Michael Hassing, auditor-in-charge, and the entire audit team for their professionalism, thoroughness, recommendations and advice as they worked with campus staff during and following the audit.

We are pleased with the audit report, view it as one component of our continuous improvement process, have taken immediate action on each of the recommendations and believe we have resolved all of the audit findings. Please contact me if you have questions regarding the attached response.

Sincerely,

/s/ Don Supalla

**Don Supalla
President**

Attachment

**CC Thomas Donahue
Laura King
Marilyn Hansmann
Gary Swenson**

Rochester Community and Technical College
Legislative Audit Report for FY 98-00
Audit Finding Response

Finding #1. Rochester Community and Technical College did not adequately control the access of certain employees to its accounting systems.

The Director of Institutional Services will review the list of individuals and their level of access into the MnSCU accounting system on a monthly basis and ensure that their access into the system is compatible with their job duties. The Director of Human Resources will design and implement an exit interview process and conduct exit interviews with employees that will terminate any access to either SCUPPS or the MnSCU accounting system.

Responsible Persons – Gary Swenson, Director of Institutional Services and Susanne Sheehan, Director of Human Resources

Effective Date - Immediately

Finding #2. Rochester Community and Technical College did not maintain sufficient collateral for its local bank accounts.

The Business Office Supervisor will monitor the college bank accounts on a monthly basis to ensure sufficient collateral is pledged. The Supervisor will also notify the bank prior to our peak financial aid disbursement dates with the approximate level of funding that will be transferred into our accounts. RCTC will re-bid, effective July 1, 2002, the college bank account contract, including a collateral performance agreement.

Responsible Person – Ruth Siefert, Business Office Supervisor

Effective Date - Immediately

Finding #3. Rochester Community and Technical College does not have an adequate process to document, authorize, and monitor backdated transactions.

RCTC has changed its refund policy that eliminates the need for backdating of the actual drop date to the tuition obligation date, thus reducing the need for backdating by approximately 90 percent. The MnSCU system office is working on a software revision that will eliminate the need for backdating of appeals covering extenuating circumstances. Until the software revision is completed, the Director of Admissions will monitor all backdated transactions to ensure that the proper approval was granted on all appeals and documentation is on file.

Responsible Person – Troy Tynsky, Director of Admissions

Effective Date - Immediately

Finding # 4. Rochester Community and Technical College did not deposit all receipts in excess of \$250 daily.

The Business Office will receipt customized training and continuing education program funds in the ISRS system on a daily basis.

Responsible Person – Ruth Siefert, Business Office Supervisor

Effective Date - Immediately

Finding #5. The college did not use the correct occurrence date for recording bookstore financial activity in the MnSCU accounting system.

The Business Office is now using the date that goods and services are received as the occurrence date.

Responsible Person – Ruth Siefert, Business Office Supervisor

Effective Date - Immediately

Finding #6. The college did not timely draw down federal funds to cover its Pell Grant disbursements.

Upon recommendation of Office of the Legislative Auditor, Rochester Community and Technical College will submit origination and disbursement reports to the Recipient Financial Management System weekly.

Responsible Person – Rosemary Hicks, Financial Aid Director

Effective Date - June 21, 2001