

Rochester Community and Technical College

Financial Audit

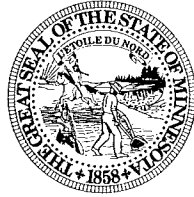
For the Two Fiscal Years Ended June 30, 1997

April 1998

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

98-28



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Mr. Donald Supalla, Interim President
Rochester Community and Technical College

We have audited Rochester Community and Technical College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included the following areas: general financial management, tuition and fees, bookstore operations, payroll expenditures, purchases and administrative expenditures. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal years 1997 and 1998. The following Summary highlights the audit objectives and conclusions. We discuss our audit objectives and conclusions 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 Rochester Community and Technical College complied with 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 complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Rochester Community and Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 24, 1998.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in cursive script, reading "Claudia J. Gudvangen".

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 13, 1998

Report Signed On: April 20, 1998

SUMMARY

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Rochester Community and Technical College

Financial Audit

For the Two Fiscal Years Ended June 30, 1997

Public Release Date: April 24, 1998

No. 98-28

Background

Rochester Community and Technical College is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Rochester Community College and the Rochester campus of Riverland Technical College in July 1996 to form one combined college. The college is currently headed by an interim president, Mr. Donald Supalla, who assumed this position on July 1, 1997.

The college finances its operations through state appropriations, student tuition, fees, and federal grants. It also receives funding from the Rochester Community and Technical College Foundation, a separate non-profit organization.

Our audit scope covered the period from July 1, 1995, through June 30, 1997. We audited general financial management controls, bookstore operations, tuition and fee revenue, purchases and administrative expenditures, and payroll. We also audited the administration of the federal student financial aid program for fiscal years 1997 and 1998. In addition, we reviewed the college's relationship with its foundation.

Conclusions

Rochester Community and Technical College operated within its available resources. Generally, the college properly recorded all of its state treasury and local account activity on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. However, we make recommendations for improved cash handling procedures and control over change funds. The college designed and implemented controls in the business office, bookstore, and financial aid office to ensure that assets were safeguarded, transactions authorized, and financial activity accurately reported in the accounting systems. However, the college did not reconcile food service commissions to total sales. The college did not fully implement all of the recommendations related to federal financial aid that we presented in prior audit reports. We also identified financial aid overpayments to some students.

Rochester Community and Technical College responded positively to the seven audit findings presented in the audit report. In addition, the college has already taken significant action towards resolving the findings.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Michael Hassing	Audit Director
Mike Byzewski	Auditor
Steve Johnson, CPA	Auditor
Scott Tjomsland, CPA	Auditor

Exit Conference

We discussed the findings and recommendations with the following staff of Rochester Community and Technical College at a preliminary exit conference held on January 30, 1998:

Don Supalla	Interim President
Gary Swenson	Director of Institutional Services
Ruth Seifert	Business Office Manager
Marilyn Martin	Bookstore Manager
Susanne Sheehan	Director of Human Resources/Payroll
Rosemary Hicks	Director of Financial Aid
Beth Diekmann	Financial Aid Office

We also discussed the findings and recommendations with the following staff from the college and MnSCU System Office at an exit conference held on April 13, 1998:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting
John Asmussen	Office of Internal Auditing
Judy Hunt	Office of Internal Auditing

Rochester Community and Technical College:

Don Supalla	Interim President
Gary Swenson	Director of Institutional Services

Rochester Community and Technical College

Chapter 1. Introduction

Rochester Community and Technical College (RCTC) is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Rochester Community College and the Rochester Campus of Riverland Technical College on July 1, 1996, to form Rochester Community and Technical College. The college is the largest component of the University Center Rochester. The University of Minnesota and Winona State University also offer classes at the University Center.

Dr. Karen Nagle, the president of Rochester Community College since August 1992, assumed responsibilities as the first president of the consolidated institution. Dr. Nagle resigned her position in June 1997. Mr. Donald Supalla was appointed interim president of the Rochester Community and Technical College in July 1997. The college had 3,008 full-time equivalent students enrolled in credit-based classes during fiscal year 1997.

Our audit scope included Rochester Community College and the Rochester Technical College component of the Riverland Technical College for fiscal year 1996 and the consolidated operation of the Rochester Community and Technical College for fiscal year 1997. In fiscal year 1996, Riverland Technical College administered technical college campuses in Austin, Faribault, and Rochester. The main administrative offices were located in Austin. The two Rochester colleges operated as independent entities in fiscal year 1996. Each college had a business office, a financial aid office, and a bookstore. The consolidated college now operates one business office and one financial aid office, but still maintains a bookstore at each location.

Rochester Community and Technical College is affiliated with the Rochester Community and Technical College Foundation, an autonomous, non-profit organization. Like the community college and technical college, the foundations of each respective institution were also combined. The foundation has its own board of directors, articles of incorporation, and by-laws. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds for other activities which benefit the educational mission of the college. The financial statements of the foundation are audited annually by a CPA firm. The foundation's last complete financial audit was for the fiscal year ended June 30, 1997.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for fiscal year 1997.

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Table 1-1
Rochester Community and Technical College
Sources and Uses of Funds
Fiscal Year 1997

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>
Beginning Fund Balance	\$ 1,505,993	(\$ 42,834)	<u>\$3,638,433</u>
State Appropriation	<u>12,263,084</u>		
College Revenues:			
Tuition and Fees	\$ 6,776,676	\$ 361,683	
Federal Grants		2,982,154	
Bookstore			\$1,879,385
Other	<u>1,706,126</u>	<u>226,763</u>	<u>721,231</u>
Subtotal Revenues	<u>\$ 8,482,802</u>	<u>\$3,570,600</u>	<u>\$2,600,616</u>
Total Resources	<u>\$22,251,879</u>	<u>\$3,527,766</u>	<u>\$6,239,049</u>
Expenditures/Expenses:			
Employee Payroll	\$14,434,150	\$ 772,604	\$ 167,908
Financial Aid		1,883,636	6,012
Administrative Expenses	2,508,973	267,782	345,517
Bookstore - Cost of Goods Sold			1,474,295
Supplies/Materials	1,216,544	95,606	196,784
Other	<u>1,516,506</u>	<u>435,169</u>	<u>193,545</u>
Total Expenditures	<u>\$19,676,173</u>	<u>\$3,454,797</u>	<u>\$2,384,061</u>
Ending Fund Balance	<u>\$ 2,575,706</u>	<u>\$ 72,969</u>	<u>\$3,854,988</u>

Note: The General and Special Revenue Funds are presented on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1997, compensated absence liability is estimated to be \$1.38 million. The Enterprise Funds are presented on the accrual basis of accounting.

Source: MnSCU Accounting System, General Ledger Accounting Report as of December 16, 1997, RCTC Bookstore Analysis, and RCTC prepared financial analysis.

Chapter 2. Financial Management

Chapter Conclusions

Rochester Community and Technical College operated within its available resources. Generally, the college properly recorded all of its state treasury and local account activity on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. In addition, the college maintained an appropriate relationship with its foundation. We found, however, that the college subjected itself to unnecessary security and safety risks in handling and transporting certain cash transactions. In addition, the college needs to improve its control over change funds maintained in its various departments.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Rochester Community and Technical College and all universities and colleges based on an allocation formula. As shown in Table 1-1, MnSCU allocated approximately \$12.3 million to the college for fiscal year 1997. In addition, Rochester Community and Technical College, like other colleges and universities, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

On July 1, 1995, MnSCU implemented a new computerized accounting system, MnSCU accounting, and a new personnel and payroll system, the State Colleges and Universities Personnel/Payroll System (SCUPPS). MnSCU uses these new business systems to manage its financial operations. MnSCU requires each college and university to record all its financial activities on MnSCU accounting.

The state of Minnesota also implemented a new computerized accounting system and a new personnel/payroll system in 1995. The state's accounting system (MAPS) records financial activities for all state agencies. MnSCU institutions use MnSCU accounting to initiate transactions for funds in the state treasury. These MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS also generates warrants for state treasury expenditures.

MnSCU campuses also administer funds in local bank accounts separate from the state treasury. The college maintained three checking accounts to account for local activity: general operations, federal financial aid, and tuition refunds.

We observed that both prior to and after the consolidation, the community college and the technical college utilized the MnSCU accounting system to record financial activities. The

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college combined all financial activity under a consolidated entity code within MnSCU accounting beginning in July 1996. The MnSCU system office has been reconciling MnSCU accounting with MAPS for the college. The college will eventually become responsible for this reconciliation.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's overall financial management focused on the following questions:

- Did Rochester Community and Technical College operate within its available resources?
- Did Rochester Community and Technical College properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Rochester Community and Technical College properly account for and control its local bank accounts?
- Did Rochester Community and Technical College have an appropriate relationship with related organizations?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system as it pertained to each of 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 Rochester Community and Technical College properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we reviewed the college's budgetary process with the current college administrators. We also reviewed the relationship of the college to its related foundation.

Conclusions

Rochester Community and Technical College operated within its available resources. Generally, the college properly recorded all of its state treasury and local account activity on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. In addition, the college maintained an appropriate relationship with its foundation. We found, however, that the college subjected itself to unnecessary security and safety risks in handling and transporting cash collected at the Heintz Center. In addition, the college needs to improve its control over change funds maintained in its various departments. These issues are discussed further in Findings 1 and 2, respectively.

Rochester Community and Technical College

1. Rochester Community and Technical College did not adequately reduce the security and safety risks associated with certain cash receipts of the college.

The college collects continuing education non-credit tuition and other miscellaneous receipts at the Heintz Center building on the technical college campus. The Heintz Center is physically located a distance from the business office of the consolidated college. During the audit period, a student worker transported the receipts in a locked bag from the Heintz Center to the business office. The college did not extend its courier service to pick up receipts at the Heintz Center. As a result, the college subjected itself to unnecessary security and safety risks during the transportation of these receipts to the business office.

The use of student workers or college employees to transport cash receipts is an inappropriate security and safety risk that the college should avoid taking. The college can remedy the situation by requiring that all receipts be collected at the business office or by extending its armored car service to transport cash receipts from the Heintz Center to the business office.

Recommendation

- *The college should discontinue having student workers and staff transport cash receipts between college locations. Instead, the college should either extend its courier service or have all receipts remitted directly to the business office.*

2. The business office does not monitor and control change funds kept by various departments.

The college has not established appropriate policies or procedures governing the use of change funds controlled by various departments. A number of departments at the college request cash from the business office to provide a change fund during events. We found that the departments maintain the change funds in cash boxes and unsecured offices. In addition, an employee responsible for a change fund drafted personal checks for cash from funds under her control, but did not deposit the checks timely. The business office has not monitored the distribution and settlement of change funds. The college should reduce the risk of theft or misuse of college funds, and ensure the accountability of all change funds.

The business office should develop the proper procedures for departments to obtain, use, and maintain change funds. On an annual basis, the college should ensure that all change funds are returned to the business office and properly recorded to the original account that provided the source of the funds.

Recommendation

- *The college should develop a standard policy on the proper use and security of change funds. The college should ensure that all change funds are properly recorded in the accounting system.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and management's authorization.

During fiscal year 1996, Rochester Community College and Rochester campus of Riverland Technical College each collected, deposited, and recorded its own tuition revenue. The community college collected tuition at a resident rate of \$42.25 per credit hour plus fees. The non-resident rate was \$84.50 plus fees. The technical college charged \$40.00 per credit hour. Table 3-1 summarizes each college's tuition revenue for fiscal year 1996.

**Table 3-1
Tuition Revenue
Fiscal Year 1996**

<u>Description</u>	<u>RCC</u>	<u>RTC-Roch</u>	<u>Total</u>
Tuition	\$ 4,913,023	\$ 1,564,240	\$ 6,477,263
Non-Credit/Senior Citizen	125,891	169,037	294,928
Fees (1)	<u>318,479</u>	<u>210,944</u>	<u>529,423</u>
Total Tuition	<u>\$ 5,357,393</u>	<u>\$ 1,944,221</u>	<u>\$ 7,301,614</u>

(1) Fees include course fees, technology fees, student fees, and other fees.

Source: Auditor prepared from MnSCU Accounting System.

At the beginning of fiscal year 1997, the RCTC began operating with a single registration and billing system. The college used the Collegiate Information System (CIS) for registration, fee assessment, and accounts receivable functions. For fiscal year 1997, RCTC decreased the resident tuition rate to \$41.60 with an additional \$3.20 per credit for technology and course fees. The non-resident tuition rate was \$83.20 plus fees. Table 3-2 summarizes the RCTC's tuition for fiscal year 1997.

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Table 3-2
RCTC Tuition Revenue
Fiscal Year 1997

Description:	
Tuition	\$6,025,012
Non-Credit/Senior Citizen	98,283
Fees (1)	<u>1,005,400</u>
Total	<u>\$7,128,695</u>

(1) Fees include course fees, technology fees, student fees, and other fees.

Source: Auditor prepared from MnSCU Accounting System.

Audit Objective and Methodology

Our review of RCTC's tuition and fee revenues focused on the following question:

- Did Rochester Community and Technical College design and implement internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and management's authorization?

To answer this question, we interviewed college staff to gain an understanding of the controls over billing, collecting, depositing, and recording tuition and fee revenues. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on the MnSCU accounting system. In addition, we compared tuition and fees revenue recorded in the MnSCU accounting system to the credits awarded on the Collegiate Information System (CIS) for reasonableness.

Conclusion

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and management's authorization.

Chapter 4. Bookstore and Other Auxiliary Operations

Chapter Conclusions

Rochester Community and Technical College (RCTC) designed and implemented internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately recorded in the accounting records. The bookstore expenditures were reasonable, properly authorized, and accurately recorded in the accounting records. The college adequately safeguarded and accurately recorded bookstore inventory in the accounting records. However, the college did not perform periodic reconciliations of its food service commission income to total sales.

The Rochester Community and Technical College (RCTC) currently operates two bookstores under one administrative structure. The bookstores sell books, school supplies, clothing, and other items. The RCTC bookstore adopted the operating procedures of the former Rochester Community College bookstore. The college accounts for bookstore operations in an enterprise fund. For fiscal year 1997, the bookstore recorded sales of \$1,879,385 and expenses of \$1,701,982 in MnSCU accounting.

The bookstore rings all sales transactions through a cash register. At the end of the day, the college's cash reconciliation process includes counting cash, reconciling receipts to register-generated sales control totals, and preparing the daily cash report and deposit. The bookstore personnel secure receipts in a locked safe until the next day when a courier takes the deposit to the bank. The bookstore manager is responsible for posting receipts to the MnSCU accounting system. The business office reconciles deposits to the bank account.

The bookstore purchasing/inventory manager is responsible for determining the necessary inventory of books and supplies to meet the needs of faculty and students. The bookstore purchasing manager authorizes purchase requisitions and processes them directly. The business office prepares the checks for payment of bookstore invoices. The bookstore manager enters financial information into the MnSCU accounting system.

The bookstore staff conduct an annual physical inventory at the close of each fiscal year. Bookstore expenses do not include charges for costs such as rent, utilities, and other indirect costs. The bookstore maintained a manual set of detailed records for inventory, invoices, and outstanding credit memorandums. The college used these manual records for control purposes. However, the college may want to consider a more efficient point of sale system that would record and monitor sales, disbursements, receivable and payable transactions, credit memorandums, and perpetual inventory records.

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The college prepared a plan for fiscal year 1998 for the use of profits from all auxiliary enterprise activities, including the bookstore, to fund various projects. For fiscal year 1998, the calculated balance of the college's auxiliary enterprise account available for selected projects was \$694,606.

Audit Objectives and Methodology

Our review of the Rochester Community and Technical College's bookstore operations focused on the following questions:

- Did Rochester Community and Technical College design and implement internal controls to provide reasonable assurance that bookstore and other auxiliary enterprise revenues were complete, promptly deposited, and accurately reported in the accounting records?
- Did Rochester Community and Technical College design and implement internal controls to provide reasonable assurance that bookstore expenses were reasonable, properly authorized, and accurately reported in the accounting records?
- Did Rochester Community and Technical College design and implement internal controls to provide reasonable assurance that bookstore inventory was adequately safeguarded and accurately reported in the accounting records?

To answer these questions, we interviewed bookstore staff to gain an understanding of the controls in place over the bookstore revenues and expenditures. We also performed analytical reviews and tested samples of transactions to determine if the college had adequate supporting documentation and accurately recorded financial activity on the MnSCU accounting system. Finally, we reviewed the process for verifying food service commission payments.

Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately reported in the accounting records. Also, bookstore expenses were reasonable, properly authorized, and accurately reported in the accounting records. Bookstore inventory was adequately safeguarded and accurately reported in the accounting records. However, as explained in Finding 3, the college did not perform periodic reconciliations of its food service commission income to total sales.

3. Rochester Community and Technical College did not perform periodic reconciliations of the reported food service commission income to total sales.

The college did not verify the amount of food service commission received to the contracted percentage of total sales. In addition, the food service vendor has not been submitting monthly food service operating statements with the commission checks as provided in the contract. The college did not ensure that it received a payment each month. The December 1996 commission check of \$3,278 was never deposited. After we questioned whether the payment had been received, the business office contacted the vendor who agreed to reissue the check which had not cleared its bank account. Also, the business office was not consistent in recording revenues to

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the appropriate object code in MnSCU accounting. During the audit period, three different object codes were used to record food service commission revenue. This makes program monitoring and reconciling through the system difficult.

The college provided campus food service to its students through a contract with a vendor. The contract provided for a commission of 11 percent of gross sales, and 15 percent of gross catered sales. The food service vendor sent a monthly commission check to the business office. The college deposited food service commission revenues of \$30,544 for fiscal year 1997.

The college should verify that the correct amount of commission revenue is received in accordance with the terms of the food service contract. The business office needs to obtain the monthly operating statement from the vendor as provided for in the contract. This is necessary in order to monitor compliance with the contract.

Recommendation

- *The college should verify that monthly food service commission checks are received and calculated correctly, based on the monthly operating statements supplied by the vendor and the appropriate commission percentage. The college should consistently record food service commission revenue in MnSCU accounting.*

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Chapter 5. Payroll

Chapter Conclusions

Rochester Community and Technical College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Rochester Community and Technical College paid approximately 400 employees a total of \$15,374,662 during fiscal year 1997. Payroll is the largest expenditure of the college, averaging nearly \$600,000 every two weeks. The college utilizes the following compensation plans for its employees: American Federation State County Municipal Employees, Middle Management Association, Minnesota Association of Professional Employees, Excluded Administrators Plan, United Technical College Educators Plan, and Minnesota Community College Faculty Association.

The college has a joint payroll and personnel department responsible for maintaining employee and payroll information in two different computer systems. The college monitors employee appointment information, personnel files, and pay rates in the State College and University Personnel Payroll System (SCUPPS). It is also responsible for recording the hours worked and employee leave records in the State Employee Management System (SEMA4) every two weeks. The college converted to SEMA4 from the old Personnel Payroll System (PPS) in August 1995.

Audit Objectives and Methodology

Our review of the Rochester Community and Technical College's payroll focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and applicable bargaining unit agreements?

To answer these questions, we made inquiries of college staff to gain an understanding of the internal control structure and accounting processes for payroll and personnel transactions. We performed analytical procedures on the total population of payroll financial activity during the audit period. We also tested a sample of payroll expenditures to ensure the college processed

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authorized transactions, properly recorded the transactions in the appropriate accounting systems, and complied with the provisions of the applicable bargaining agreements.

Conclusions

Rochester Community and Technical College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Chapter 6. Purchasing and Administrative Expenditures

Chapter Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions.

The purchasing department processes all orders for supplies, materials, equipment, and services for the college. There is a purchasing agent at both the community college and the technical college sites. The purchasing department requires an approved purchase requisition form to order supplies and equipment. The department is responsible for verifying that sufficient funds are available in the appropriate cost center. If funds are available, a vendor is selected according to MnSCU guidelines and a purchase order is completed. The purchasing department matches invoices and receiving reports to the purchase order and processes the payments.

Table 6-1 provides a summary of fiscal year 1997 non-payroll administrative expenditures.

Table 6-1
Non-Payroll Expenditures (1)
Fiscal Year 1997

<u>Description</u>	
Administrative Expenses	\$3,386,077
Supplies	1,669,265
Equipment	814,345
Other	<u>309,941</u>
Total	<u>\$6,179,628</u>

Note (1): This schedule excludes bookstore activity, payroll, and financial aid as recorded on MnSCU Trial Balance dated January 24, 1998.

Source: Auditor prepared from the MnSCU Accounting System.

Audit Objectives and Methodology

Our review of the Rochester Community and Technical College's purchasing and administrative expenditures focused on the following questions:

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- Did the college design and implement internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately reported in the accounting records?
- Did the college's purchasing and expenditure process comply with material finance-related legal provisions?

To answer these questions, we made inquiries of college staff to gain an understanding of the current purchasing and disbursement process. We performed analytical reviews and tested a sample of purchasing transactions.

Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions.

Chapter 7. Student Financial Aid

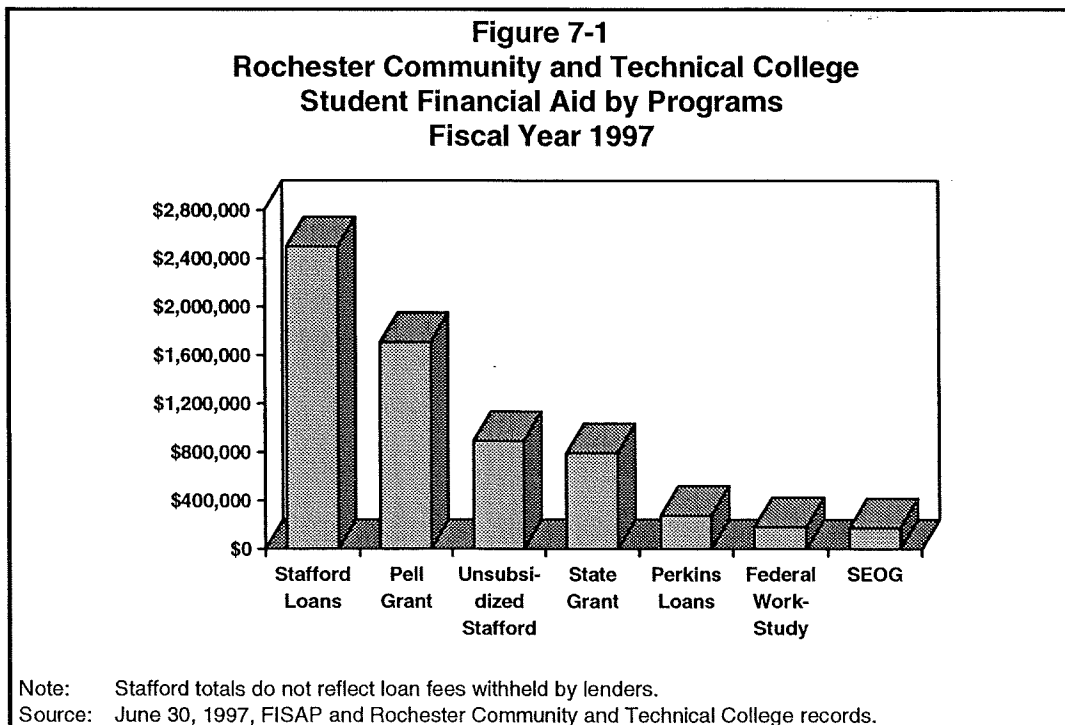
Chapter Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that fiscal year 1997 and 1998 federal and state financial aid transactions were authorized and properly recorded. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, the college did not resolve past financial aid issues in a timely manner. We also noted some small overpayments and areas where the college could improve controls.

Rochester Community and Technical College participates in the following federal student financial aid programs administered by the U.S. Department of Education:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (includes Stafford subsidized and unsubsidized loans) (CFDA #84.032)
- Federal Work Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- Federal Perkins Loan Program (CFDA #84.038)

In addition, the college administered the Minnesota State Grant Program. We reviewed each of these programs. Figure 7-1 shows financial aid expenditures by program for fiscal year 1997.



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Students generally receive the federal Pell Grant as the first source of assistance. Since the federal government did not limit Pell Grant awards to the college, all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 1997-98 award year equaled \$2,700.

Under the FFEL Program, private lenders provide the loan principal to eligible students, and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

Under the FWS Program, students work at on or off campus jobs. The college pays these students an hourly wage for their hours worked. Students may earn a total amount not to exceed their FWS award.

The college awards Supplemental Education Opportunity Grants to students with exceptional financial need. For SEOG, the college defines exceptional need as students with an Expected Family Contribution of \$0.

The college awards Federal Perkins Loans to students who demonstrate exceptional financial need. For Perkins Loans, the college defines exceptional need as students with an Expected Family Contribution (EFC) between \$0 and \$500. The student's repayments begin nine months after the student ceases to be enrolled as at least a half-time student and interest at five percent begins to accrue at that time.

The college awards state grants to Minnesota residents who demonstrate a financial need. The college requires students to provide proof of state grant eligibility, such as a copy of a high school diploma, before grants are disbursed. The students enrollment status at the time of financial aid disbursement determines the amount of the state grant disbursed.

The former Rochester Community College (RCC) financial aid office became the financial aid office for the entire college following the consolidation of the community and technical college. The new financial aid office followed the procedures and systems of the former community college office. The only significant changes occurred with the position of financial aid director. After having its financial aid director of approximately 25 years retire in June 1995, RCC hired a new director in July 1995. That director filled the position until October 1996. The next director held the position from January 1997 until August 1997. In August 1997, the current director assumed the position.

Audit Objectives and Methodology

Our review of Rochester Community and Technical College's student financial aid programs focused on the following questions:

Rochester Community and Technical College

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

To address these questions, we evaluated and tested controls over compliance for determining student eligibility, awarding, packaging, and disbursing federal financial aid. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

Conclusions

Rochester Community and Technical College designed and implemented internal controls to provide reasonable assurance that fiscal years 1997 and 1998 federal and state financial aid transactions were authorized and properly recorded. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, the college did not resolve past financial aid issues in a timely manner. We also noted some small overpayments and areas where the college could improve internal controls. These issues are discussed in Findings 4 through 7.

4. The college did not resolve financial aid issues in a timely manner.

On January 22, 1998, Rochester Community and Technical College received a Final Audit Determination Letter (ACN 05-94-58041) from the U. S. Department of Education for the period July 1, 1992, through June 30, 1994, for the State Community College System. The letter directed Rochester Community and Technical College to repay \$7,798 in federal SEOG funds to the U.S. Department of Education based on our fiscal year 1993 audit report (94-29) issued in June 1994. At that time, our recommendation to Rochester Community College was to repay \$7,798 to the U. S. Department of Education.

After receiving the Final Audit Determination Letter and reviewing its records, Rochester Community and Technical College believed it only owed \$3,661, because it had reimbursed the SEOG account for a portion of the amount questioned. On March 3, 1998, at the college's request, we reviewed the support they provided. The documentation reviewed supports the conclusion that the overaward was partially satisfied by the transfer of \$4,137 in college administrative funds into the SEOG account. The Rochester Community and Technical College is not contesting the \$3,661 balance to be returned to the U. S. Department of Education.

In addition to the above, the financial aid issues identified in this year's audit report and those identified in our prior reports, as summarized in the Status of Prior Audit Issues, need to be addressed by the college in a more timely manner.

A contributing factor to the college's lack of action on these prior audit issues may be the significant turnover in the financial aid director position in the last few years. There have been

Rochester Community and Technical College

four financial aid directors since June 1995. The current director assumed that position in August 1997.

Recommendations

- *Rochester Community and Technical College should repay \$3,661 to the U.S. Department of Education for the federal SEOG overaward.*
- *Rochester Community and Technical College should establish a formal process for resolving federal financial aid audit issues in a timely manner. In addition, supporting documentation showing the resolution of the issues should be maintained for future reference.*

5. The college exceeded loan and grant limitations in awards to two students.

The college provided one student with a Federal Unsubsidized Stafford loan for the 1996-97 school year that exceeded the student's award limit. The student received \$7,696 in aid from all programs for the year, while the student's cost of attendance for the year was \$7,581. The college may award Federal Unsubsidized Stafford loans to students up to the amount of their cost of attendance, less all other expected financial assistance from other aid programs. This college awarded \$4,490 in other aid, making the student eligible for a Federal Unsubsidized Stafford loan of \$3,091. However, the college provided the student with a Federal Unsubsidized Stafford loan of \$3,206. Therefore, the college overpaid the student \$115.

The college provided another student a Pell Grant for the 1997-98 school year that exceeded the grant limit by \$225. The college disbursed a Pell grant for fall quarter in the amount of \$450, which is the correct amount for a half-time student. However, as of the financial aid disbursement date, the student's enrollment status was less than half-time. The student enrolled in a program that required 10 credits for the quarter; five for classes taken the first half of the quarter and five for classes taken the second half of the quarter. The program required students to successfully complete the first half classes to continue the second half. This student did not successfully pass the first half classes.

At that point, the college should have dropped the five second half credits for the student. Instead, the college dropped only four credits. The college also did not provide the student with any refund for the dropped credits. When the college disbursed the Pell Grant, the student was still registered for six credits, so the college disbursed the amount appropriate for a half-time student. After the quarter ended, the student protested the F grade received for the one second half credit the college did not drop. Upon review, the admissions office changed the grade from an F to a withdrawal. As a result, as of the aid disbursement date, the student was less than half-time and thus, eligible for a Pell Grant of only \$225.

When the admissions office changed the student's records, it should have contacted the financial aid and business offices to determine if the change affected the student's financial aid and tuition bill. If it had, those offices would have determined that the five second half credits should have been fully refunded, because the drops were initiated by the college. In processing the refund, the college would have captured \$225 of the refund and repaid the Pell Grant account.

Rochester Community and Technical College

Recommendations

- *The college should work with the U.S. Department of Education to remedy the \$115 Federal Unsubsidized Stafford Loan overpayment.*
- *The college should initiate a refund for the five second half credits, capture the \$225 overpayment, and pay back the Pell Grant account.*

6. The college used an incorrect cost of attendance budget to award financial aid to non-resident students.

The college incorrectly input the non-resident cost of attendance budget into its financial aid system for both the 1996-97 and 1997-98 school years. The college input non-resident attendance budgets \$249 higher than the official budgets it established. The tuition cost for non-resident students is double the tuition cost for resident students, but all other costs are the same, including \$249 for fees. When the college inputs cost of attendance budgets into the SAFE system, tuition and fee amounts are combined on a single line. The system then automatically doubled the tuition and fees for non-resident cost of attendance budgets. As a result, the non-resident cost of attendance budget in SAFE was overstated by \$249. The college used the system recorded cost of attendance to award financial aid to students. The college could have potentially overpaid non-resident students by as much as \$249.

Recommendations

- *Rochester Community and Technical College should use the correct cost of attendance budget to award financial aid to non-resident students.*
- *The college should review financial aid awards to non-resident students for the 1996-97 and 1997-98 school years to determine if it overawarded any aid. The college should take corrective action on any errors identified.*

7. The college did not adequately separate cash management duties.

The business office supervisor submitted requests for federal funds, recorded the federal receipts in MnSCU accounting, and reconciled the financial aid bank account to MnSCU accounting. In addition, this individual can write checks out of the financial aid account. Ideally, the bank reconciliation should be performed by a person independent of the process of requesting and recording federal funds. Without properly separating these duties, accounting records could be manipulated without detection.

During our testing, we reviewed accounting records and bank reconciliations and found no discrepancies or evidence of improper manipulation of records. However, the college should separate these duties to minimize the risk.

Recommendation

- *The college should improve internal control by separating the duties of requesting and recording federal funds from the duty of reconciling the bank statements.*

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Status of Prior Audit Issues

As of February 20, 1998

Most Recent Audits

Legislative Audit Report 97-29, issued in June 1997, covered the material federal financial aid programs administered by the state of Minnesota in fiscal year 1996. We audit the federal financial aid programs on an annual basis, as part of the Single Audit of the state's federal expenditures. This report included two findings (#3 and #5) related to federal financial aid programs administered by the Rochester Community College (RCC). The college did not resolve either finding. Finding 3 of the report showed that the college overpaid one student \$437 in federal work-study. The RCTC has no documentation of contact with the U.S. Department of Education, or any other action regarding the overpayment. Finding 5 showed that the college made questionable adjustments to a student's cost of attendance budget. The RCTC has no documentation of contact with the U.S. Department of Education, or any other action regarding the questionable payment. See our current Finding 4.

Other Audit History

Legislative Audit Report 96-24, issued in June 1996, covered fiscal year 1995 federal financial aid programs administered by the state of Minnesota. This report included two findings (#41 and #42) related to federal financial aid programs administered by the Rochester Community College (RCC). Finding 41 of the report was not implemented. It indicated that the RCC provided Stafford loans that exceeded the annual loan limits paid to three students. The RCTC has no documentation of contact with the U.S. Department of Education, or any other action regarding the overpayment. Finding 42 of the report was resolved. See our current Finding 4.

Legislative Audit Report 95-26, issued in June 1995, covered federal financial aid for fiscal year 1994 and contained no findings for Rochester Community College.

Legislative Audit Report 94-29, issued in June 1994, covered federal financial aid for fiscal year 1993, and contained several findings. See our current Finding 4.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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April 16, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Rochester Community and Technical College for the period from July 1, 1995, through June 30, 1997. Rochester Community and Technical College's formal written response to the seven audit findings is attached.

I want to thank Thomas Donahue, audit manager; Michael Hassing, auditor-in-charge; and the entire audit team for their professionalism, thoroughness, advice, and willingness to work with campus staff to resolve outstanding findings during and following the audit.

It is important to note that two significant events occurred during the audit period. During the first half of the audit period, also the first year of the merged Minnesota State Colleges and Universities, two separate colleges were operating....Rochester Community College and Minnesota Riverland Technical College--Rochester Campus. The second half of the audit period followed the July 1, 1996, consolidation of the two colleges which formed Rochester Community and Technical College.

We are pleased with the audit report, view it as one component of our continuous improvement process, and have made significant progress resolving the findings. Please contact me if you have questions regarding the attached response.

Sincerely,

A handwritten signature in black ink, appearing to read 'Don Supalla'. The signature is written in a cursive style with a large, sweeping 'D' and 'S'.

Don Supalla
Interim President

Attachment

**Rochester Community and Technical College
Legislative Audit Report for FY 1996-1997
Audit Finding Response**

Finding #1. Rochester Community and Technical College did not adequately reduce the security and safety risks associated with certain cash receipts of the college.

The college has now contracted with an armored car service to transport cash between Heintz Center and the main University Center Rochester campus on a daily basis.

Responsible Person - Ruth Siefert, Business Office Supervisor

Effective Date - April 20, 1998

Finding #2. The business office does not monitor and control change funds kept by various departments.

College procedures have been established that require staff to deposit funds as soon as possible after the event. Change funds will be kept at a minimum and returned to the Business Office at the end of each academic year for deposit and recording in the accounting system.

The college has two student life programs that handle change funds on a regular basis: 1) the theatre/music department for performances; and 2) the athletic department for athletic events and the varsity concessions. In both cases change funds are drawn from their cost center accounts and receipts are deposited on a daily basis.

Responsible Person - Ruth Siefert, Business Office Supervisor

Effective Date - April 15, 1998

Finding #3. Rochester Community and Technical College did not perform periodic reconciliation's of the reported food service commission income to total sales.

The vendor has been instructed to send the commission check along with a monthly operating statement directly to the Director of Institutional Services. The Director will verify receipt of vendor supplied monthly operating statements and accuracy of the commission checks. The Director will also indicate the cost center and object code on the receipt statement and forward them to the business office for immediate deposit.

Responsible Person - Gary Swenson, Director of Institutional Services

Effective Date - April 15, 1998

Finding # 4. The college did not resolve financial issues in a timely manner.

The college has repaid the US Department of Education the \$3,661 for the federal SEOG over award. The college will have the Director of Institutional Services maintain a complete file of all financial audits and audit responses. The Director will establish a tracking process to assure all audit information is consolidated in one office and responses are handled in a timely manner.

Responsible Person - Gary Swenson, Director of Institutional Services

Effective Date - April 15, 1998

Finding #5. The college exceeded loan and grant limitations in awards to two students.

The college will refund the \$115 over award to the student's lender by April 17th.

Of the \$241.50 originally to be refunded, the college has reimbursed the Pell Grant account \$225 and refunded the student \$16.50 for credits dropped. The refund was processed on April 10, 1998.

Responsible Person - Rosemary Hicks, Director of Financial Aid

Effective Date - April 17, 1998

Finding #6. The college used an incorrect cost of attendance budget to award financial aid to non-resident students.

The college will correct the cost of attendance budget for non-resident students and will review the non-resident students' awarded funds in the 1996-97 and 1997-98 academic years to determine if other students were effected by this miscalculation in the non-resident budget. For the 1997-98 academic year, 1629 students were reviewed, of which 46 students had out-state budgets. The correct budgets were applied to these student files, and of those 46, three students showed an over award, of which two had adjustments made to their spring disbursements, and one will result in a fund of \$116 due to his lack of enrollment spring quarter. The Director of Financial Aid is reviewing the non-resident student budgets for 1996-97 academic year and will make any necessary corrections.

Responsible Person - Rosemary Hicks, Director of Financial Aid

Effective Date - April 15, 1998 (work to be completed by the end of April, 1998)

Finding #7. The college did not adequately separate cash management duties.

The college will improve internal control by having the Director of Institutional Services review the bank reconciliation statement for the federal funds on a monthly basis. This person is independent of the process of requesting and recording federal funds.

Responsible Person - Gary Swenson, Director of Institutional Services

Effective Date - April 15, 1998