

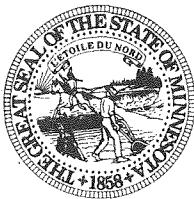
**COMMUNITY COLLEGE SYSTEM
RAINY RIVER COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

AUGUST 1989

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

89-64

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald W. Christenson, Chancellor
Community College System

Members of the Community College Board

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

Mr. Allan Rasmussen, Acting Provost
Rainy River Community College

Audit Scope

We have completed a financial and compliance audit of Rainy River Community College for the three years ended June 30, 1988. Section I provides a brief description of Rainy River Community 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

We have determined compliance with material federal financial aid regulations as part of our Statewide Audit of the State of Minnesota's annual financial statements and federal programs. We evaluated specific internal accounting controls over the federal financial aid programs at Rainy River Community College as part of the current audit.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, disbursements made through statewide accounting, imprest cash, receipts, and federal financial aid at Rainy River Community College, in effect as of May 1, 1989.

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

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Gerald W. Christenson, Chancellor
Members of the Community College Board
Dr. Philip J. Anderson, President
Arrowhead Community College Region
Mr. Allan Rasmussen, Acting Provost
Rainy River Community College
Page 2

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.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. Rainy River Community College was established by Minn. Stat. Section 136.60. Federal financial aid programs administered by Rainy River Community College are governed by applicable Code of Federal Regulations.

Rainy River Community College is subject to various legal provisions which direct its conduct regarding specific financial issues. Minn. Stat. Section 136.67 gives the Board the authority to set tuition rates and other fees. The section also appropriates these receipts to the Board Office subject to the budgetary control exercised by the commissioner of finance. Minn. Stat. Section 43A.18, Subd. 4b gives the Community College Board the authority to set faculty salaries. The Board has also adopted policies for these areas which the colleges are required to follow.

Rainy River Community College is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 15.191 limits the use of imprest cash accounts to those authorized by the Department of Finance. Minn. Stat. Section 136.56 establishes a cash over and short account for imprest cash funds. Minn. Stat. Section 10.12 provides for cancelation of uncollectible drafts or accounts. Minn. Stat. Section 16A.275 requires daily depositing of receipts exceeding \$250. Minn. Stat. Section 16B.06-.07 gives the Commissioner of Administration the authority to set policy for contracting and bidding purchases. Minn. Stat. Section 16A.124 requires prompt payment of state agency bills. Minn. Stat. Section 16A.17 requires state agencies to prepare their payroll. Minn. Stat. Section 43A.37 Subd. 1 requires state agencies to certify their payroll to the Department of Finance.

Some of the Rainy River Community College activity is exempt from the general statutes. Minn. Stat. Section 136.67 exempts federal financial aid, as well as fees charged for student activities, from the budgetary controls exercised by the Department of Finance.

The management of Rainy River Community College is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Gerald W. Christenson, Chancellor
Members of the Community College Board
Dr. Philip J. Anderson, President
Arrowhead Community College Region
Mr. Allan Rasmussen, Acting Provost
Rainy River Community College
Page 3

administered by the Rainy River Community College. The purpose of our testing of transactions was to obtain reasonable assurance that Rainy River Community College, in all material respects, administered their programs in compliance with applicable laws and regulations.

Audit Qualification

During fiscal years 1986 through 1988, the satisfactory academic progress policy for students attending Rainy River Community College did not comply with applicable federal financial aid regulations. The satisfactory academic progress standard used for students who received federal financial aid was more lenient than the standard used for students who did not receive federal financial aid. According to 34 CFR 668.14(e)(2), the standard must be the same as, or stricter than, the institution's standards for students who are not receiving assistance. During fiscal year 1989, the policy was changed so that the same standards are consistently applied to all students.

Status of Prior Findings

We have reviewed the status of audit findings included in our audit report on Rainy River Community College for the year ended June 30, 1985, dated July 21, 1986. We issued follow-up letters on September 21, 1987 and December 28, 1988 to the Rainy River Community College provost. Findings not resolved have been repeated in the current report.

Testing of Rainy River Community College's federal financial aid programs is done in conjunction with our Statewide Audits of the State of Minnesota's annual financial statements and federal programs. We issued three separate management letters to the Community College System concerning federal financial aid during the audit period. They were dated March 26, 1987, March 15, 1988, and March 3, 1989 and covered fiscal years 1986, 1987, and 1988, respectively. These management letters did not contain any findings relating to Rainy River Community College.

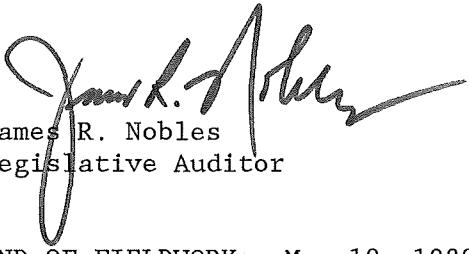
Conclusions

Our study and evaluation disclosed the issues addressed in Section II, findings 1-4, and 8, concerning the Rainy River Community College system of internal accounting controls in effect as of May 1, 1989. In our opinion, these issues result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the college may occur and not be detected within a timely period.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Gerald W. Christenson, Chancellor
Members of the Community College Board
Dr. Philip J. Anderson, President
Arrowhead Community College Region
Mr. Allan Rasmussen, Acting Provost
Rainy River Community College
Page 4

The results of our testing of transactions and records indicate that Rainy River Community College complied with the aforementioned finance-related legal provisions. As part of our internal control evaluation of federal financial aid, we found the instances of noncompliance with related federal regulations discussed in findings 5 through 7 and in the Audit Qualification section of this letter. Nothing else came to our attention in connection with our audit that caused us to believe that the Rainy River Community College was not in compliance with other applicable legal requirements.

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


James R. Nobles
Legislative Auditor

END OF FIELDWORK: May 19, 1989

REPORT SIGNED ON: August 15, 1989


John Asmussen, CPA
Deputy Legislative Auditor

RAINY RIVER COMMUNITY COLLEGE

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| I. INTRODUCTION | 1 |
| II. CURRENT FINDINGS AND RECOMMENDATIONS | 2 |
| AGENCY RESPONSE | 7 |

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 |
| Charlie Gill | Auditor-In-Charge |
| Mary Lentsch | Staff Auditor |
| Ron Mavetz | Staff Auditor |

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Rainy River Community College at an exit conference on May 19, 1989:

| | |
|--------------------|---------------------------------|
| Allan Rasmussen | Acting Provost |
| Art Przybilla | Acting Dean |
| Larry Van Schoiack | Director of Campus Services |
| Scott Riley | Financial Aid Director |
| Brenda Nicholson | Account Clerk/Bookstore Manager |
| Jill Ciliberto | Director to Foundation |

RAINY RIVER COMMUNITY COLLEGE

I. INTRODUCTION

Minn. Stat. Chapter 136 establishes Rainy River Community College under the jurisdiction of the State Board for Community Colleges. Rainy River Community College is part of the Arrowhead Community College Region which includes four other community colleges in Northern Minnesota who share a regional administration. Dr. Philip J. Anderson is the president of Arrowhead Community College Region. Allan Rasmussen is the acting provost of Rainy River Community College.

Rainy River Community College finances its operations primarily 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. 136 exempts certain community college activities from the Department of Finance budgetary control, including the use of statewide accounting. The majority of these activities, including federal financial aid programs and auxiliary enterprise accounts, are accounted for through manual records and local bank accounts. These activities are referred to as All College Fund activities which operate under policies and regulations established by the Community College Board Office.

According to Community College System records, Rainy River Community College deposited into the statewide accounting system \$518,183 in tuition and \$112,370 in other revenue for a total of \$630,553 during fiscal year 1988. Rainy River spent \$2,151,832 during fiscal year 1988 for general operations through the statewide accounting system. This includes \$1,807,627 in payroll and other personnel service costs.

RAINY RIVER COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

SEPARATION OF DUTIES

The Rainy River Community College business office staff is very small. It consists basically of the campus services director and the account clerk. Student workers provide additional support services. Because of this, the account clerk has complete responsibility for several types of transactions. We found no evidence of errors or irregularities as a result of this concentration of duties. However, a good system of internal control should provide independent checks on work done.

Even though it may not be possible to achieve complete separation of duties at Rainy River Community College, college officials should reevaluate their business organizational structure in the areas of receipts, local accounts, and the bookstore. Each of these areas is discussed in more detail below.

1. PRIOR FINDING NOT RESOLVED: An inadequate separation of duties exists in the Rainy River Community College receipt process.

The Rainy River Community College account clerk is responsible for all aspects of the receipts process at the college. The college has one cash register, through which all receipts are entered. The account clerk, along with two work study students, enter transactions on the cash register. She closes out the register each day, counts the cash, and prepares the bank deposits. She is also responsible for reconciling the amount deposited to the student registration system and to the statewide accounting system.

These duties are incompatible and increase the risk that errors and irregularities may occur. Ideally, each of the receiving, depositing, recordkeeping, and reconciling functions should be performed by separate individuals. At a minimum, an employee separate from the one performing the receiving and recordkeeping functions should perform the bank and student registration reconciliations. By separating the receipt duties, the college will reduce the risk of errors and irregularities.

RECOMMENDATION

- Rainy River Community College should ensure that an adequate separation of duties exists over the receipts process. An independent person should perform all receipt reconciliations.

2. An inadequate separation of duties exist over the college's local checking accounts.

There is an inadequate separation of duties over the imprest cash, auxiliary enterprise, and All College Fund checking accounts at Rainy

RAINY RIVER COMMUNITY COLLEGE

River Community College. Currently, the account clerk prepares and records the checks, posts transactions to the ledgers, reconciles the ledgers, and reconciles the bank statements for these accounts.

The college spent approximately \$308,607 from these accounts during fiscal year 1988. Because the checks are written from local accounts and not through the statewide accounting system, it is important that the disbursements are adequately controlled. Ideally, separate individuals should perform the disbursement, recording, and reconciling functions. At a minimum, the bank reconciliations should be performed by an individual other than the person performing the disbursement and recording functions. Adequate separation of duties will reduce the risk that a person may both perpetrate and conceal errors or irregularities.

RECOMMENDATION

- Someone independent of the disbursement process should perform the local checking account bank reconciliations.

3. Bookstore disbursement duties are not adequately separated.

There is an inadequate separation of duties in the Rainy River Community College bookstore purchasing and disbursement process. The account clerk is responsible for all aspect of the purchasing process, including approving purchase orders. Although we were told that book requisitions forms are completed and approved by the applicable professor, the requisitions were not kept. Accordingly, there was no evidence that book purchases had been independently approved. The same employee is also responsible for all bookstore disbursement duties, including receiving incoming merchandise, approving invoices, preparing payments, and reconciling the monthly bank statement. These duties are incompatible and increase the risk that errors or irregularities could occur and remain undetected. At a minimum, someone independent of the bookstore purchasing function should receive all incoming merchandise.

RECOMMENDATIONS

- Someone independent of the disbursement process should approve purchase orders and receive incoming bookstore merchandise.
- All book requisitions should be retained.

FINANCIAL AID

4. Controls over the student payroll process at Rainy River Community College need improvement.

There are two major weaknesses in the current student payroll process at the college. First, timesheets are not adequately controlled before

RAINY RIVER COMMUNITY COLLEGE

processing. At the end of the biweekly pay period, students have their supervisors sign the timesheets. Then the students turn the timesheets in to the financial aid office. This process gives students the opportunity to change the hours on the timesheets after the supervisor has signed. Students should not have access to their signed timesheets.

Another weakness in the student payroll system is that many students do not report hours worked on a timely basis. Students often turn in timesheets which include hours covering a month or more. When this occurs, the chance of duplicate payments to students increases. This process is inefficient and puts an unnecessary burden on the college personnel to verify that the hours reported on the timesheet have not already been paid.

RECOMMENDATION

- The college should require students to submit timesheets to their supervisors at the end of every pay period. The supervisor should review the timesheet, sign off on the timesheet, and turn it in directly to the financial aid office for processing.

5. Cash management over the Perkins loan program needs to be improved.

Cash management over the Perkins loan program is weak in two areas. First, Perkins loan collections are not earning interest. The community college board office centrally collects all Perkins loan repayments. The board office then distributes the repayments to the appropriate campus. During fiscal year 1988, Rainy River Community College received approximately \$12,000 of Perkins loan repayments. These repayments were deposited into a noninterest bearing financial aid account. Federal Regulation 34 CFR 674.43(g) requires that Perkins funds collected must either be deposited in an interest bearing bank account or invested in low-risk income-producing securities.

Also, the Perkins state match is not transferred in a timely manner. Federal Regulation 34 CFR 674.21 requires schools that draw federal funds for the Perkins loan program to contribute an amount equalling at least one ninth of the federal contribution. The match must be deposited either prior to or at the same time the federal contribution is received. Even though the college receives their campus-based financial aid in three installments throughout the school year, they routinely transfer the state match for the Perkins program once near the end of the school year. In the 1988-89 school year, the college transferred the state match in March 1989.

RECOMMENDATIONS

- The college should maintain Perkins loan collections either in an interest bearing account or invested in low-risk income-producing securities.

RAINY RIVER COMMUNITY COLLEGE

- The college should ensure that state matching funds are deposited prior to or at the same time the federal contribution is deposited.

6. Rainy River Community College does not require students who withdraw from school to repay noninstitutional financial aid.

Some students receive financial aid for noninstitutional costs, such as books, rent, and other living expenses. The school pays this portion of financial aid directly to the students. The college makes no attempt to pursue repayment of noninstitutional financial aid when a student withdraws during the refund period. Instead, the policy assumes that all noninstitutional costs have been spent by the student.

Chapter 34, Part 668.22 of the Code of Federal Regulations, states that a student should repay a portion of noninstitutional federal financial aid award if they withdraw. The code further states that, to determine the amount to be repaid, the institution should subtract from total noninstitutional costs a portion for reasonable expenses incurred while the student was enrolled.

Students who withdraw should not automatically be allowed to keep the entire amount of noninstitutional financial aid they were paid. Therefore, the college should develop and enforce a repayment policy to determine the amount of noninstitutional costs that were spent while the student was enrolled.

RECOMMENDATION

- Rainy River Community College should develop a repayment policy which includes the repayment of the noninstitutional portion of the aid given.

7. Rainy River Community College deducts noninstitutional fees from financial aid before it is distributed to students.

The college collects outstanding charges from students' Pell awards without obtaining written approvals from the students. These charges are noninstitutional, and include such items as fines and department loans. According to federal regulations, these amounts cannot be automatically deducted from financial aid. 34 CFR 690.78 states, ". . . the amount of a grant which an institution may disburse by crediting a student's institutional account is limited to tuition, fees, board, if the student contracts with the institution for board, and housing, if the student contracts with the institution for housing." The regulations further state, ". . . a student may, at his or her option, permit the institution to disburse the Pell grant by crediting his or her account for other goods and services provided by the institution."

RAINY RIVER COMMUNITY COLLEGE

The college uses students' Pell checks as a means of collecting outstanding charges. Students do not sign a statement giving explicit permission for the business office to use their Pell awards in such a way. Noninstitutional goods and services can only be paid from a student's Pell if expressly allowed by the student.

RECOMMENDATION

- The college should modify its process of collecting outstanding charges from financial aid, in order to comply with applicable federal regulations.

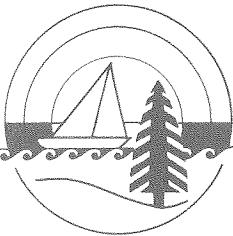
FIXED ASSETS

8. PRIOR FINDING NOT RESOLVED: Fixed asset management needs improvement.

Rainy River Community College does not take the necessary steps to ensure the accuracy of its fixed assets as recorded on the statewide fixed asset records management system (FARMS). Asset information, including location codes, is not updated promptly. In addition, the college does not perform periodic physical inventories of the campus equipment nor do they perform any annual spot-checks of the inventory. The last physical inventory was conducted over five years ago and included only one department. In order to verify the accuracy of the fixed asset records, the college should conduct annual spot-checks and periodic inventories of college equipment.

RECOMMENDATION

- Rainy River Community College should strengthen controls over fixed assets accounting.



rainy river community college

International Falls, Minnesota 56649

218-285-7722

August 7, 1989

Ms. Jeanine Liefeld
Audit Manager
Office of the Legislative Auditors
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld,

Attached you will find our formal written response to audit comments and recommendations for the three years ending June 30, 1988, as requested in your letter of July 24, 1989.

We have listed, as you requested, the name of the person responsible for implementation of each recommendation.

Yours truly,

Dr. Karen Nagle
Provost
Rainy River Community College

cc: Dr. Gerald Christenson, Chancellor
Dr. Philip Anderson, President
William D. Maki, Director of Administrative Services

Audit Response Draft
August 3, 1989

Recommendation #1:

Rainy River Community College should ensure that an adequate separation of duties exists over the receipts process. An independent person should perform all receipt reconciliations.

Response:

At the present time, with only one account clerk, it is impossible to separate cash receipt, banking, and student registration reconciliation. We will, however, begin a process whereby the Director of College Services will review and sign off on the student registration reconciliation at the same time the daily cash banking report is reviewed and signed.

The Director of College Services will be responsible for implementation.

Recommendation #2:

Someone independent of the disbursement process should perform the local checking account bank reconciliations.

Response:

We will now have our switchboard receptionist do all bank account reconciliations.

The Director of College Services will be responsible for implementation.

Recommendation #3:

Someone independent of the disbursement process should approve purchase orders and receive incoming bookstore merchandise.

All book requisitions should be retained.

Response:

With a one person operation in the bookstore, it is logical that all of these functions will be done by one person. We can modify this somewhat by having the Director of College Services review and approve all purchase orders. The Director of College Services will also review all invoices when signing checks. The switchboard receptionist will do the bank account reconciliation for all of the bookstore purchases.

All textbook requisitions from the instructors will be attached to the purchase orders and retained as a part of that record.

The Director of College Services will be responsible for implementation.

Recommendation #4:

The college should require students to submit timesheets to their supervisors at the end of every pay period. The supervisor should review the timesheet, sign off on the timesheet, and turn it in directly to the financial aid office for processing.

Response:

The college will require students to submit timesheets to their supervisors at the end of every pay period. The supervisor will review the timesheet, verify the hours worked by circling the indicated hours, sign off on the timesheet, and turn it in directly to the financial aid office for processing.

The Director of Financial Aid will be responsible for implementation.

Recommendation #5:

The college should maintain Perkins loan collections either in an interest bearing account or invested in low-risk income-producing securities.

The college should ensure that state matching funds are deposited prior to or at the same time the federal contribution is deposited.

Response:

At 6/30/89 account closing, the Perkins Loan fund was approximately \$13,000.00. A certificate of deposit in the amount of \$12,000.00 has been purchased. Future cash on hand will be either deposited to a savings account or certificate of deposit.

The college will deposit the state matching funds prior to or at the same time federal contribution is deposited.

The Director of College Services will be responsible for implementation.

Recommendation #6:

Rainy River Community College should develop a repayment policy which includes the repayment of the noninstitutional portion of the aid given.

Response:

The college will develop a policy stating that a student must repay a prorated portion of noninstitutional federal financial aid awarded if they withdraw. The college will subtract from total noninstitutional costs a portion for reasonable expenses incurred while the student was enrolled. Rainy River currently does not allow a student to withdraw during the refund period without paying back a calculated percentage of their financial aid.

The Financial Aid Director will be responsible for implementation.

Recommendation #7:

The college should modify its process of collecting outstanding charges from financial aid, in order to comply with applicable federal regulations.

Response:

The college is modifying all award letters and loan application forms by incorporating an additional statement whereby the student authorizes the college to withhold any valid charges owed to the college from their financial aid.

The Director of College Services will be responsible for implementation.

Recommendation #8:

Rainy River Community College should strengthen controls over fixed assets accounting.

Response:

The audit narrative is incorrect. A physical inventory was started in the 1988-89 school year. A total of 15 out of 23 departments has been completed, for a 65% completion rate. We intend to complete all departments in 1989-90. We will continue our efforts to update new and transfer assets promptly.

The Director of College Services will be responsible for implementation.