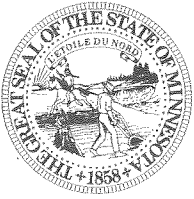


**COMMUNITY COLLEGE SYSTEM
RAINY RIVER COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

JULY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Community College System

Members of the Community College Board

Dr. Philip J. Anderson, President
Arrowhead Community College Region

Mr. Ray Berg, Provost
Rainy River Community College

Audit Scope

We have completed a financial and compliance audit of Rainy River Community College (RRCC) for the year ended June 30, 1985, except for those programs and activities further described in the Scope Limitations section of this letter. Section I provides a brief description of the college's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 28, 1986.

The objectives of the audit were to:

- study and evaluate major Rainy River Community College (RRCC) internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements through the Statewide Accounting (SWA) System, and imprest cash;
- verify that financial transactions for state funded programs were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 136, Community College Board policies and procedures, and other finance-related laws and regulations;
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

The management of RRCC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a

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system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of RRCC is also responsible for the college's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by RRCC. The purpose of our testing of transactions was to obtain reasonable assurances that RRCC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitations

As explained in Section I of this report, major operating activities of Rainy River Community College are accounted for through the statewide accounting system. However, certain community college activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities.

The majority of our audit work was done on the RRCC activities accounted for through the statewide accounting system. However, during the course of our audit, we also performed limited reviews and testing of a number of RRCC All College Fund activities and other functions not accounted for on SWA. These included a review of the RRCC emergency loan fund, the bookstore, RRCC fixed assets, the food service vending contracts, and the development of the RRCC Foundation. Audit techniques used in these areas included, but were not limited to, auditor observation, interviews with college personnel, a review of procedures, and examination of documentation supporting selected transactions. The audit work done in these areas was not sufficient to determine whether recordings of financial transactions in manual ledgers for RRCC All College Fund activities were proper.

We did not audit any federal programs, including student financial aid programs, for compliance with federal regulations. Student financial aid programs are a part of the RRCC All College Fund. Student financial aid programs administered by RRCC will be audited by a private CPA firm for fiscal year 1985.

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Conclusions

In our opinion, except for the issues raised in Section II, Recommendations 1 through 9, and except for the federal programs which we did not audit as described in the Scope Limitations section of this letter, the RRCC system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, for the year ended June 30, 1985, RRCC administered its state funded programs in compliance, in all material respects, with applicable finance-related laws and regulations.

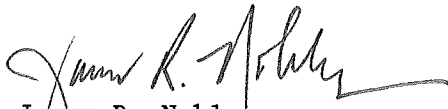
Compliance over federal programs administered by RRCC was not evaluated by us, and accordingly, we do not express an opinion on college compliance with those programs.

In our opinion, for the year ended June 30, 1985, RRCC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Recordings of financial transactions in manual ledgers for RRCC All College Fund activities were not reviewed by us, and accordingly, we do not express an opinion on the proper recording of those transactions.

The recommendations included in this audit report are presented to assist the college in improving accounting procedures and controls. We will be monitoring and reviewing RRCC progress on implementing these recommendations.

We would like to thank the Rainy River Community College staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 21, 1986

RAINY RIVER COMMUNITY COLLEGE

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Michael Hassing	Auditor-in-Charge
Kari Bergum	Staff Auditor
Theresa Dilworth	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Arrowhead Region, the Rainy River Community College and the Community College System at an exit conference which was held on March 27, 1986:

Ralph Anderson, RRCC Vice Provost
Larry Van Schoiack, RRCC Campus Services Director
William Maki, Arrowhead Region Director of College Services
Glenn Wood, Community College System Accounting Manager

RAINY RIVER COMMUNITY COLLEGE

I. INTRODUCTION

Rainy River Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Rainy River is part of the Arrowhead Community College Region which includes four other northern Minnesota community colleges who share a regional administration. Dr. Philip J. Anderson is the president of the Arrowhead Community College Region. During fiscal year 1985, the year of our audit, Mr. Ray Berg was the provost at Rainy River Community College.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Major operating activities of the college are accounted for through the statewide accounting system. Minn. Stat. Chapter 136 exempts certain community college activities from Department of Finance budgetary control, including the use of SWA. The majority of these activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities. The All College Fund operates under policies and procedures established by the Board.

Rainy River Community College collected \$404,962 in tuition and \$27,219 in other receipts for a total of \$432,181 for fiscal year 1985. These represent 1.4 percent of total fiscal year 1985 community college system receipts. During fiscal year 1985, Rainy River Community College spent \$1,434,057 for general operations through the statewide accounting system. This includes \$1,079,472 in payroll and other personal service costs. Rainy River's general operating disbursements represent 1.6 percent of the systemwide general operations total of \$90,562,087 for the year.

The full-time equivalent student enrollment for the 1984-85 school year which was covered by this audit was as follows:

<u>Quarter</u>	<u>Head Count</u>	<u>Full-Time Equivalent</u>
Summer Session	101	19
Fall	591	347
Winter	638	361
Spring	678	375

RAINY RIVER COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Duties are not adequately separated for the receipt process.

Two employees, an account clerk and the Director of Campus Services are responsible for handling the receipt process. Because the staff is small, the account clerk controls both the business office and bookstore operations. All receipts, including tuition and bookstore receipts, are processed through one cash register.

Despite the small staff, internal control can be improved. The account clerk is responsible for ringing out the cash register at the end of the day, preparing the daily deposit report, reconciling bank statements, and to the statewide accounting system, and preparing billings for tuition. The Director of Campus Services approves and signs the daily deposit report and deposits the receipts at the bank each day. Because the account clerk has significant control over the receipt process, errors or irregularities could remain undetected.

Even though the above processes cannot be distributed to a third person, the functions could be separated more effectively between the two individuals. As recommended by the Community College Board, the Director of Campus Services should periodically ring out the cash register as a spot-check. This would verify that the register readings on the cash register trace to the daily deposit report and the cash count is accurate. He also should either reconcile the bank statements or review the reconciliations done by the account clerk. With the Director of Campus Services performing these functions, adequate separation of duties could be maintained.

RECOMMENDATION:

- 1. The Director of Campus Services should periodically ring out the cash register at the end of the day. He should reconcile the bank statements or review the reconciliations done by the account clerk.*

Receipts are not always deposited promptly.

Rainy River Community College collects various types of receipts which include tuition, fees, and bookstore receipts. Receipts are deposited either in the state treasury or in local accounts such as the All College Fund and Auxiliary Enterprises Fund. Both Minn. Stat. Section 16A.275 which applies to state receipts, and Community College Board policy which applies to local account receipts, require that any amount greater than \$250 be deposited daily.

During peak registration periods, the business office makes deposits every day. However, during slower periods, daily deposits are sometimes not made even though total receipts exceed \$250. During fiscal year 1985, we

RAINY RIVER COMMUNITY COLLEGE

noted that daily deposits were not made for three of seven deposits tested. For one deposit, state receipts totaled over \$1,200 and local receipts totaled over \$6,000. In both cases, some checks were over two weeks old. Deposit delays result in lost interest and investment income. Receipts not deposited are also susceptible to loss or theft.

RECOMMENDATION:

2. *RRCC should deposit receipts daily whenever they exceed \$250.*

Some purchases from the food service account were not approved.

Between August and December 1984, five microwave ovens and nine compact refrigerators totaling \$1,598 were purchased out of the food service account of the Auxiliary Enterprise Fund. One microwave is currently being used by Rainy River Community College staff and the others, along with the refrigerators, are being stored at off-campus housing locations.

Students at Rainy River Community College can rent rooms at one of the motels in town and at a rectory. The college does not have any agreement with these living facilities, but only bring these possible accommodations to the students' attention. College administrators felt that the students living in these facilities should have some of the conveniences offered by a microwave or refrigerator in the room. The other four microwaves and the nine refrigerators are located at these two facilities. During the audit, we verified the existence of these assets at the motel and at the rectory. All items were located, although many were in storage as only a few students are staying at either facility.

These microwave and refrigerator purchases were unauthorized according to a 1968 Community College Board policy in effect when these items were purchased. The 1968 policy states that supplies and equipment can be purchased from the Auxiliary Enterprise account that are necessary to operate the enterprise. These microwaves and refrigerators are not used in operating the food service. A new policy requires that the use of any excess Auxiliary Enterprise profits be approved by the Community College System Chancellor's Office. A review of Rainy River's plan revealed that the purchases were not included in the plan.

These microwaves and refrigerators are not properly controlled and not used in the operation of the food service. Rather, they benefit only certain students and their landlords. The equipment should be returned to the college and either used for college purposes or disposed of. All future purchases from auxiliary enterprise funds should conform to applicable CCB policies.

RECOMMENDATION:

3. *The microwaves and refrigerators should be returned to the college and either use for college purposes or disposed of.*
4. *Board Office approval should be obtained for any purchases out of Auxiliary Enterprise profits.*

RAINY RIVER COMMUNITY COLLEGE

Travel advances paid from imprest cash funds are not always repaid within the required 30 days.

Employees of Rainy River Community College can receive travel advances from the imprest cash fund and then reimburse the fund once their employee expense reports are completed and processed. Department of Finance policy requires the settlement of travel advances within 30 days of when the travel occurred. The 30-day reimbursement time limit is often exceeded at Rainy River Community College.

Fourteen of the 39 travel advances tested at RRCC were not reimbursed within 30 days. One advance for \$167 was not repaid until 71 days after the travel occurred. Another for \$82 was repaid 80 days after the travel. If the reimbursement of travel advances is delayed, cash flow problems in the imprest cash fund may increase. In addition, the employees receive the benefit of using the money reimbursed until the advance is repaid.

RECOMMENDATION:

5. *Travel advances should be repaid within 30 days of the travel, as required by the Department of Finance.*

Controls over the collection of Indian Service and short-term loans need improvement.

Rainy River Community College has two emergency loan programs, Indian Service loans and short-term emergency loans. Collection procedures for these loan programs are not sufficient to ensure that enough of the loan principal will be recovered from current loans to allow the programs to continue. For example, the Indian Service loan fund has a total fund balance of \$3,648.61. At June 30, 1985, past due loans outstanding totaled \$3,131.96, leaving a cash balance for new loans of only \$516.65. The oldest loan was due in September 1984.

The delinquency rate among borrowers in the short-term loan program is also high. The short-term loan program is operated in conjunction with two local banks. The banks provide loans limited to \$250, to students who have received approval from the college. RRCC established a \$1,000 collateral account at each bank as security for the bank loans. Any loans outstanding 90 days after the due date at the banks, are charged back to RRCC and the college pays the bank out of the collateral account. Rainy River Community College then tries to collect the loan from the student. As of July 1, 1985, the cash balance in these accounts was \$1,570.97. The loan funds loss for the year net of interest earned was \$668.86 on defaulted loans.

RRCC should increase their efforts to collect on these delinquent loans. Revenue Recapture should be used whenever appropriate to attempt collections. Currently, transcripts for students with overdue loans are not always being held. This procedure would be useful to promote payment of loans less than one year old, or in cases where revenue recapture has not been effective. When a student's loan becomes past due, the records

RAINY RIVER COMMUNITY COLLEGE

office should be notified to hold the student's transcript until the loan is repaid. This process may encourage students to repay loans and would at least prevent their transcripts from being released while loans are outstanding. Withholding transcripts for past due student loans could help to preserve loan fund balances for future students.

RECOMMENDATIONS:

6. *Holds should be put on any academic and financial transcripts of a student with overdue loans.*
7. *Past due loans should be submitted for collection under the Revenue Recapture Act whenever appropriate.*

All payments from the RRCC bookstore account do not have supporting documentation.

Good business practice dictates that all disbursements be supported by an invoice or other document that indicates goods or services have been received or rendered. In cases where no invoice is available, a document should be prepared to show the propriety of the payment.

Three of ten bookstore disbursements tested at RRCC did not have any supporting documentation on file. All three payments were for items where an invoice would not generally be available. They included a payment to the State Treasurer for a portion of the bookstore employee's salary paid from the All College Fund, to the Department of Revenue for sales tax collections, and to the Campus Services Director to be used for change during a registration period. These three payments totaled \$9,070.93. Similar transactions for other RRCC funds had RRCC All College Fund pay order documents completed and on file to support the payment.

Although we satisfied ourselves that these payments were proper, they should be supported by written documentation. Written documentation would provide evidence of what the payment was for, that the payment represents an appropriate use of funds, and that it was approved by an authorized individual.

RECOMMENDATION:

8. *The college's pay order form should be utilized to obtain approval and serve as documentation for all payments from the bookstore account when no invoice is available.*

Fixed asset management requires improvement.

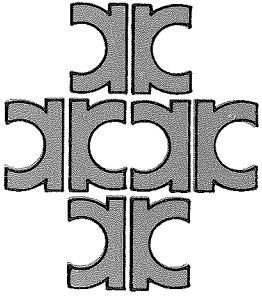
RRCC is on the statewide Fixed Asset Record Management System (FARMS). In order to ensure the accuracy of the inventory records, periodic physical counts of fixed assets should be done and compared to the perpetual records. In its inventory management guidelines, the Department of Administration requires periodic spot-checks as a means to identify problem areas and to determine when a complete physical inventory of an area may be necessary.

RAINY RIVER COMMUNITY COLLEGE

RRCC currently performs neither an annual physical inventory of the campus nor any spot-checks. The last physical inventory was conducted over two years ago, and only included one department. In order to verify the accuracy of the fixed asset records, RRCC should conduct annual spot-checks of fixed assets.

RECOMMENDATION:

9. *Rainy River Community College should strengthen controls over fixed asset inventory by developing a schedule to do at a minimum, annual spot-checks for all departments.*



rainy river community college
international falls, minnesota 56649 phone (218) 285-7722

21 July 1986

Ms. Jeanine Leifeld
Audit Manager
State of Minnesota
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Ms. Leifeld:

This will acknowledge your draft audit report and letter of July 9, 1986 which we received on July 11, 1986. Our response to the comments and recommendations are as follows:

1. Separation of duties for receipt process - The Director of Campus Services will personally ring out the cash register and make up deposits once a month. He will also review the bank statement reconciliation.
2. Daily Deposit of Receipts over \$250.00 - More attention will be paid to daily deposits when receipts reach \$250.00. The Director of Campus Services will be responsible for this.
3. Food Service Purchases of Mirowaves and Refrigerators - All units
4. have been returned to the campus and will be utilized by students on campus or sold. Board Office approval will be obtained in the future on this type of purchase. The Provost of the College will be responsible.
5. Travel advances not repaid within 30 days - More attention will be paid to follow-up on staff with travel advances outstanding. The Provost of the College will be responsible for working with the staff on this.
6. Holds on Transcripts - We are currently developing a system for putting holds on transcripts for all past due loans. This has generally been done for all loans other than the Blandin Indian student loans. We will now incorporate these into the transcript hold process. Director of Campus Services will be responsible for implementation and operation.

Ms. Jeanine Leifeld
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7. Past Due Loans should be submitted to Revenue Recapture - We are currently submitting past due loans to the Minnesota Revenue Recapture program for Minnesota residents. Many of our past due loans are to Canadian residents and, of course, we have no hope of recapture from this type of student. Director of Campus Services will be responsible for implementation and operation.
8. Pay Order Forms for No Invoice Payments - System has been developed by Bookstore and Accounting Office for using signed pay orders for cash transactions without invoices. Director of Campus Services is responsible for implementation and operation.
9. Fixed Asset Inventory - The Director of Campus Services will conduct annual spot checks of five departments annually at various times during the school year. We have 15 departments with fixed asset inventory and this will give us complete physical inventory each three years.

Thank you for your effective handling of this audit report. If you have further questions, please call me at 218 285-7722.

Sincerely,



Allen Rasmussen
Acting Provost

cc Larry Van Schoiack