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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial-Related Audit

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**Ridgewater College**  
July 1, 2000, through June 30, 2003



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## 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.

Consistent with OLA's mission, the Financial Audit Division works to:

- 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.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair  
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Dr. James H. McCormick, Chancellor  
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Douglas Allen, President  
Ridgewater College

We have audited the Ridgewater College for the period July 1, 2000, through June 30, 2003, as further explained in Chapter 1. Our audit scope focused on financial management, tuition and fees, payroll, bookstore operations, administrative disbursements, and state grants.

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 the Ridgewater College complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the college is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission, the management of Ridgewater College, and 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 September 17, 2003.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: July 17, 2003

Report Signed On: September 15, 2003

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### Audit Participation

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

|                           |                            |
|---------------------------|----------------------------|
| Claudia Gudvangen, CPA    | Deputy Legislative Auditor |
| Cecile Ferkul, CPA, CISA  | Audit Manager              |
| Steven Johnson, CPA, CISA | Auditor-in-Charge          |
| Kathy Fisher, CPA         | Auditor                    |
| David Massaglia           | Auditor                    |

### Exit Conference

We discussed the results of the audit with the following representatives of the Office of the Chancellor and Ridgewater College at the exit conference held on September 4, 2003:

Office of the Chancellor:

|                   |  |
|-------------------|--|
| Laura King        | Vice Chancellor/Chief Financial Officer        |
| Tim Stoddard      | Associate Vice Chancellor, Financial Reporting |
| Margaret Jenniges | Director of Financial Reporting                |
| John Asmussen     | Executive Director, Internal Auditing          |
| Melissa Primus    | Regional Auditor, Internal Auditing            |

Ridgewater College:

|               |                         |
|---------------|-------------------------|
| Douglas Allen | President               |
| Gary Myhre    | Chief Financial Officer |

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## Report Summary

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Ridgewater College operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that it accurately recorded its financial activities in the accounting records. The college's internal controls provided reasonable assurance that it adequately safeguarded state treasury and local bank account financial activities and complied with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that it properly authorized and accurately recorded employee payroll expenditures and bookstore revenues and expenses in the accounting records.

The college resolved most of the issues discussed in the previous audit report. However, the college could improve its operations in several areas.

### Key Findings:

- The college did not maintain its monitoring of the propriety of administrative adjustments to tuition receivable records. Without monitoring these transactions, the risk of errors or irregularities going undetected is unacceptably high. We recommended that the college review these administrative adjustments to ensure propriety. (Finding 1, page 9)
- The college did not evaluate Willmar faculty in a timely manner as required by statute. After a probationary period, faculty evaluations were informal and undocumented. Statutes require annual evaluations as a basis for compensation. We recommended that the college ensure that all employees receive performance evaluations consistent with Minnesota statutes and compensation plans. We also recommended that the college work with the Office of the Chancellor to establish guidelines for evaluation of faculty performance. (Finding 2, page 12)
- The college did not always timely pay bookstore invoices and lost available discounts. We recommended that the Hutchinson bookstore promptly submit invoices to the business office for payment. (Finding 3, page 14)

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| <p>Ridgewater College is a part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report presents the conclusions of our audit of the college's tuition and fees, payroll, administrative expenditures, state grants, and the bookstore for the period July 1, 2000, through June 30, 2003. The college's response is included in this report.</p> |
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## Chapter 1. Introduction

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Ridgewater College, with campuses located in Willmar and Hutchinson, is one of 33 higher education institutions included in the Minnesota State Colleges and Universities (MnSCU) system. The college offers a wide array of educational opportunities to its students, including liberal arts and science programs, as well as many technical and career programs. The college has maintained a strong student attendance, with over 3,000 full-time equivalent students for fiscal year 2003. The college also provides credit and noncredit continuing education and customized training programs.

Ms. Colleen Thompson Michels served as president during the scope of the audit period, but she retired effective July 27, 2003. Dr. Douglas Allen succeeded her on July 28, 2003. Before his appointment to Ridgewater College, Dr. Allen was vice president of education services at Anoka-Ramsey Community College.

Ridgewater College funds its operations from three main sources: state appropriation allocations, tuition and fees, and federal and state grants. Ridgewater College has 578 full and part-time staff.

The Ridgewater Foundation is a separate, nonprofit organization that supports the educational mission of the college by annually awarding over \$180,000 in scholarships. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintains its own financial records and accounts, and it obtains an annual external audit. The college has a formal agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants.

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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it properly recorded financial activities in the MnSCU and the state's accounting systems and that it operated within available resources and complied with applicable legal provisions and management's authorization. The college maintained sufficient collateral over its local bank account.*

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Ridgewater College used the MnSCU accounting system, the Integrated Statewide Record System, to record and manage its financial activity. The MnSCU accounting system interfaced with the state's accounting system, the Minnesota Accounting and Procurement System, to generate warrants from the state treasury. The college also used the MnSCU accounting system to account for the financial activity in its local bank account, used mainly for enterprise type activities.

### **Audit Objective and Methodology**

Our review of Ridgewater College's financial management focused on the following questions:

- Did the college's internal controls provide reasonable assurance that it properly recorded financial activity in the MnSCU and the state's accounting systems?
- Did the college's internal controls provide reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization?
- Did the college comply with applicable legal provisions regarding local bank accounts?

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 activities. We reviewed local bank activity to determine compliance with material finance-related legal provisions, such as the adequacy of collateral. Finally, we reviewed the college's recording of financial activities.

### **Budgetary Controls**

MnSCU received the majority of its funding for operations from General Fund appropriations. The MnSCU's Office of the Chancellor allocated appropriated funds to Ridgewater College, and

## **Ridgewater College**

all colleges and universities, based on an allocation formula. In addition, Ridgewater College, like other campuses, retained the tuition and other receipts it collected to arrive at its total authorized spending level.

Once Ridgewater College determined its authorized spending level, it allocated 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 monitored projected versus actual student enrollment to ensure that tuition would be sufficient to support the spending budget and restore a reserve balance. MnSCU's Office of the Chancellor required that colleges achieve a five to seven percent reserve by the end of fiscal year 2001. In fiscal year 2000, the college used part of its reserve to maintain a certain level of operation even though its attendance was decreasing. The college had not restored its reserve balance to the five percent minimum by the end of fiscal year 2001. The college has a plan, approved and monitored by the Office of the Chancellor, to restore the required reserve amount.

### **General Financial Management**

The college made improvements in its financial management, as demonstrated by its implementation of most of the prior audit recommendations. The college improved the integrity of its accounting data by successfully reconciling its local bank account and the state's accounting system to the MnSCU accounting system. It also resolved weaknesses in the safeguarding of assets by acquiring and maintaining sufficient collateral for its local bank account, performing an inventory on physical assets, and replacing verbal contracts with written contracts for commercial areas within the bookstore and food service areas. Also, within the bookstore, the college resolved weaknesses in the cash receipting and billing processes. In the purchasing area, the college improved its authorization process by requiring written authorization for purchases of services and supplies. Finally, the college improved the timeliness of its reimbursement requests for earned grant income.

Since fiscal year 2000, the college had not experienced any major changes in its financial management structure or computerized business systems. This stability may have contributed to the low number of findings in this audit report.

### **Conclusion**

Ridgewater College's internal controls provided reasonable assurance that it properly recorded financial activities in the MnSCU and the state's accounting systems, and that it operated within available resources and complied with applicable legal provisions and management's authorization. The college maintained sufficient collateral over its local bank account.

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## Chapter 3. Tuition and Fees

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it safeguarded and accurately recorded tuition and fee collections in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees. However, Ridgewater College did not maintain its monitoring of tuition-related administrative adjustments.*

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Ridgewater College offered credit classes and customized training and continuing education classes for credit and noncredit. The college's credit and noncredit tuition and fees averaged almost \$9.9 million during fiscal years 2001 through 2003. Table 3-1 recaps the college's per credit tuition rates for that period.

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**Table 3-1**  
**Tuition and Fees per Credit**

|                  | Fiscal Year 2001<br>(per semester credit) | Fiscal Year 2002<br>(per semester credit) | Fiscal Year 2003<br>(per semester credit) |
|------------------|---|---|---|
| Resident Rate    | \$ 71.80                                  | \$ 81.10                                  | \$ 91.25                                  |
| Nonresident Rate | \$143.60                                  | \$162.20                                  | \$182.50                                  |
| Fees             | \$ 12.00                                  | \$ 15.00                                  | \$ 15.20                                  |

Source: Ridgewater College catalogs.

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The college determined tuition rates for customized training and continuing education classes on an individual class basis.

The college required students to pay tuition and fees by established due dates, unless funded by financial aid or third parties. The business office staff recorded the receipts on the Integrated Statewide Record System. The system automatically applied payments to the students' outstanding balances in specified priority.

Our auditors observed that the business office staff did not log off the accounting system for breaks or lunch. They allowed other staff to process transactions under their log on ID's during those periods. This created a lack of accountability, since the person identified on the system as the originator of the transaction was not the person who actually performed it. When we brought this internal control weakness to their attention, they immediately discontinued the practice.

## **Ridgewater College**

The college has 16 instructors to provide one-on-one services through its Farm Business Management and Small Business Management programs. These programs generated approximately \$500,000 of tuition revenue. Often, the instructors collected the tuition directly from the course participants. The college determined that it is most efficient for the instructors to collect the tuition at the time they provide the services. However, to better control cash receipts in this area, the college plans to provide instructors with wireless remote computer access so that they can facilitate online registrations and credit card payments.

The college monitors individual student accounts receivable and submits past due balances to the state's Revenue Recapture Program or the state's collection service, the Minnesota Collection Enterprise. The college completes a monthly review of individual student accounts with reports received from Revenue Recapture and the Minnesota Collection Enterprise. The Office of the Chancellor has developed a report to assist colleges with monitoring and reconciling outstanding tuition and fees. Ridgewater College staff are working with the Office of the Chancellor to effectively use this report.

### **Audit Objective and Methodology**

The primary objective of our review of tuition and fees was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it safeguarded and accurately recorded revenue collections in the accounting records, and that it complied 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 tuition?

To answer these questions, we interviewed college employees to gain an understanding of the controls over tuition and fees. We assessed risks and performed analytical tests to identify unusual trends. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students appropriate tuition and fees, and whether the college properly recorded receipt transactions in MnSCU accounting. We also reviewed bank deposit documentation and reconciliations to determine if the college properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions.

### **Conclusions**

Ridgewater College's internal controls provided reasonable assurance that it safeguarded and accurately recorded tuition and fee collections in the accounting records and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees. However, as explained in Finding 1, Ridgewater College did not maintain its monitoring of tuition-related administrative adjustments.

## Ridgewater College

### **1. PRIOR FINDING NOT RESOLVED: The college did not maintain its monitoring of tuition-related administrative adjustments.**

As recommended in the prior audit report, Ridgewater College implemented a practice to monitor administrative adjustments performed by staff with access to cash. However, the college failed to maintain its monitoring responsibilities and, as of April 2003, no longer verified the propriety of administrative adjustments to tuition receivable records. Employees use administrative adjustments to make changes to student accounts for waivers and negative receipt corrections. Since these employees also have access to cash, there is a risk that inappropriate transactions could occur. For example, an employee could conceal a theft of a student's tuition payment by using an administrative adjustment to reduce the student's accounts receivable liability. The college did not reduce this risk by monitoring these transactions. The college did not obtain an administrative adjustment report from the Integrated Statewide Record System to identify the individual transactions. The lack of monitoring increased the risk that errors or irregularities could occur without detection.

#### *Recommendation*

- *The college should review administrative adjustments to ensure propriety.*

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## Chapter 4. Human Resources and Payroll

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it accurately recorded payroll expenditures in the accounting records and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning payroll, except that the college did not timely evaluate all faculty, as required by statute.*

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As of May 2003, Ridgewater College employed 578 staff, consisting of 224 full-time faculty, 154 part-time faculty, 12 administrators, 9 middle management, and 179 professional and support staff. Payroll expenditures approximated 49 percent of total college expenditures totaling approximately \$20.7 million during fiscal year 2003. Employees at Ridgewater College belong to the following compensation plans:

- American Federation of State, County, and Municipal Employees
- Minnesota State College Faculty (a merger of the Minnesota Community College Faculty Association and United Technical College Educators)
- Middle Management Association
- Minnesota Association of Professional Employees
- Excluded Administrator's Plan
- Commissioner's Plan

The college used the MnSCU personnel/payroll system along with the state's personnel and payroll system to record personnel information and process payroll transactions. The MnSCU personnel/payroll system stored pay rate information and bargaining agreement history. Ridgewater College's human resources staff updated the system for faculty appointments and salaries. The state's personnel and payroll system contained pay rate information and calculated employee biweekly payments. The college's payroll staff input employees' timesheet data into the state's system. The state's personnel and payroll system interfaced with MnSCU accounting.

### **Audit Objective and Methodology**

The primary objective of our review of payroll was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and in compliance with applicable legal provisions and management's authorization?

## Ridgewater College

- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning payroll?

To answer these questions, we interviewed college employees to gain an understanding of the controls over the payroll and personnel processes. We assessed risks and performed analytical tests to identify possible unusual trends. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to verify proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. We reviewed system access and employee leave balances maintained by the college. We also tested for current employee evaluations and authorization for overload payments.

## Conclusions

Ridgewater College's internal controls provided reasonable assurance that it accurately recorded payroll expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning payroll, except that the college did not timely evaluate all faculty, as required by statute.

### **2. PRIOR FINDING PARTIALLY RESOLVED: The college did not evaluate faculty in a timely manner.**

The Willmar campus evaluated faculty only during the probationary period, based on the Minnesota State College Faculty plan. Although the deans stated that they did verbally evaluate some faculty, they did not typically perform formal, written evaluations for tenured faculty. MnSCU board policy states that supervisors have the responsibility and authority for evaluation of employees, and that this is consistent with requirements in Minnesota Statutes, Chapter 43A. The statute, however, requires that the college evaluate and counsel each civil service employee in the executive branch on work performance at least once a year. It further defines civil service employees in the executive branch to include MnSCU faculty. Ridgewater College does perform annual evaluations for its Hutchinson campus. It should conduct annual evaluations to advise all faculty of the quality of their work.

### *Recommendations*

- *Ridgewater College should ensure that all employees receive performance evaluations consistent with Minnesota statutes and compensation plans.*
- *Ridgewater College should work with the Office of the Chancellor to establish guidelines for evaluation of faculty performance.*



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## Chapter 5. Bookstore Operations

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it safeguarded its assets, accurately recorded bookstore revenue and disbursement transactions in the accounting records, and complied with applicable legal provisions and management's authorizations. However, the college did not promptly pay some bookstore vendors.*

*For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenues and expenses.*

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Bookstore operations are Ridgewater College's largest enterprise fund activity. Each campus has a bookstore that sells textbooks, school supplies, clothing, gifts, candy, and other items. The college accounted for each bookstore separately. The bookstores earned \$1.8 million in revenue and expended \$1.5 million during fiscal year 2003. The bookstore manager ordered books through Courseworks. The bookstore buyer ordered nonbook inventory through MnSCU accounting. Bookstore employees verified the receipt of goods and sent the invoices to the business office for payment.

The bookstores recorded sales in cash registers. Students had the option to pay by cash, check, credit card, or with financial aid. At the end of each business day, staff closed out the cash register and reconciled the cash drawer to the cash register tapes. The business office entered the receipts and expenses into MnSCU accounting.

### **Audit Objective and Methodology**

Our objective for the bookstore operations was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it safeguarded assets, accurately recorded bookstore financial activity in the accounting records, and complied 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 revenue and expenses?

To answer these questions, we met with bookstore and college staff to gain an understanding of the bookstore's operations. We reviewed controls over bookstore revenues and expenses. We also performed an analytical review of financial activities and tested samples of revenue and

## Ridgewater College

expense transactions to determine if the college had accurately recorded the transactions on the MnSCU accounting system.

### Conclusions

Ridgewater College's internal controls provided reasonable assurance that it safeguarded its assets, accurately recorded bookstore revenue and expense transactions in the accounting records, and complied with applicable legal provisions and management's authorizations. However, as explained in Finding 3, the college did not promptly pay bookstore vendors. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenues and expenses.

#### **3. The college did not always timely pay Hutchinson bookstore invoices.**

The Hutchinson bookstore staff did not always timely forward invoices to the business office for payment. As a result, the college missed some vendor discount periods and made many payments from 12 to 104 days after the obligation date. The college paid 9 of the 66 payments examined over 30 days after the obligation date and missed discounts totaling \$73.

Ideally, the college should pay vendors within the discount period, due date, or 30 days, unless there is an invoice problem or contested charge. In addition to lost discounts, untimely payments of vendor obligations increase the risk of duplicate payments, since the vendor may submit another invoice for the unpaid shipment.

#### *Recommendation*

- *The Hutchinson bookstore should submit invoices to the business office for payment in a timely manner to take advantage of payment discounts and minimize the risk of duplicate payment. The business office should pay vendors within the discount period, due date, or 30 days, whichever comes first.*

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## Chapter 6. Administrative Expenditures

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it accurately reported administrative expenditures in the accounting records and complied 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.*

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During fiscal years 2001, 2002, and 2003, Ridgewater College expended approximately \$5.4 million annually for administrative expenditures, including supplies, consulting services, purchased services, utilities, land and building improvements, equipment, and miscellaneous expenses. The college's centralized purchasing department was responsible for ordering and purchasing for the college. Employees submitted a purchase requisition form approved by the assigned budget manager to the purchasing department before ordering goods or services. Purchasing staff ensured that sufficient funds were available in the applicable cost center and used MnSCU guidelines to solicit bids and select vendors to complete purchases. The ordering employee or budget manager receipted the goods or services, reviewed the packing slips, and compared them to the purchase orders for accuracy. Accounts payable staff matched invoices to the purchase orders and packing slips before processing the payment. Table 6-1 provides a summary of administrative expenditures for the three years ended June 30, 2003.

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**Table 6-1**  
**Summary of Expenditures**  
**Selected Administrative Expenditures**  
**Budget Fiscal Years 2001 through 2003**

|                                | <u>2001</u>        | <u>2002</u>        | <u>2003</u>        |
|--------------------------------|--------------------|--------------------|--------------------|
| Purchased Services             | \$1,026,842        | \$ 857,653         | \$ 955,641         |
| Consultant / Contract Services | 1,309,758          | 940,425            | 766,846            |
| Utilities                      | 750,145            | 650,256            | 657,925            |
| Supplies                       | 1,669,338          | 1,752,080          | 1,586,709          |
| Equipment                      | 555,586            | 862,063            | 370,571            |
| Land and Building Improvements | 382,793            | 386,842            | 305,843            |
| Other Expenses                 | <u>353,604</u>     | <u>342,518</u>     | <u>435,511</u>     |
| Total                          | <u>\$6,048,066</u> | <u>\$5,791,837</u> | <u>\$5,079,046</u> |

Source: MnSCU accounting system.

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### **Audit Objective, Scope, and Methodology**

Our primary objective for administrative expenditures was to answer the following questions:

- Did the college design internal controls to provide reasonable assurance that it accurately recorded expenditures for purchased services, supplies, and equipment in the accounting records and complied 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 purchased services, supplies, and equipment?

To address these questions, we made inquiries of college staff to gain an understanding of the internal controls over purchasing and the disbursement process for administrative expenditures. We also traced a sample of expenditure transactions to supporting documentation to ensure that college staff followed MnSCU purchasing policies and management’s authorization.

### **Conclusions**

Ridgewater College’s internal controls provided reasonable assurance that it accurately reported administrative expenditures in the accounting records and complied with applicable legal provisions and management’s authorization. For the items tested, the college complied in all material respects, with significant finance-related legal provisions.

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## Chapter 7. State Grants

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### *Chapter Conclusions*

*Ridgewater College's internal controls provided reasonable assurance that it properly deposited and accurately recorded state grant revenue in the accounting records and complied with applicable legal provisions and management's authorizations.*

*For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning state grant revenue.*

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Ridgewater College received state grants totaling approximately \$3 million annually. After state funded student financial aid, the largest of the grants were for the Minnesota Job Skills Partnership program administered by the Department of Trade and Economic Development (now known as the Department of Employment and Economic Development). These grants matched other state funds to promote cooperation between the college and employers for new training approaches to increase the skills of the workforce. The college used the grants for a variety of projects, including those addressing the shortage of skilled workers and industry specific training at work sites.

### **Audit Objective, Scope, and Methodology**

Our review of state grant revenue addressed the following questions:

- Did the college's internal controls provide reasonable assurance that it properly deposited and recorded state grant revenue in the accounting records and complied with management's authorization?
- For the items tested, did the college comply in all material respects with the significant finance-related legal provisions concerning state grant revenue?

To answer these questions, we interviewed agency personnel to gain an understanding of the controls over state grant revenue. We reviewed the grant agreements and financial reports and performed analytical reviews and tests of specific transactions.

### **Conclusions**

Ridgewater College's internal controls provided reasonable assurance that it properly deposited and accurately recorded state grant revenue in the accounting system and complied with

## **Ridgewater College**

applicable legal provisions and management's authorizations. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning state grant revenue.

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## Status of Prior Audit Issues As of July 17, 2003

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### Most Recent Audits

#### College Audits

**Legislative Audit Report 01-51**, issued in October 2001, covered Ridgewater College for the period July 1, 1998, through June 30, 2000. The audit report included 12 findings. Two of these findings concerned internal controls over federal financial aid. We did not follow-up on these findings in our current audit because of the other audit coverage explained below. The college implemented eight of the remaining ten findings. In Finding 1, we repeat our concern about the college's need to better monitor administrative adjustments. In Finding 2, we address remaining concerns about the college's noncompliance with the statutory requirement to annually evaluate employee performance.

#### Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU basic financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received unqualified opinions for fiscal years 2001 and 2002. As a part of the audit, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters. The fiscal year 2001 management letter contained 13 comments, and the fiscal year 2002 management letter contained 7 comments. The management letters did not specifically mention Ridgewater 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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September 15, 2003

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

Dear Mr. Nobles:

Following is our formal response to the recommendations made in the draft audit report for Ridgewater College for the period July 1, 2000, through June 30, 2003.

*Finding #1 – The college should review administrative adjustments to ensure propriety.*

The college will further add to its monitoring procedures a log of when the adjustments are actually reviewed which will be signed off on by the Accounting Director. This monitoring will be done on a monthly basis.

Person Responsible: Gary Barber

Implementation Date: October 1, 2003

*Finding #2 – Ridgewater College should ensure that all employees receive performance evaluations consistent with Minnesota statutes and compensation plans. Ridgewater College should work with the Office of the Chancellor to establish guidelines for evaluation of faculty performance.*

The college will work with appropriate personnel at the Office of the Chancellor to establish guidelines for evaluation of faculty performance and establish college policy and procedure.

Persons Responsible: Mary Ann Canon, Betty Strehlow

Implementation Date: March 1, 2004

*Finding #3 – The Hutchinson bookstore should submit invoices to the business office for payment in a timely manner to take advantage of payment discounts and minimize the risk of duplicate payment. The business office should pay vendors within the discount period, due date, or 30 days, whichever comes first.*

The college will implement procedures to ensure payment of bookstore invoices in a timely manner for all undisputed and completed orders.

Person Responsible: Gary Myhre

Implementation Date: October 1, 2003

Sincerely,

*/s/ Douglas W. Allen*

Dr. Douglas W. Allen  
President