Rainy River Community College

Financial Audit
For the Period July 1, 1995, through June 30, 1997

November 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-53

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STATE OF MINNESOTA
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Rainy River Community College

We have audited Rainy River Community College for the period July 1, 1995, through June 30, 1997. Our audit scope included the following areas: general financial management, tuition and fee revenue, payroll expenditures, supplies and equipment, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Rainy River Community College complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Rainy River Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 6, 1997.

James R. Nobles
Legislative Auditor

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Senior Audit Manager

End of Fieldwork: August 1, 1997

Report Signed On: October 29, 1997

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SUMMARY

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Rainy River Community College

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Public Release Date: November 6, 1997 No. 97-53

Background Information

Rainy River Community College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state universities, community colleges, and technical colleges throughout the state merged under one governance structure. Rainy River Community College is a two year college. Allen Rasmussen is the president of the college.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of financial activities of the college and to determine if the college complied with material finance-related legal provisions. The areas covered by our audit were tuition and fees, payroll, supply and equipment purchases, and bookstore operations for the period July 1, 1995, through June 30, 1997. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997.

Rainy River Community College did not properly separate duties for key financial activities. The college had a limited number of staff to perform accounting duties which contributed to several internal control weaknesses. The college did not adequately establish controls over its local bank accounts. The use of several different bank accounts to process financial transactions added to the burden of effort for the accounting staff.

We noted other weaknesses over tuition and fees, payroll, supplies and equipment purchases, bookstore operations, and federal cash management, as discussed in the individual chapters of this report. The college did record its financial activities on the MnSCU and MAPS accounting systems. However, the college did not record some financial information completely or timely.

The college concurred with the audit report findings and recommendations. The college indicated that it has already taken corrective action on several areas as shown in the agency response.

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Audit Participation

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

Claudia Gudvangen, CPA	Senior Audit Manager
Renee Redmer, LPA	Audit Manager
Carl Otto, CPA	Team Leader
Susan O'Connell	Auditor
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Exit Conference

The following staff from Rainy River Community College and the MnSCU system office participated in the exit conference held on October 16, 1997:

MnSCU System Office:	
Laura King	Vice Chancellor and Chief Financial Officer
Al Finlayson	Director of System Accounting
Rainy River Community College:	
Allen Rasmussen	President
Brenda Nicholson	Business Manager

Chapter 1. Introduction

Rainy River Community College is part of the Minnesota State Colleges and Universities System (MnSCU). The Legislature created MnSCU by merging the state of Minnesota community colleges, state universities, and technical colleges into one system of higher education. MnSCU began operations and the merger became effective on July 1, 1995.

The college served approximately 350 to 400 students per quarter during fiscal years 1996 and 1997. Allen Rasmussen is the president of the college. The college is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Through fiscal year 1995, the college was part of the Arrowhead Community College Region Office. The region office consolidated the management of the community colleges located in northeastern Minnesota. In fiscal year 1996, the regional management ended and the management responsibilities were assumed by the college presidents. The Arrowhead Region Office reorganized into the Northeast Service Unit which provided payroll, personnel, and general accounting services to the northeastern colleges on a fee basis. Rainy River Community College contracted with the Northeast Service Unit for these services in 1996.

Rainy River Community College funds the majority of its operations from General Fund appropriations and student tuition and fees. These funds are administered in the state treasury. The MnSCU system office allocates appropriated funds to the colleges based on a formula. The college also administers certain other funds in local bank accounts outside the state treasury. These funds include financial aid and various enterprise activities, such as the bookstore and food service.

Table 1-1 shows General Fund financial activity for Rainy River Community College for fiscal year 1997.

Table 1-1
General Fund Financial Activity
Fiscal Year 1997

Sources:	
State Appropriation	$2,074,508
Tuition and Fees	800,582
Other Revenue	316,093
Total Sources	$3,191,183
Uses:	
Payroll	$2,422,642
Supplies and Equipment	127,103
Other	405,745
Total Uses	$2,955,490

Source: MnSCU General Ledger Accounting System.

The college is affiliated with the Rainy River Community College Foundation, an autonomous, non-profit organization. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds other activities that benefit the public educational mission of the college. The foundation is audited by a private CPA firm. Rainy River Community College Foundation had revenues of $117,849 and expenses of $34,210 according to its audited financial statements for the year ended June 30, 1996. The foundation's total fund balance as of June 30, 1996, was $385,754.

Chapter 2 of this report discusses overall financial management of the college. Chapter 3 includes our review of tuition and fees. Chapter 4 covers payroll, supplies, and equipment. Chapter 5 covers our review of the bookstore operations. Finally, we discuss our review of federal student financial aid in Chapter 6.

Chapter 2. Financial Management

Chapter Conclusions

Rainy River Community College did not properly separate duties for key financial activities. The college had a limited number of staff to perform accounting duties, which contributed to several internal control weaknesses. The college did not adequately establish controls over its local bank accounts. The use of several different bank accounts to process financial transactions added to the burden of effort for the accounting staff. We noted other weaknesses over tuition and fees, payroll, supplies and equipment purchases, bookstore operations, and federal cash management, as discussed in the individual chapters of this report. The college did record its financial activities on the MnSCU and MAPS accounting systems. However, the college did not record some financial information completely or timely.

The Rainy River Community College business office consists of the Director of Fiscal Operations, a cashier, and a part-time bookstore manager.

MnSCU colleges record the financial information on two accounting systems:

- MnSCU Accounting System -- This system was developed by the MnSCU system office to account for all MnSCU financial activities. MnSCU institutions are required to record both state treasury and local bank activity on the system.

- The Minnesota Accounting and Procurement System (MAPS) -- This system is the state's primary accounting system. MnSCU accounting posts summary transactions to MAPS through an automated system interface. During the audit period, the interface was operational only for funds held in the state treasury. Local accounting information currently does not interface with MAPS.

In addition to the primary accounting systems mentioned above, the college processed payroll information on the new Statewide Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS). The college records student registration and accounts receivable on the Collegiate Information System (CIS). The Financial Aid Office uses a system called SAFE to package student financial aid awards.

The college administered local funds in six bank accounts separate from the state treasury. The college had an imprest cash account, two accounts for financial aid, a housing account, a bookstore account, and an All College Fund account. This account included activities for 36 separate MnSCU general ledger accounts, including the state deposit clearing account for tuition and fees.

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College administration had the ultimate responsibility for financial planning, budgeting, and spending decisions. The college business office monitored MnSCU accounting reports showing budget versus actual financial activity. MnSCU accounting allows institutions to establish budgets by cost centers. MnSCU accounting, however, does not prevent expenditures from exceeding budgeted amounts in the cost centers. Rainy River College established approximately 240 cost centers. The college accounting supervisor worked with department managers to resolve negative account balances.

Audit Objectives and Methodology

In assessing the college's overall financial management, we focused on the following questions:

- Did the college design and implement controls to provide reasonable assurance that it properly administered its financial activities?
- Did the college design and implement controls to properly record its financial activities in the MnSCU and MAPS accounting systems?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system for the individual program areas discussed in the following chapters. We also gained an understanding of management controls in place over the local bank accounts and the programs included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its financial activities.

Conclusions

Rainy River Community College did not properly separate duties for key financial activities. The college had a limited number of staff to perform accounting duties, which contributed to several internal control weaknesses. The college did not adequately establish controls over its local bank accounts. The use of several different bank accounts to process financial transactions added to the burden of effort for the accounting staff. These issues are discussed in Finding 1. We noted other weaknesses over tuition and fees, payroll, supply and equipment purchases, bookstore operations, and federal cash management, as discussed in the individual chapters of this report. The college did record its financial activities on the MnSCU and MAPS accounting systems. However, the college did not record some financial information completely or timely.

1. Rainy River Community College did not establish adequate controls over its local bank accounts.

Rainy River Community College did not properly separate duties for critical financial management functions. The limited number of business office staff at the college contributed to this problem. The college did not post transactions to MnSCU accounting or resolve reconciling items for some bank accounts on a timely basis. The use of several different bank accounts to process financial transactions added to the burden of effort for the accounting staff.

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The college did not separate certain critical functions in administering its six local bank accounts. The bookstore manager performed all functions related to the bookstore operations, including the bank reconciliation. The cashier who performed the bank reconciliations for the imprest cash account, the housing account, and the All College Fund account also generated checks and posted transactions to MnSCU accounting. The cashier also had complete access to the checks for the local accounts. An inadequate separation of duties exists when one person has control over an entire process or transaction cycle. Without an adequate separation of duties, the college faces a high risk that errors and irregularities could occur and not be detected.

The college did not promptly post certain transactions or resolve reconciling items in the state deposit clearing subsidiary account. The college uses this account to transfer tuition and fees to the state treasury. During fiscal year 1997, the college did not verify the accuracy of the transactions posted to the clearing account for several months. We reviewed the June 30, 1997, account reconciliation and found an unresolved $30,000 reconciling item originating in May 1996. In addition, the college did not record May 1997 bank deposits on MnSCU accounting until July 1997.

Complete and timely reconciliations are a key control to detect and prevent errors or irregularities. Posting transactions to the accounting records on a timely basis ensures the completeness and accuracy of the records. These controls are vital to managing cash effectively and providing accurate financial information for management decisions.

The use of numerous local bank accounts has many inefficiencies. The college has to account for specific financial activities and initiate bank transfers or write checks to move funds between accounts. Additionally, each account requires a separate monthly bank reconciliation to ensure that the accounting system balance agrees with the bank balances. The college should consider consolidating its bank accounts and using MnSCU accounting to track specific financial activities. The college could then focus on its internal control systems to ensure the integrity of its financial activities.

Recommendations

- *Rainy River Community College should strengthen internal controls by adequately separating duties over local bank accounts.*

- *The college should consider consolidating checking accounts and utilizing MnSCU accounting to identify funds by program area.*

- *The college should review and correct clearing account balances on a timely basis to ensure the integrity of the general ledger subsidiary accounts.*

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Chapter 3. Tuition and Fees

Chapter Conclusion

Rainy River Community College did not design or implement appropriate internal controls over tuition and fee revenue. The college had an inadequate separation of duties for staff involved in the revenue process. Also, the college did not restrictively endorse checks upon receipt and did not deposit tuition and fees daily as required by state law.

Rainy River Community College collected approximately $836,000 in tuition and fees ($801,000 in the General Fund and $35,000 in one Agency Fund) during fiscal year 1997. This amount did not include various accounts receivable recorded on the Collegiate Information System (CIS) which totaled $105,000. The college uses CIS to register students and to record tuition billings, collections, and accounts receivable. Resident tuition for the 1996-97 school year was $44.65 per credit plus miscellaneous fees. The tuition for nonresident students was $89.30 per credit.

The college also collected tuition for continuing education and customized training classes. The college provided classes for businesses to train their employees. In addition, the college collected tuition and fees for students enrolled in the post secondary option's program. The program allowed high school students to enroll in classes at the college in lieu of classes normally taken at their high school. The students received college credit while fulfilling requirements necessary to graduate from high school. The college billed the Higher Education Services Office for these services.

Audit Objectives and Methodology

The primary objective of our audit of tuition and fees was to answer the following question:

- Did the college design and implement controls to provide reasonable assurance that tuition and fees were accurate and complete, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

To achieve this objective, we interviewed staff, observed internal processes, analyzed and compared tuition revenue collected to tuition credits recorded, and tested a sample of transactions related to tuition and fee receipts.

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Conclusions

Rainy River Community College did not design or implement adequate internal controls over tuition and fee revenue. The college lacked appropriate separation of duties for staff involved in the revenue process. The college did not provide for an independent verification to provide assurance that tuition and fees were accurate and complete. Finally, the college did not restrictively endorse checks upon receipt and did not deposit tuition and fees daily as required by state law. Our concerns are discussed in Findings 2 and 3 presented below.

2. The college did not establish controls to independently verify tuition and fee revenue collections.

Rainy River Community College did not properly separate duties in the tuition and fee revenue cycle. One employee in the business office, a full-time cashier, performed all functions related to billing, collecting, and recording tuition and fees. The cashier processed cash receipt and refund transactions, billed and collected accounts receivable, reconciled the daily cash reports, prepared the bank deposits, reconciled the bank accounts, and entered the information into the CIS and MnSCU accounting systems.

An inadequate separation of duties exists when one person has control over the entire tuition and fee process. Although the college had a limited number of business office staff, making separation of duties difficult, it should segregate certain key functions such as the daily cash reconciliation procedure and the bank reconciliation process. In addition, there should be an independent verification of registration system tuition credits to actual revenue collections. These independent reconciliations would increase accountability and decrease the risk that errors or irregularities would go undetected.

Recommendation

- *The college should properly segregate duties in the tuition and fee revenue cycle.*

3. Rainy River Community College did not comply with prompt deposit legal provisions and did not adequately safeguard tuition and fees.

The college did not deposit tuition and fees daily as required by state law. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily if they total $250 or more. Our testing of tuition and fee revenue found that receipts were collected and posted in the CIS system correctly; however, the cash was not deposited in the bank promptly. We tested receipts totaling approximately $460,000 for fiscal years 1996 and 1997 and found that it took the college, on average, five days to deposit the revenue. One deposit of tuition receipts for $149,840 in December 1996 was not deposited for over eight days. Untimely deposits increase the risk of lost or stolen receipts, as well as the possibility of checks being returned for non sufficient funds.

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During our audit, we observed that the college did not restrictively endorse checks when received. Checks were not endorsed by staff until the deposit was prepared. Restrictively endorsing checks when received reduces the risk of a lost or stolen check being cashed.

Recommendations

- *The college should promptly deposit tuition receipts in the state treasury.*
- *The college should restrictively endorse checks when received to reduce the risk of loss of receipts.*

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Chapter 4. Payroll, Supplies, and Equipment

Chapter Conclusions

Rainy River Community College generally designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions. However, the college did not independently verify the accuracy of its payroll transactions.

Rainy River Community College designed and implemented internal controls to provide reasonable assurance that it accurately reported supplies and equipment expenditures in the accounting records. However, the college needs to improve the documentation of receipt of purchases and periodically check its equipment inventory to validate the accuracy of the fixed asset records.

Payroll

Payroll represents the largest expenditure for Rainy River Community College. The college's payroll expenditures for fiscal year 1997 totaled approximately $2.7 million for all funds. During fiscal year 1996 and 1997, the college employed approximately 120 staff, consisting of classified and unclassified employees, and full-time and adjunct faculty. College employees belong to various compensation plans, including the American Federation of State, County, and Municipal Employees (AFSCME), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Excluded Administrators Plan, the Commissioner's Plan, and the Minnesota Community College Faculty Association (MCCFA).

During fiscal year 1996, the college used the state's personnel and payroll system (PPS) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate information and calculated the amounts paid employees. In October 1996, the college began processing payroll transactions on the state's SEMA4 payroll system while continuing to use SCUPPS. The college used SEMA4 to track leave accruals for classified employees and excluded administrators and manual records to track faculty leave accruals.

Rainy River Community College contracts with the Northeast Service Unit to process its payroll. The Northeast Service Unit had separate human resource and payroll sections to administer personnel and payroll transactions. Northeast's human resources staff recorded the college's staff appointments and assignments in SCUPPS. Northeast's payroll staff entered the timesheets into SEMA4. Rainy River Community College staff collected employee timesheets, verified them for proper authorization, and sent them to Northeast for processing.

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Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

To address this objective, we interviewed college staff and Northeast Service Unit staff to obtain a general understanding of the internal control structure over the payroll and personnel process. We also analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusions

Rainy River Community College generally designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and complied with applicable legal provisions and management's authorization. However, the college did not independently verify the accuracy of payroll expenditures, as discussed in Finding 4.

4. The college did not ensure the accuracy of its payroll transactions.

Rainy River Community College did not perform an independent review of the accuracy of payroll costs charged to its accounts. The college prepares the biweekly payroll data and forwards it to the Northeast Service Unit for processing. Northeast enters the payroll data into SCUPPS and SEMA4 and payroll warrants are mailed directly to the college employees. However, neither the college nor the service unit reconciled the payroll payments posted to the MnSCU and MAPS accounting systems to ensure that the transactions were properly recorded. In addition, the college did not review payroll reports detailing costs charged to its accounts. Without an independent review of payroll reports, the risk of errors or irregularities increases.

Periodic reconciliations between the various accounting systems ensures the accuracy of the transactions posted to college accounts and detects posting errors in a timely manner. In addition, the college should independently review selected payroll reports to verify the propriety of its biweekly payroll payments.

Recommendation

- *The college should work with the Northeast Service Unit to reconcile its payroll transactions.*

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Supplies and Equipment

Rainy River Community College purchased supplies and equipment totaling $158,000 from all funds during fiscal year 1997. Minnesota State Colleges and Universities (MnSCU) issued system procedures that the college followed when making purchases.

The college used requisitions and purchase orders for supply and equipment purchases. College staff completed a requisition form that management reviewed for propriety and available funds prior to initiating the purchase. The business office prepared a purchase order document. The college entered data from that purchase order into the MnSCU accounting system. When Rainy River Community College received the vendor's invoice, the business office compared the invoiced item and the amount of the invoice to the purchase order and verified that the college had received the goods. The business office then sent the invoice to the Northeast Service Unit to process the payment to the vendor through the MnSCU accounting system. For purchases of fixed assets, the Northeast Service Unit assigned an asset number and entered items into the inventory system. The college business office affixed a state fixed asset sticker to the item.

Many of the college's supply and equipment purchases were for fairly small amounts for recurring items. Figure 4-1, on the following page, shows the volume and value of supply and equipment purchases.

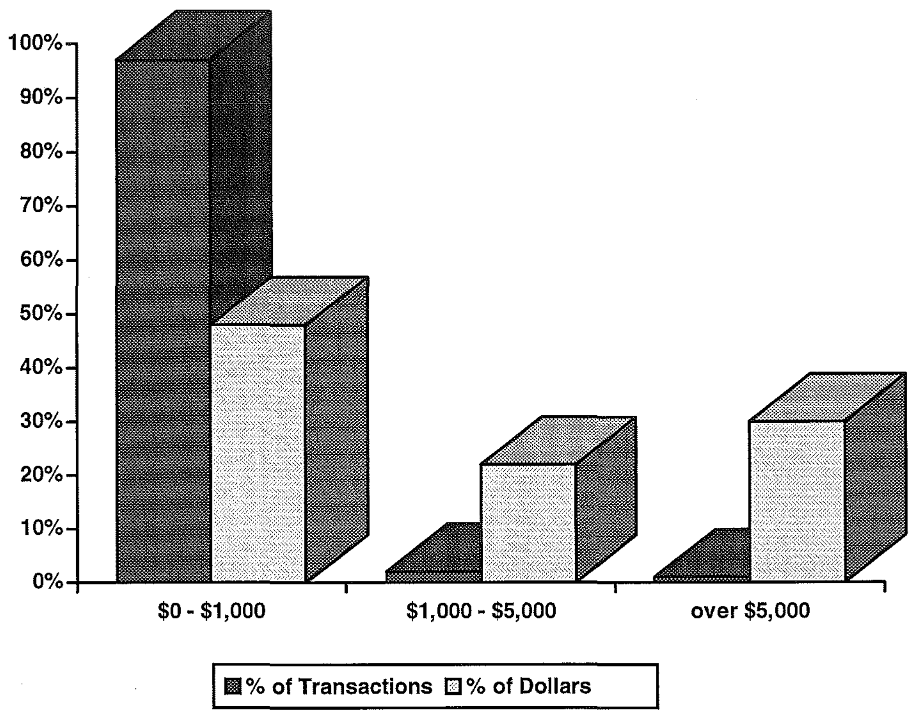
Audit Objective and Methodology

Our primary audit objective was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records, adequately safeguarded fixed assets from theft or loss, and complied with applicable legal provisions?

To address this objective, we interviewed college staff and Northeast Service Unit staff to obtain a general understanding of the internal control structure over the purchasing and payment processes. We also analyzed supply and equipment disbursement data, reviewed selected source documents to determine proper authorization, and verified the existence of some fixed asset purchases.

Figure 4-1
Distribution of Supply and Equipment Purchases
Fiscal Year 1997



Source: MnSCU Accounting System Records.

Conclusions

Rainy River Community College designed and implemented internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records. However, the college needs to improve the documentation for receipt of purchases and periodically check inventory to validate the accuracy of the fixed asset records. Findings 5 and 6 describe these weaknesses.

5. Rainy River Community College did not verify the accuracy of certain invoices.

The college did not properly document the receipt of some items purchased. We examined 20 supply and equipment purchases. Seven vendor purchases for the computer lab totaling $55,229 were not supported by signed packing slips or other documentation of receipt of the goods. The college's only documentation for the payment was a purchase order. The college did not require the computer lab staff to turn in the signed and dated packing slip.

Packing slips document that the college received the purchases and authorized payment to the vendor. When the college does not consistently apply this control, the risk increases that unauthorized transactions or overpayment may occur.

Recommendation

- *The college should require that staff sign and date the packing slips or other receiving documentation and submit them to the business office.*

6. The college did not independently verify its fixed asset records.

Rainy River Community College had not conducted a complete physical inventory or periodic spot checks to validate the accuracy of its fixed asset records in four years. Northeast Service Unit produces a fixed asset master list identifying the college's assets. The master list includes the building location the asset is assigned to, a description of the asset, the date acquired, the cost, and the asset number. MnSCU procedures require the college to record fixed assets costing over $2,000 in the inventory records. In order to ensure the accuracy of its fixed asset records, the college should do a periodic physical inventory. Without a periodic inventory of fixed assets, the theft or misuse of those items could go undetected.

Recommendation

- *The college should conduct a periodic physical inventory of its fixed assets to verify the accuracy of its inventory records.*

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Chapter 5. Bookstore Operations

Chapter Conclusions

Rainy River Community College did not establish adequate internal controls over bookstore operations by properly separating duties. One employee was responsible for all of the bookstore operations and accounting functions. The college did not adequately safeguard its inventory. The college did not deposit receipts promptly and did not make payment to vendors timely.

The bookstore financial activity was recorded in the MnSCU accounting system. However, the college did not allocate total costs to the bookstore operations. The college did not record expenses such as rent, utilities, and depreciation, yet bookstore profits were used to cover losses for other enterprise funds, such as food service.

The Rainy River Community College bookstore offers textbooks and a limited quantity of personal and school supplies. Students purchase items and pay by cash, check, or credit card. For students receiving financial aid or funding from an external organization, charges are entered into the CIS system and a copy of the sales receipt is forwarded to the cashier for payment from financial aid or other sources. When the funds are received, the cashier writes a check from the All College Fund and forwards it to the bookstore for processing and deposit.

During the audit period, the bookstore was managed by a part-time employee. The manager was responsible for all bookstore operations and accounting functions in addition to processing receipts and disbursements for other college enterprise funds, including food service. Receipts for the bookstore and other enterprise funds were deposited together in a local bank account. The bookstore manager conducted the physical inventories at the end of fiscal years 1996 and 1997.

In fiscal year 1996, the bookstore recorded its financial activities using a software package called PC General Ledger System. Summary transactions by revenue and expense categories were sent to the Arrowhead Region for entry into the MnSCU accounting system. In fiscal year 1997, the college recorded transactions directly into MnSCU accounting. Table 5-1 shows fiscal year 1996 bookstore operations condensed from the statement of income prepared by the college using the PC General Ledger program. Fiscal year 1997 data is not shown since the college had not completed year end postings for receivables and inventory counts as of August 1997.

Table 5-1
Statement of Income -- Bookstore
Fiscal Year 1996

	Amount
Revenue:	
Net Sales	$ 177,203
Other Revenue	74
Total Revenue	$ 177,277
Cost of Goods Sold	$ 137,148
Gross Margin	$ 40,129
Expenses:	
Salaries and Fringe	$ 18,481
Other	1,379
Total Expenses	$ 19,860
Net Income	$ 20,269

Note 1: This financial information is incomplete and does not include allocations for rent, utilities, and depreciation costs.

Note 2: Financial statements prepared by Rainy River Community College for bookstore operations as adjusted by the auditor.

Audit Objectives, Scope, and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenues and expenses were appropriate and complete, adequately safeguarded and authorized, and in compliance with applicable legal provisions?

- Did the college have an appropriate process to measure the financial results of bookstore activity?

To answer these questions, we interviewed employees to gain an understanding of the controls in place over revenues and expenditures. We performed reviews of reported financial activities and accounting system balances. We also tested samples of revenue and expenditure transactions to determine if the college had appropriate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

Conclusions

We found that the internal control procedures were not adequately designed to provide reasonable assurance that the bookstore revenues and expenses were complete and accurately recorded in the accounting system. The college did not properly separate duties to control and record bookstore operations as discussed in Finding 7. The college did not adequately safeguard its inventory purchases as discussed in Finding 8. Finally, the college did not comply with state legal provisions related to prompt deposits and payments to vendors. These issues are discussed in Finding 9.

The college prepared statements of financial activity for the bookstore and other enterprise funds. However, the college did not allocate total costs to the bookstore operations. This is discussed in Finding 10.

7. The college bookstore lacked proper separation of duties.

The college did not establish adequate internal controls over bookstore operations by separating key financial duties. The bookstore manager was responsible for all of the bookstore activities and accounting functions. The duties included cash handling, preparing bank deposits, purchasing inventory and paying the bills, reconciling bank accounts, recording transactions in the accounting records, and reconciling the accounting systems. Without an adequate separation of duties, the risk of errors or irregularities not being detected in a timely manner increases. Improperly segregated functions also increases the risk of erroneous or incomplete transactions in the accounting records. Inventory shortages could also occur and go undetected.

The college did not perform an independent verification or reconciliation to ensure the accuracy and completeness of financial activity recorded for the bookstore. The bookstore cash drawer was not closed out and reconciled on a daily basis. The cash drawer was used as the change fund for staff and students and easily accessed with the "no sale" key on the register. Incomplete sales transactions were voided without authorization by another person. An independent daily reconciliation of the cash drawer would help ensure that all cash transactions were being correctly recorded and shortages were not occurring.

Recommendation

- *The college should properly separate duties and perform independent reconciliations to ensure the accuracy and completeness of its bookstore financial operations.*

8. The college did not adequately safeguard bookstore assets to prevent loss or theft.

Inventory ordered and received by the bookstore was left stacked in boxes in the main hallway of the college for over three weeks during our audit fieldwork. The bookstore staff were busy taking inventory during that period but should have moved the stock to a secure location to prevent loss of goods. The bookstore is the central receiving point for the college.

The bookstore can be accessed from two locations. College staff can enter the bookstore through a door located in the cashier's office. Staff used this access when the bookstore was not open to obtain items for students. We observed staff entering the bookstore, but business office staff did not verify that a record of items removed existed. Access to bookstore inventory should be limited or procedures established to ensure that items removed are properly recorded as sales.

The college was not restrictively endorsing checks until the bank deposit was prepared. Restrictively endorsing a check when received would limit its conversion if lost or stolen.

Recommendations

- *The college should provide measures to ensure that bookstore inventory and goods are adequately safeguarded to deter loss or theft.*

- *The college should restrictively endorse checks when received.*

9. The college bookstore did not comply with legal provisions related to prompt depositing or paying vendors timely.

The bookstore manager was responsible to collect and deposit receipts for various enterprise activities. Minn. Stat. Section 16A.275 requires that receipts of $250 be deposited daily. The bookstore normally collected over $250 daily for its operations and other enterprise fund transactions. However, deposits were normally only prepared once a week.

The bookstore issues checks to vendors for enterprise activities. However, payments to vendors were not made within the 30 days as required by Minn. Stat. Section 16A.124. The college made payments that were from 60 to 120 days after the invoice date.

Recommendation

- *The college should deposit receipts promptly and make timely payments to vendors in compliance with legal requirements.*

10. The college did not effectively measure operating results for the bookstore.

Rainy River Community College prepared financial statements for its bookstore. The bookstore is an enterprise fund that should account for operations in a manner similar to private business. Table 6-1 shows fiscal year 1996 revenue and expenses. This schedule is incomplete, however, because it does not measure rent, utilities, or depreciation expenses. The college uses the reported profits from the bookstore to offset losses incurred in food service. An accurate matching of revenue and expenses would provide a clearer picture of financial activity and provide college management information necessary to adjust pricing or enact cost savings.

Recommendation

- *The college should properly accrue total operating costs for the bookstore and other enterprise funds to provide meaningful financial statements. The college should review profits, losses, and fund balance annually to determine if price markups would be reasonable.*

Chapter 6. Federal Student Financial Aid

Chapter Conclusions

Rainy River Community College designed and implemented internal controls to provide reasonable assurance that financial aid was paid to eligible students. However, the college had several weaknesses in administering federal student financial aid. The college did not adequately manage its federal cash. The college did not reconcile the federal bank accounts for fiscal year 1997. The college did not accurately or timely post PELL drawdowns to the MnSCU accounting system. The college advanced funds to the financial aid bank accounts from the auxiliary enterprise account and had not repaid $51,000 as of June 30, 1997. The college did not comply with Perkins institutional capital contribution guidelines. The college also accumulated excessive Perkins funds.

Rainy River Community College participated in several federal student financial aid programs that were funded by the U.S. Department of Education. The disbursements for these financial aid programs are shown in Table 6-1.

Table 6-1
Federal Student Financial Aid Activity
Fiscal Year 1997

CFDA Number	Program	Total
84.032	Federal Family Education Loan (FFEL)	$267,909
84.063	Federal Pell Grant (PELL)	$287,422
84.038	Federal Perkins Loan (Perkins)	$18,500
84.007	Federal Supplemental Education Opportunity Grant (SEOG)	$30,400
84.033	Federal Work-Study (FWS) Program	$82,204

Source: Collegiate Information System (CIS), "A/R Financial Aid Disbursed Report Summary," and SAFE system total for fiscal year 1997. Federal Work-Study disbursements, including state match, are from the college financial aid office records.

The U.S. Department of Education developed federal regulations for each Title IV federal financial aid program. With the exception of the Federal Unsubsidized Stafford Loan and Federal PLUS programs (both of which are part of the Federal Family Education Loan Program), a student must demonstrate financial need to be eligible for financial aid. Financial need is the difference between the students' cost of attendance budget and the expected family contribution. The expected family contribution represents the family's ability to pay education costs. The federal government determines the expected family contribution based on financial data supplied by students.

Rainy River Community College

Rainy River Community College used an automated financial aid system called SAFE to package financial aid. The SAFE system interfaces with the CIS registration system. The college applies student financial aid against tuition and fees in CIS and generates a check to the student for any excess balance. The college adjusts awards based upon a student's actual enrollment status after the school's drop/add period. The college receives Federal Family Education Loan (FFEL) checks from lenders and distributes them to students.

During fiscal years 1996 and 1997, the Arrowhead Region Office and Northeast Service Unit, respectively, performed the drawdown of federal Perkins, SEOG, and work-study funds. The servicing agencies based the drawdowns on requests for funds received from the college. The agencies forwarded the work-study funds to the MnSCU system office for disbursement, and Perkins and SEOG funds were sent to the college. The college performed its own drawdown of Pell grant funds.

Audit Objectives and Methodology

The primary objective of our audit was to address the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that financial aid was properly paid to eligible students and accurately reported in the accounting records?
- Did the college comply with applicable legal requirements over the management of federal cash and provide accurate reporting of financial aid activity?

To address these objectives, we evaluated and tested controls over student eligibility and packaging, awarding, and disbursing federal financial aid funds. We also evaluated and tested controls over managing federal cash and reporting to the federal government.

Conclusions

Rainy River Community College designed and implemented internal controls to provide reasonable assurance that financial aid was paid to eligible students. However, Rainy River Community College had several weaknesses in administering financial aid. The college did not adequately manage its federal cash. The college did not reconcile the federal bank accounts for fiscal year 1997. The college did not accurately or timely post several PELL drawdowns to the MnSCU accounting system. The college advanced funds to the financial aid bank accounts from the auxiliary enterprise account and has not repaid $51,000. The college did not comply with Perkins institutional capital contribution guidelines. The college also accumulated excessive Perkins funds. These issues are discussed in Findings 11 through 13 as presented below.

11. PRIOR AUDIT FINDING NOT RESOLVED: Rainy River Community College did not adequately manage its federal cash.

Rainy River Community College needs to improve its federal cash management procedures in several areas. The college did not properly estimate its needs and request federal funds accordingly. The college borrowed from the auxiliary enterprise fund to cover negative federal cash balances. The college borrowed $51,000 from the auxiliary enterprise fund in fiscal year 1996 and this amount had not been repaid as of June 30, 1997. A negative federal bank account balance of $30,078 would have occurred at June 30, 1997, without the advances. The college needs to draw adequate funds on a timely basis to meet financial aid disbursements. The college loses both the use of its own funds and interest earnings on those funds.

Rainy River Community College drew excessive federal work-study funds on March 28, 1997. The Northeast Service Unit informed the college that the northeastern colleges were under consideration for recertification from the federal government as of March 31, 1997. Northeast was concerned about this process and the future method of requesting federal cash. Rainy River Community College drew the remaining $30,000 authorized for work-study activities in fiscal year 1997. These funds should have been requested close to the date of disbursement. Federal regulations state that only funds needed for immediate cash needs should be requested.

Recommendations

- *Rainy River Community College should only request federal funds needed to meet immediate cash needs of the program in accordance with federal regulations.*

- *The college should return the $51,000 advance to the auxiliary enterprise fund.*

12. Rainy River Community College did not reconcile its federal financial aid bank accounts.

The college did not reconcile the federal financial aid bank account or the Perkins loan account during fiscal year 1997. The college deposited Pell and SEOG federal funds into the federal financial aid bank account. The college deposited Perkins funds into the Perkins account. In accordance with federal regulations, the Perkins account earns interest while the federal financial aid account does not.

Because the college did not reconcile the accounts, several errors were not detected in a timely manner. The Northeast Service Unit performed the drawdown of federal SEOG and Perkins funds for the college. A federal drawdown performed by Northeast on March 28, 1997, totaled $18,397 ($11,020 for SEOG and $7,377 for Perkins). Northeast issued a check to the college on April 2, 1997; however, the check was not recorded by the college. College staff said that the check was either not received at the college or was misplaced. As of July 23, 1997, the check had not cleared the Northeast bank account. Since the college did not reconcile federal funds requested to the deposits in its bank account, the missing check was not detected.

The college also did not consistently post federal receipts to the MnSCU general ledger. A drawdown on November 13, 1996, for $9,000 was not posted to MnSCU accounting until February 14, 1997. A drawdown on October 7, 1996, for $8,000 was not posted to

MnSCU accounting as of June 30, 1997. The college requested $75,000 on March 17, 1997, and posted this amount to MnSCU accounting on March 31, 1997. However, the actual amount received was only $70,548. The college should reconcile the federal accounts and post amounts to the MnSCU accounting system on a timely basis.

The college did not deposit Perkins loan repayments to its bank account timely. The MnSCU system office collects Perkins loan repayments from students. On a monthly basis, the system office sends a check to the college for the amounts collected. The college accumulated the August 1996 through January 1997 checks and deposited a total of $11,285 to the Perkins bank account on February 1, 1997. State law requires funds be deposited when the amount exceeds $250. This resulted in a loss of interest income for the Perkins loan account.

Recommendations

- *Rainy River Community College should reconcile its federal bank accounts and post amounts to MnSCU accounting system on a timely basis.*

- *Rainy River Community College should deposit receipts when they exceed $250 as required by state regulations.*

13. PRIOR AUDIT FINDING NOT RESOLVED: Rainy River Community College did not comply with Federal Perkins Loan institutional capital contribution guidelines.

Rainy River Community College did not request and deposit the required Federal Perkins Loan institutional capital contribution before requesting or receiving the federal capital contribution. Federal regulations require the college to deposit an institutional match in the Federal Perkins Loan account before or at the same time it deposits the federal capital contribution. The college requested the 1997 federal capital contribution on March 28, 1997, through the Northeast Service Unit. The check was never deposited as noted in Finding 12. The college requested the institutional match on April 14, 1997, and deposited the check on May 9, 1997.

The college accumulated excessive Perkins loan funds in its bank account. The Perkins bank balance as of June 1997 was $68,500. The college issued only $18,500 in new loans during the school year ending June 30, 1997. According to federal regulations, an institution has accumulated excessive Perkins cash when an institution's cash on hand plus projected collections is more than total projected expenditures for the remainder of the award period. At no time should the institution's Perkins loan fund contain an amount that exceeds the amount required for expenditures in the foreseeable future. The federal share of this excess should be returned to the Department of Education at least annually.

Rainy River Community College

Recommendations

- *Rainy River Community College should deposit future institutional contributions before or at the same time it receives the federal capital contributions.*

- *The college should review its future Perkins expected loan needs and collections and return excess cash in accordance with federal regulations.*

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Status of Prior Audit Issues As of August 1, 1997

Most Recent Audits

Legislative Audit Report 92-71, October 1992, covered the three fiscal years ended June 30, 1991. The audit scope included tuition and fee revenue, bookstore revenue, employee payroll expenditures, and federal student financial aid. Two of the four audit findings have not been resolved. Of primary concern are the continued problems with federal cash management and noncompliance with the Perkins Loan institutional capital contributions guidelines. (See current Findings 11 and 13)

We audit compliance with federal student financial aid guidelines annually as part of the Statewide Single Audit. We review internal controls over student financial aid at the individual institutions on a cyclical basis. Legislative Audit Report 96-24, June 1996, included three issues related to Rainy River Community College. Two of these findings addressed the current unresolved issues on federal cash management and the Perkins Loan institutional capital contributions guidelines. The third finding was resolved.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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October 20, 1997

State of Minnesota
Office of the Legislative Auditor
Renee C. Redmer, CPA
Centennial Building
668 Cedar Street
St. Paul, MN 55155

Dear Ms. Redmer:

We have received and reviewed your audit of Rainy River Community College for the period of July 1, 1995, through June 30, 1997. Our response to the audit conclusions and recommendations are attached. I can assure your office that our responses will be implemented in a timely manner.

Thank you and your team for your professional efforts to help insure that Rainy River Community College is a fiscally responsible State of Minnesota institution.

Sincerely,

Allen Rasmussen
President

AR/tsw

Audit Response
October 16, 1997

Chapter 2. Financial Management

- Rainy River Community College should strengthen internal controls by adequately separating duties over local bank accounts.

    The college is in the process of hiring a full time account clerk to replace the half-time bookstore coordinator who has resigned. The hire date is anticipated to be mid November 1997. The new bookstore account clerk will be responsible for all bank reconciliations. The cashier account clerk will be responsible for all deposits and check printing.

    The director of fiscal services will be responsible for implementation.

- The college should consider consolidating checking accounts and utilizing MnSCU accounting to identify funds by program area.

    The college will combine all existing bank accounts into three accounts, one account for Perkins as per Federal regulations, and one account in each of the two banks in the International Falls area. This will be accomplished by January 1, 1998.

    The director of fiscal services will be responsible for implementation.

- The college should review and correct clearing account balances on a timely basis to ensure the integrity of the general ledger subsidiary accounts.

    Many clearing accounts will be eliminated with the consolidation of bank accounts and the change in the deposit procedure as outlined above. The remaining accounts will be reconciled monthly.

    The director of fiscal services will be responsible for implementation.

Chapter 3. Tuition and Fees

- The college should properly segregate duties in the tuition and fee revenue cycle.

    The collection of tuition and fees will continue to be processed by the cashiering account clerk. The reconciliation of the bank account and the state clearing account will be processed by the bookstore account clerk. This will be accomplished as quickly as training allows after the new clerk is hired. The director of fiscal services will reconcile tuition credits as processed by the registration office with actual tuition receipts as part of the quarterly budget process.

    The director of fiscal services will be responsible for implementation.

- The college should promptly deposit tuition receipts in the state treasury.

    The daily cash report is closed at the end of each day. Deposits are made the next day and brought to the bank for overnight deposit. Deposits are recorded at the bank the following day. This was not always happening during the scope of the audit as a new staff person was being trained causing some problems with timeliness. The routine has now been established and deposits are being made timely.

    The director of fiscal services was responsible for implementation.

- The college should restrictively endorse checks when received to reduce the risk of loss of receipts.

  The college is now restrictively endorsing checks when received.

  The director of fiscal services was responsible for implementation.

Chapter 4. Payroll, Supplies, and Equipment

- The college should work with the Northeast Service Unit to reconcile its payroll transactions.

  The college will work with the Northeast Service Unit and the MnSCU System Office to develop a procedure to reconcile its payroll transactions.

  The director of fiscal services will be responsible for implementation.

- The college should require that staff sign and date the packing slips or other receiving documentation and submit them to the business office.

  The college will develop a receiving system in the receiving area (the bookstore) to assure all packing slips are forwarded to the business office for matching to the invoices. This will be assigned to the new bookstore account clerk.

  The director of fiscal services will be responsible for implementation.

- The college should conduct a periodic physical inventory of its fixed assets to verify the accuracy of its inventory records.

  The college will conduct a complete physical inventory during fiscal year 1997-1998 and develop a plan for periodic physical inventories.

  The director of fiscal services will be responsible for implementation.

Chapter 5. Bookstore Operations

- The college should properly separate duties and perform independent reconciliations to ensure the accuracy and completeness of its bookstore financial operations.

  The bookstore cash drawer is now being closed out and counted on a daily basis. The cashier account clerk is responsible for making the deposits and posting to the MnSCU accounting system. When hired, the bookstore account clerk will perform bank reconciliations.

  The director of fiscal services will be responsible for implementation.

- The college should provide measures to ensure that bookstore inventory and goods are adequately safeguarded to deter loss of theft.

  The college receiving area is very space limited. An alternative storage area is being considered.

  The director of fiscal services will be responsible for implementation.

- The college should restrictively endorse checks when received.

  The college is now restrictively endorsing all checks when received.
  The director of fiscal services will be responsible for implementation.

- The college should deposit receipts promptly and make timely payments to vendors in compliance with legal requirements.

  The college is now making deposit receipts daily. The process for payment of vendor invoices will be reviewed with the bookstore account clerk who will process pay orders for all invoices and forward them to the cashier account clerk for payment.

  The director of fiscal services will be responsible for implementation.

- The college should properly accrue total operating costs for the bookstore and other enterprise funds to provide meaningful financial statements. The college should review profits, losses, and fund balance annually to determine if price markups would be reasonable.

  The college philosophy for auxiliary enterprises has always been to operate as a service to students. The bookstore receipts have always been sufficient to cover bookstore expenses and food service losses. Rent, depreciation, and utilities have not been considered as part of that analysis. RRCC will work with the MnSCU System Office to develop a standard procedure to calculate these costs.

  The director of fiscal services will be responsible for implementation.

Chapter 6. Federal Student Financial Aid

- Rainy River Community College should only request federal funds needed to meet immediate cash needs of the program in accordance with federal regulations.

  As the Arrowhead Region was being dissolved and the individual colleges were attempting to obtain their own individual EIN numbers with the Federal programs, there was concern whether funds would be available as needed. Sally Thompson, Director of the Northeast Service Unit, recommended a larger one-time drawdown of funds to assure availability. As RRCC is now responsible for its own drawdowns, daily reviews are taking place to assure timely drawdowns.

  The director of fiscal services will be responsible for implementation.

- The college should return the $51,000 advance to the auxiliary enterprise fund.

  There is normally a 3 to 5 day turnaround time from drawdown to actual receipt of funds. RRCC placed $51,000 of Auxiliary Enterprise funds in the federal bank account to prevent bank overdrafts caused by this time lag. This amount will be reduced to $20,000 by January 1, 1998 and to $0 as the bank accounts are combined. Daily reviews will keep the use of local funds to smaller and less frequent amounts.

  The director of fiscal services will be responsible for implementation.

- Rainy River Community College should reconcile its federal bank accounts and post amounts to MnSCU accounting system on a timely basis.

  The new full-time bookstore account clerk will reconcile and post amounts to the MnSCU accounting system. All accounts will be complete and current by March 1, 1998.

  The director of fiscal services will be responsible for implementation.

- Rainy River Community College should deposit receipts when they exceed $250 as required by state regulations.

  The college will deposit all receipts as required.

  The director of fiscal services will be responsible for implementation.

- Rainy River Community College should deposit future institutional contributions before or at the same time it receives the federal capital contributions.

  A prior finding regarding deposit of institutional contributions was due to lack of knowledge on the part of the newly appointed director of fiscal services. The proper contributions were deposited immediately upon being apprised of the need for these deposits. It was not understood that institutional contributions needed to be made before or at the same time as the receipt of federal capital contributions. That is now clear, and will be done properly.

  The director of fiscal services will be responsible for implementation.

- The college should review its future Perkins expected loan needs and collections and return excess cash in accordance with federal regulations.

  The college will review the regulations and determine the amount, if any, of excess funds and return as required.

  The director of fiscal services will be responsible for implementation.