RAINY RIVER COMMUNITY COLLEGE FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

OCTOBER 1992

Financial Audit Division Office of the Legislative Auditor State of Minnesota

92-71

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

RAINY RIVER COMMUNITY COLLEGE

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: October 8, 1992

No. 92-71

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Tuition and fees, federal revenues and cash management, bookstore revenue, employee payroll expenditures, and federal financial aid expenditures.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- Federal cash management at Rainy River Community College needs improvement.
- Rainy River Community College does not adequately manage Perkins Loan funds.
- Rainy River Community College needs to improve access controls to the student information system.

We found three areas where the college had not complied with finance-related legal provisions:

- Rainy River Community College has not complied with federal cash management regulations.
- Rainy River Community College does not adequately manage Perkins Loan funds.
- Rainy River Community College does not charge late fees when required.

Contact the Financial Audit Division for additional information. (612) 296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708 JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Geraldine Evans, Chancellor Community College System

Members of the Community College Board

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

Mr. Allen Rasmussen, Acting Provost Rainy River Community College

Audit Scope

We have conducted a financial related audit of selected financial activities of Rainy River Community College as of and for the three years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Rainy River Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Rainy River Community College in effect as of April 1992.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of Rainy River Community College are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Rainy River Community College's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Federal Financial Aid

We performed tests on Rainy River Community College's federal financial aid programs 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

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concerning federal financial aid during the audit period. They were dated April 26, 1990, May 3, 1991, and April 29, 1992 and covered fiscal years 1989, 1990, and 1991 respectively. The fiscal year 1990 and 1991 systemwide management letters indicated that Rainy River Community College's satisfactory academic progress policy did not contain all required components.

Management Responsibilities

The management of Rainy River Community College is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- tuition and fee revenue,
- federal receipts and cash management,
- bookstore revenue,
- employee payroll expenditures, and
- federal financial aid expenditures.

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For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

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Our study and evaluation disclosed the conditions discussed in findings 1, 2, and 3 involving the internal control structure of Rainy River Community College. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable condition described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of Rainy River Community College in a meeting held on June 11, 1992.

The results of our tests indicate that, except for the issues discussed in findings 1, 2, and 4, with the respect to the items tested, Rainy River Community College complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Rainy River Community College had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of Rainy River Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 8, 1992. Representative Ann Rest, Chair Members of the Legislative Audit Commission Ms. Geraldine Evans, Chancellor Members of the Community College Board Dr. Philip J. Anderson, President Mr. Allen Rasmussen, Acting Provost Page 4

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

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Legislative Auditor

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/ John Asmussen, CPA Deputy Legislative Auditor

End of Fieldwork: June 11, 1992

Report Signed On: October 2, 1992

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Audit Participation

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

John Asmussen, CPA Jeanine Leifeld, CPA Steve Pyan, CPA Sonya Hill, CPA Marla Conroy, CPA Deputy Legislative Auditor Audit Manager Auditor-in-Charge Auditor Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of Rainy River Community College and the Arrowhead Community College Region at an exit conference on June 11, 1992:

Allen Rasmussen Larry VanSchoaick Brenda Nicholson Scott Riley Helen Nilson

Bill Maki

Acting Provost Campus Services Director Senior Account Clerk Financial Aid Director Administrative Secretary

Administrative Services Director, Arrowhead Community College

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Introduction

Expenditures

Pell Grants

Perkins Loans

Employee Payroll

Rainy River Community College is part of the Arrowhead Community College Region. The region office consolidates the management of five community colleges and two community college centers in northeastern Minnesota. The college's provost reports to the president of the Arrowhead Community College Region. Karen Nagle served as the permanent provost throughout the audit period. Because of two separate leaves of absence, Allen Rasmussen served as acting provost during fiscal year 1989 and again since July 1, 1991.

Rainy River Community College operations are financed mainly by a state appropriation from the General Fund and tuition and fee revenues. The college accounts for its instructional and operating activities on the statewide accounting system. Other activities, such as bookstore transactions, federal financial aid, and food services are accounted for through local records and bank accounts. These local accounts are exempt from Department of Finance budgeting and accounting requirements. Community college board policies govern the use of these funds.

Year Ended June 30 1991 1990 1989 Revenues: **Tuition and Fees** \$ 632,223 \$ 649,501 \$ 574,624 547,955 640,000 Federal 633,646 Other 310,908 333,479 326.508 **Total Revenues** <u>\$1.491.086</u> <u>\$1,616,626</u> <u>\$1,541,132</u>

According to Community College System records, Rainy River Community College collected and spent the following amounts during the audit period:

	Other	600,048	729,866	763,761	
	Total Expenditures	<u>\$3,314,823</u>	<u>\$3.400.340</u>	\$3,223,764	
Sources:	Manager's Financial Reports for fiscal years 1991, 1990, and 1989. Community College System revenue spreadsheets for fiscal years 1991, 1990, and 1989.				

\$2,282,596

402,532

29,647

\$1,968,305

470,948

20,750

\$2,227,170

425,154

18,150

Rainy River Community College's statements of representation for fiscal years 1991, 1990, and 1989.

Current Findings and Recommendations

1. Federal cash management at Rainy River Community College needs improvement.

Rainy River Community College does not adequately calculate cash needs for the Pell grant program. The college bases the cash draws on its cash balance and prior year expenditure levels. As a result, the campus services director relies, in part, on past rather than current activity when determining cash needs. Often, this method results in having excess federal cash on hand. During fiscal year 1990, for example, the college received \$145,000 in Pell funds on August 17. One month later, a \$86,150 balance remained in the college's federal account. U.S. Treasury circular 1075 requires institutions to limit cash advances to the actual, immediate cash requirements. Federal regulations allow no more than three days from the time an institution receives a federal wire transfer to the time students cash their financial aid checks.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of the Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding techniques agencies will use, and to negotiate a state/federal cash management agreement.

Recommendation

• Rainy River Community College should develop cash management procedures which will enable it to comply with federal regulations.

2. Rainy River Community College does not adequately manage Perkins Loan funds.

Rainy River Community College is not properly managing Perkins funds in three areas. The college uses Perkins Loan funds for unauthorized purposes and the funds are not earning interest. In addition, the college does not deposit its Perkins Loan state match timely.

The college uses Perkins Loan cash to cover temporary cash shortages in other federal financial aid programs. Federal regulations restrict the use of Perkins funds to only Perkins program purposes. However, the college often uses Perkins Loan funds to cover issued Pell grant checks which exceed available Pell funds. The college maintains Perkins Loan funds, as well as all other federal financial aid funds in one checking account. For instance, on

Rainy River Community College

March 31, 1992 the bank balance was only \$3,668, while the Perkins Loan cash ledger balance was \$12,685. This would indicate that other programs were informally borrowing Perkins funds.

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In addition, the college is not maintaining Perkins funds in an interest earning account. Federal regulations require that institutions place Perkins Loan funds in either an interest bearing account or invest in low-risk income producing securities.

Finally, the college has not deposited the required Perkins Loan state match according to federal regulations. The regulations require each institution to deposit its match in the Perkins Loan account before or at the time it deposits any federal capital contribution. The college receives federal contributions three times during the year, however makes only one state match draw and deposit. During school year 1990-1991, the college received and deposited federal Perkins funds in September, November and March. However, the college deposited the entire state match, to cover all three federal draws, in March.

Recommendations

- Rainy River Community College should use Perkins Loan funds only for authorized purposes.
- Rainy River Community College should maintain its Perkins funds in an interest bearing account.
- Rainy River Community College should deposit the required state match on or before the time it receives federal Perkins funds.

3. Rainy River Community College needs to improve access controls to the student information system.

The college does not adequately control employee access to the student information system. The college uses the system to register students for classes, record tuition payments and deferments, and post grades.

The college has not periodically reviewed computer clearances nor made appropriate changes. At the time of our audit, several former employees and student workers, continued to have clearance to record transactions on the student information system. In addition, the college allowed some employees access to transactions which were not necessary for their job duties. The college should regularly obtain user file lists, review the assigned clearances and request adjustments as assigned duties dictate.

Rainy River Community College

Recommendation

• Rainy River Community College should periodically review employee access to the computer system. The college should adjust as necessary to limit employee access to only specific functions for their assigned tasks.

4. Rainy River Community College does not charge late payment fees when required.

The college is not charging late payment fees to students who do not pay their tuition and fees promptly. Community College Board Policies requires colleges to charge registered students late fees if they do not pay their tuition by the first day of classes. Colleges also must charge late fees to students who register after the first day and do not pay on that day. Students can request a deferment of their tuition and fees to avoid paying these late fees.

Recommendation

• Rainy River Community College should charge late payment fees when required.



September 24, 1992

State of Minnesota Office of the Legislative Auditor Jeanine Leifeld, CPA Centennial Building St. Paul, MN 55155

Dear Ms. Leifeld:

We have received and reviewed your letter of September 10, 1992 and the draft of our June 1992 audit. Our response to the findings and recommendations are as follows:

1. RRCC SHOULD DEVELOP CASH MANAGEMENT PROCEDURES WHICH WILL ENABLE IT TO COMPLY WITH FEDERAL REGULATIONS.

During fiscal year 1992 the college attempted to live within the 3 day limit of cash on hand and was successful at doing so. We are again monitoring cash balances on a weekly basis and believe our federal cash on hand is within a 3 day need basis.

Larry Van Schoiack, Director of College Services, is responsible for resolution effective now.

2. RRCC SHOULD USE PERKINS LOAN FUNDS ONLY FOR AUTHORIZED PURPOSES. RRCC SHOULD MAINTAIN PERKINS LOAN FUNDS IN AN INTEREST BEARING ACCOUNT. RRCC SHOULD DEPOSIT THE REQUIRED STATE MATCH ON OR BEFORE IT RECEIVED FEDERAL PERKINS LOAN FUNDS.

We are in the process of setting up interest bearing separate bank account for the Perkins Loan fund. This will require us to utilize only Perkins funds for Perkins Loans. New accounting procedures will be set up to track the federal and state funds on a current basis so that state funds are deposited at the same time as federal funds.

Larry Van Schoiack, Director of College Services, is responsible for resolution effective October 31, 1992.

Jeanine Leifeld Page 2

3. RRCC SHOULD PERIODICALLY REVIEW EMPLOYEE ACCESS TO COMPUTER SYSTEM. THE COLLEGE SHOULD ADJUST AS NECESSARY TO LIMIT EMPLOYEE ACCESS TO ONLY SPECIFIC FUNCTIONS FOR THEIR ASSIGNED TASKS.

We have deleted past employees and adjusted one task for Patricia Dieren as per attached letter to our computer services section. We will review the user task list as an on going process and delete employees that terminate.

Larry Van Schoiack, Director of College Services, is responsible for resolution effective now.

4. RAINY RIVER COMMUNITY COLLEGE SHOULD CHARGE LATE PAYMENT FEES WHEN REQUIRED.

The ACCR President is currently in the process of asking for a new procedure to change the policy for out-state community colleges regarding charging of late fees.

Allen Rasmussen, Provost, is responsible for resolution.

Sincerely,

Allen Rasmussen Provost

cc Cynthia Heelan, Acting President, ACCR Geraldine Evans, Chancellor Elaine Markey, Community College Board President Tony Bartovich, Associate Director of Admin. Services, ACCR Bill Maki, Director of Administrative Services, ACCR

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