

Ridgewater Community & Technical College Financial Audit

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

October 1998

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

98-60



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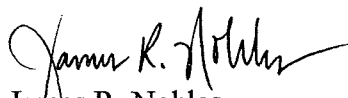
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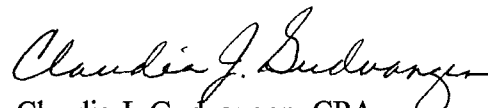
Ms. Colleen Thompson, Interim President
Ridgewater Community & Technical College

We have audited Ridgewater Community & Technical College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, operating expenditures, federal grants, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998. 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. These 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 Ridgewater Community & Technical College complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of Ridgewater Community & Technical 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 Ridgewater Community & Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 23, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 9, 1998

Report Signed On: October 19, 1998

SUMMARY

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Ridgewater Community & Technical College

Financial Audit

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

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No. 98-60

Background

Ridgewater Community & Technical College was created on July 1, 1996, when the Hutchinson-Willmar Regional Technical College merged with the Willmar Community College. The individual colleges merged with other state universities, community colleges, and technical colleges on July 1, 1995, to form the Minnesota State Colleges and Universities System (MnSCU). Dr. Mary Retterer was college president from July 1996 through August 1998. The MnSCU Board of Trustees appointed Ms. Colleen Thompson as interim president of Ridgewater Community & Technical College effective August 1998.

Our audit scope included a review of college financial management, tuition and fees, payroll, operating expenditures, federal grants, and bookstore operations for the period July 1, 1995, through June 30, 1997. We also audited the administration of the federal student financial aid program for fiscal year 1998.

Conclusions

Our audit found that Ridgewater Community & Technical College operated within its available resources and had an effective process to monitor revenue and expenditure budgets. However, certain financial activities were not recorded accurately or timely, bank account differences were not resolved, childcare center losses were incurred, and security access to its computerized accounting and payroll systems required improvement.

Several findings were identified concerning tuition, fees, bookstore, and other revenues. Findings relating to safeguarding and depositing controls over tuition and bookstore cash collections are presented. In addition, the college did not prepare complete financial statements to effectively monitor bookstore activities.

The college designed and implemented controls to provide reasonable assurance over the accuracy and proper recording of payroll, administrative, and financial aid expenditures. However, the college needs to reconcile its financial aid and student receivable system, resolve differences in Perkins loan balances, and coordinate foundation scholarships. We also noted that controls over safeguarding and recording equipment and verification of payroll hours required improvement.

In its response to the report, Ridgewater Community & Technical College agreed with the audit findings and suggested recommendations. The college is pursuing or has initiated corrective action to resolve all 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
Brad White, CPA, CISA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Rhonda Regnier, CPA	Team Leader
Charlie Gill	Senior Auditor
Rick Weinmeyer	Senior Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Ridgewater Community & Technical College and the System Office at the exit conference held on October 9, 1998:

System Office:

Laura King	Vice Chancellor – Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
John Asmussen	Executive Director, Internal Audit
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Ridgewater Community & Technical College:

Colleen Thompson	President
Gary Myhre	Director of Business Services
Terry Swenson	Accounting Director

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Chapter 1. Introduction

On July 1, 1996, the Hutchinson-Willmar Regional Technical College merged with the Willmar Community College to form the Ridgewater Community & Technical College. A Master Academic Plan developed in February 1995 was the basis for the merger. This plan provided direction for the development of a single two-year college with comprehensive campuses at both Willmar and Hutchinson. A 32 member Joint Cooperative Task Force, including 16 members from each of the two colleges, prepared the Master Academic Plan. The college mission is to provide quality learning opportunities for students in accessible, affordable, and supportive settings. Dr. Mary Retterer was college president from July 1, 1996, through August 1998. The MnSCU Board of Trustees appointed Ms. Colleen Thompson as interim president of Ridgewater Community & Technical College effective August 1998.

The college offers transfer education and technical college programs at its two campuses. The college also has several customized and continuing education programs. Ridgewater Community & Technical College has 162 full-time faculty. Table 1-1 shows student attendance at Ridgewater Community & Technical College for fiscal years 1996 and 1997.

Table 1-1
Ridgewater Community & Technical College
Full-Year Equivalent (FYE) Student Counts

Campus	Fiscal Year	Fiscal Year
	1997	1996
Hutchinson Technical College	728	598
Willmar Technical College	1,417	1,386
Willmar Community College	869	1,016
Total FYE	<u>3,014</u>	<u>3,000</u>

Note: In fiscal year 1996, the Hutchinson transfer students were included in the Willmar Community College counts.
Source: Prepared by Ridgewater Community & Technical College from the CIS Data Warehouse.

The distance between college campuses at Willmar and Hutchinson affects the college's cost of operations. The main administrative offices for the college are housed in Willmar. College administration has felt the need to provide oversight and presence at both campuses. Several administrative staff and faculty travel between Willmar and Hutchinson on a routine basis, often several times per week.

The financial activity for fiscal year 1997 for Ridgewater Community & Technical College is shown in Table 1-2. State appropriations and tuition and fees support the General Fund activity. The Special Revenue Fund includes childcare, federal student financial aid, and other federal grants. The Enterprise Fund includes financial activities from the bookstore operations and parking.

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Table 1-2
Ridgewater Community & Technical College
Fiscal Year 1997 Financial Activity

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund (Note 2)</u>	<u>Enterprise Fund (Note 3)</u>
Beginning Balance	\$ 1,709,697	\$ (7,439)	\$1,345,177
Revenue:			
State Appropriation	14,397,608	0	0
Tuition and Fees	6,565,596	0	0
Bookstore Receipts	0	0	1,266,783
Student Financial Aid	0	2,335,846	3,255
Federal Grants	0	1,128,609	0
Parking Permits and Fines	0	0	110,396
Childcare Fees	0	79,006	0
Other	845,687	46,819	35,091
Total Revenue	<u>\$21,808,891</u>	<u>\$3,590,280</u>	<u>\$1,415,525</u>
Expenditures:			
Salaries and Fringe	\$15,188,473	\$ 430,364	\$ 131,164
Purchased Services	2,856,737	487,285	128,231
Supplies	1,393,648	63,572	20,977
Equipment	1,136,306	137,694	32,864
Bookstore Purchases	0	0	995,110
Student Financial Aid	0	2,362,387	0
Other	780,314	89,881	84,031
Total Expenditures	<u>\$21,355,478</u>	<u>\$ 3,571,183</u>	<u>\$1,392,377</u>
Fund Balance as of June 30, 1997	<u>\$ 2,163,110</u>	<u>\$ 11,658</u>	<u>\$1,368,325</u>

Note 1: The financial information is presented in 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 at the close of books and compensated absence liabilities. The college has reserved \$669,000 of the ending fund balance for future commitments, such as repairs and betterments, encumbrances, grants, and customized training. The college's June 30, 1997, compensated absence liability is estimated to be \$2.1 million. Enterprise activities do not reflect all operating costs and depreciation as discussed in Finding 13.

Note 2: The negative fund balance in the Special Revenue Fund is the result of a July 1, 1996, negative fund balance of \$91,913 for the federal financial aid account and a negative fund balance of \$43,784 in the childcare account. Other accounts have positive fund balances totaling \$128,258. See Findings 1 and 6.

Note 3: Enterprise Fund revenues were increased by \$65,212 to reflect fiscal year 1997 revenues incorrectly posted in fiscal year 1998 for the Hutchinson bookstore. See Finding 13.

Source: MnSCU to MAPS Trial Balance as of April 2, 1998.

Ridgewater Community & Technical College is affiliated with the Ridgewater College Foundation, which is a separate non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts that were audited by a CPA firm. The foundation received staffing and other administrative support from the Ridgewater Community & Technical College totaling approximately \$70,000 for each fiscal year. In return, the foundation provided student scholarships and grants that benefit the educational mission of the college. The fiscal year 1997 financial statements show the foundation awarded \$189,966 in scholarships.

Chapter 2. Financial Management

Chapter Conclusions

Ridgewater Community & Technical College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college did not timely and accurately record certain financial activity related to tuition, bookstore, and payroll clearing on the MnSCU accounting system. The college had not resolved a cash difference between MnSCU accounting and one of its banks, and had not obtained sufficient collateral to safeguard two of its four bank accounts. We also noted that security controls over access to its computerized business systems require improvement. Finally, we think management should develop a policy for funding the childcare center.

MnSCU receives the majority of its funding for operations from General Fund appropriations and tuition and fees assessed to students. The MnSCU system office allocates state appropriations to Ridgewater Community & Technical College, and all universities and colleges, based upon an allocation formula.

The statewide accounting system (MAPS) is the primary accounting system for funds held in the state treasury. Campuses use the MnSCU accounting system to initiate transactions that interface into MAPS to generate warrants from the state treasury. Campuses also administer funds in local bank accounts, separate from the state treasury, for enterprise and special revenue activities such as the bookstore and student financial aid. MnSCU requires that colleges record all local activities on MnSCU accounting to provide a complete and comprehensive view of all college finances.

Ridgewater Community and Technical College had many functions that were handled by the MnSCU system office. When Willmar Community College was part of the Community College System, the board office completed many of the business functions for the college, including accounting, payroll, and human resource functions. The MnSCU system office continues to provide administrative support for processing student payroll checks and employee expense reimbursements, recovery of student Perkins loans, and reconciliations of accounting system amounts to state treasury activity. However, in the next year, MnSCU may transfer these administrative functions to the college.

Audit Objectives and Methodology

Our review of Ridgewater Community & Technical College's overall financial management focused on the following objectives:

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- Did the college operate within its available resources and have appropriate budgetary controls?
- Did the college properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did the college properly account for and control local bank accounts?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. We also gained an understanding of management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank accounts. We analyzed and reviewed transactions posted to the accounting records to determine if Ridgewater Community & Technical College properly recorded revenues and expenditures for both state treasury and local bank accounts.

Conclusions

We found that the college operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college properly recorded most of its financial activity in the accounting records. However, we found some instances where the college did not timely and accurately record certain financial activity related to tuition, bookstore, and payroll clearing. We also noted that the college had not resolved a cash difference between MnSCU accounting and one of its banks. It also did not obtain sufficient collateral to safeguard two of its local bank accounts. We also noted that security controls over access to its computerized business systems require improvement. Finally, we think that college management should develop a policy for funding childcare center operations. These issues are discussed in the following findings.

- 1. The college did not properly record certain financial activity accurately and timely on the MnSCU accounting system.**

The college did not properly record certain financial activities in MnSCU accounting for fiscal years 1997 and 1998. The untimely or incorrectly recorded financial activity related to tuition and fees, bookstore receipts, the payroll clearing account, and federal financial aid. Table 2-1 identifies certain financial activities we questioned.

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Table 2-1
Ridgewater Community & Technical College
Financial Activities Not Properly Recorded on MnSCU Accounting
Fiscal Years 1997 and 1998

Financial Activity	Recording Issue
Tuition and Fees	The college did not record daily tuition and fees transactions on the MnSCU accounting system and did not deposit receipts timely. These issues are discussed in more detail in Chapter 3.
Bookstore	<p>The college did not record daily bookstore receipts transactions, instead transactions were accumulated and posted at month-end. In addition, the college initiated inappropriate adjustment transactions to fiscal year 1997 revenues totaling \$174,000. These issues are discussed in more detail in Chapter 5.</p> <p>The college incorrectly posted \$65,000 of fiscal year 1997 revenue for the Hutchinson bookstore to fiscal year 1998. As a result, MnSCU accounting showed a fiscal year 1997 loss of \$92,000 for the Hutchinson bookstore. This issue is discussed more fully in Chapter 5.</p>
Payroll Clearing Account	The college has not correctly accounted for its payroll clearing account activities in MnSCU accounting. The payroll clearing account had a reported cash balance of \$500,000 near the end of April 1998. The cash balance was not adjusted for over \$200,000 of fiscal year 1997 and \$300,000 of fiscal year 1998 payroll expenditures recorded in other accounts, such as bookstore and childcare, for fiscal year 1997.
Federal Financial Aid	The fiscal year 1997 beginning fund balance was a negative \$92,000. The college was unsure of the basis for this amount.

Source: Auditor prepared.

Ridgewater Community & Technical College has started to investigate and resolve these errors. It is working with the system office to correct MnSCU accounting. Complete and accurate accounting records are necessary to evaluate the financial status of the college.

Recommendation

- *Ridgewater Community and Technical College should properly record all financial activity on MnSCU accounting.*

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2. The college did not resolve the cash difference between MnSCU accounting and the all-college bank account.

Ridgewater Community & Technical College has attempted to complete monthly reconciliations of the all-college bank account balance to cash reported in MnSCU accounting. However, the March and April 1998 reconciliations have identified unexplained differences, ranging from \$1,333 to \$2,482 each month. The college has not been able to resolve the variances.

The college reduced nine existing bank accounts in fiscal year 1996 to four accounts in fiscal year 1997. Five accounts were closed and certain banking activities were transferred to new accounts. The business office has reconciled and verified the balances for three bank accounts. The only remaining issue is to resolve the cash difference between MnSCU accounting and the bank for the all-college account. The college should resolve this variance to assure itself that funds were not diverted and to simplify future reconciliations.

Recommendation

- *The college should resolve the variance between cash in the bank and cash on MnSCU accounting for the all-college account.*

3. Ridgewater Community & Technical College did not effectively monitor and maintain sufficient collateral for its two largest local bank accounts.

The college did not effectively monitor the legally required amount of collateral for its local bank accounts. Minnesota Statutes require state entities to establish collateral equal to 110 percent of the amount on deposit at the close of the business day, less any insured portion. We found that the college did not obtain sufficient collateral for two of its four local bank accounts during fiscal year 1998. One account, with over \$2 million in deposits, had an uncollateralized level of over \$500,000 for four consecutive days in December 1997. The other account had an uncollateralized level of over \$180,000 for the entire month of April 1998. The college needs to estimate the maximum uninsured balance and require the bank to establish the necessary collateral. Establishing adequate collateral protects state deposits from risk of loss due to bank failures or closures.

Recommendation

- *Ridgewater Community & Technical College should monitor bank cash and collateral balances to ensure sufficient collateral is provided to safeguard its bank accounts.*

4. Security controls to access college computerized business systems require improvement.

Ridgewater Community & Technical College did not adequately administer and control access to its computerized business systems, including MnSCU accounting, SCUPPS personnel/payroll, and College Information System (CIS). A business office supervisor acted as the college security administrator and worked with regional data center staff to administer access privileges

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for college employees. The college has primary authority and responsibility to ensure employee access is necessary based upon job responsibilities. Our review of the security administration over college computerized systems disclosed several weaknesses:

- All business office staff used one common userID to access the CIS system. They did not use their individual userIDs when entering tuition and fee receipts on the CIS system. A generic userID was developed so that business office personnel could log on to and use the CIS system at their desks while also accessing the system at the business office window. The generic userID precludes accountability as the college cannot identify which cashier actually entered a transaction on CIS.
- The college security administrator did not periodically review system user security reports to monitor employee access to MnSCU accounting and SCUPPS.
- The security report revealed that one former employee's system access remained unchanged for several months after terminating employment with the college. Another employee transferred departments, yet access was not changed. Although we found no instances of abuse, lack of prompt termination of access privileges increases risk of inappropriate access.
- The college could not identify 18 system office staff that had the ability to view or update the college database transactions. It is unclear whether system office staff need the ability to update transactions for the college. The college should review the need for update access by system office staff.
- One business office supervisor had update access to all college business systems even though he had no maintenance or backup responsibilities. The supervisor acknowledged that only view access is necessary to perform job responsibilities.

Recommendation

- *Ridgewater Community & Technical College should improve security access controls by:*
 - *eliminating all CIS generic userIDs used by the business office;*
 - *restricting access to its business systems based upon job responsibilities;*
 - *promptly canceling userIDs for terminated and transferred employees;*
 - *clarifying with the system office which system employees need update access to the colleges' business systems; and*
 - *periodically reviewing system user security reports and correcting any inappropriate system access.*

5. The college has not developed a policy for funding childcare operations.

Ridgewater Community & Technical College has not analyzed the actual total cost of operating the childcare center on the Willmar campus. Childcare fees produced \$79,000 in revenues for fiscal year 1997. The cost of salaries and supplies for operating the childcare center, as reported in MnSCU accounting, totaled \$103,000. As a result, childcare operations reflected a loss of \$24,000 in the accounting system. However, in addition to those costs, the childcare center employed 30 student workers working approximately 10 hours per week. The cost of the student

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workers, estimated at \$70,000, was not reflected in the childcare cost center. Considering these costs, the childcare center actual losses were approximately \$94,000 for fiscal year 1997.

College management has not analyzed the operation of the childcare center to determine options for reducing losses. The college should review the management of the childcare center, addressing such issues as staffing, fee rate increases, and billing procedures. The college recorded the childcare activities in the Special Revenue Fund in the accounting system. However, since fee revenues were not sufficient to cover the cost of operations, money from other activities commingled in the same bank account was subsidizing the operations. The continued operating losses of the childcare center will considerably impact the funding of these other accounts in the future.

Recommendation

- *The management of Ridgewater Community & Technical College should develop a policy for funding the operations of the childcare center.*

Chapter 3. Tuition, Fees, and Other Receipts

Chapter Conclusions

Ridgewater Community & Technical College properly assessed tuition in compliance with applicable legal provisions and management's authorization, for the items tested. The college accurately reported tuition, fee, and other revenue in MnSCU accounting. However, the college did not deposit or record tuition and bookstore receipts on a daily basis. In addition, the college did not have adequate separation of duties over receipts in each campus business office and the farm and business management programs. It did not provide adequate security for receipts in transit between the college and the bank. Also, the business office lacked proper approval for tuition refunds. Finally, the college did not independently verify cafeteria and vending receipts and did not have adequate controls over student activity receipts and change funds.

Ridgewater Community & Technical College collected tuition and fees each quarter from students enrolled in campus programs. For fiscal year 1996, the college recorded the registration, billing, and collection of tuition and fee revenue using three separate systems. Willmar Community College used the Collegiate Information System (CIS), Willmar Technical College used System 36, and Hutchinson Technical College used a Paradox database. For fiscal year 1997, the college processed all registrations, billings, and collections of tuition and fee receivables using CIS.

During fiscal year 1996, the college collected tuition at a resident rate of \$40 per credit and a non-resident rate of \$80 per credit for technical college courses. For community college courses, it charged a resident rate of \$42.25 per credit and a non-resident rate of \$84.50 per credit, plus miscellaneous fees. For fiscal year 1997, Ridgewater Community & Technical College charged the resident rate of \$43.85 per credit and the non-resident rate of \$85.45, plus miscellaneous fees.

Along with traditional community and technical college courses, Ridgewater Community & Technical College also offered various specialized programs. The Customized and Continuing Education program provided consultation and educational services to businesses, public institutions, and non-profit organizations in west-central Minnesota. Non-credit course offerings ranged from computer systems training to welding. The Farm Business Management (FBM) and Small Business Management (SBM) programs provide courses in business and farm management at off campus sites. In addition, the college collected other receipts for student activities and cafeteria and vending commissions.

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Table 3-1 highlights the tuition and fee revenues for fiscal years 1996 and 1997.

Table 3-1 Ridgewater Community & Technical College General Fund Tuition and Fee Revenue Fiscal Year 1996 and 1997		
Revenue Source	Fiscal Year 1996	Fiscal Year 1997
Tuition*	\$5,047,461	\$4,932,491
Fees	327,915	448,707
Non-Credit Tuition	496,626	792,134
FBM/SBM	<u>388,611</u>	<u>392,264</u>
Total Revenues	<u>\$6,260,613</u>	<u>\$6,565,596</u>

* Includes student activity fees and is net of tuition refunds.
Source: Auditor prepared from MnSCU Accounting System and Registration Systems.

Audit Objectives and Methodology

We focused our review of tuition and fee revenue on the following objectives:

- Did Ridgewater Community & Technical College design and implement internal controls to provide reasonable assurance that tuition and fees, continuing education and customized training, FBM/SBM, and student activity fee revenues were collected, safeguarded, and properly recorded in the accounting records?
- Did the college assess tuition and fees in compliance with applicable finance-related legal provisions and management's authorization?

To meet these objectives, we met with college staff to gain an understanding of controls over the billing, collecting, safeguarding, and recording of tuition, fees, and other revenues. We reviewed student registration and billing records to determine if the college assessed proper tuition and fee rates and collected earned revenue. We analyzed transactions to determine if the college made prompt deposits and properly recorded revenues on the MnSCU and MAPS accounting systems. We also reviewed controls over student activity receipts and cafeteria and vending commissions.

Conclusions

For the items tested, Ridgewater Community & Technical College properly assessed tuition in compliance with applicable legal provisions and management's authorization. The college accurately reported tuition, fee, and other revenues in the MnSCU accounting system. However, internal controls over revenues required improvement. Separation of duties needed improvement at both campus business offices and in the farm business and small business management programs. The college did not always record tuition and bookstore revenue transactions or deposit receipts daily, or adequately safeguard receipts in transit between the college and the bank. Also, the business office did not obtain proper approval for tuition and fee refunds. Concerning other revenue, the college did not independently verify cafeteria and vending

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receipts nor have adequate controls over student activity receipts. Findings 6 through 11 discuss the weaknesses in controls over tuition, fee, and other revenues.

6. Ridgewater Community & Technical College did not adequately safeguard receipts nor separate duties over the receipt collection process for tuition and other fees.

The college did not properly separate duties in its campus business offices and the Farm Business Management/Small Business Management (FBM/SBM) programs. One individual in the business office collected tuition and fees, entered tuition payments on the college information systems, closed out the cash drawers at the end of the day, prepared deposits, delivered the deposits to the local bank, and entered the transactions on the MnSCU accounting system. In the FBM/SBM programs, each instructor registered their own students, collected tuition and fees, invoiced the student, and collected accounts receivable.

An inadequate separation of duties exists when one employee has control over an entire process or transaction cycle. Access to cash and recording of receipt transactions are incompatible functions and responsibilities should not be concentrated on one individual. Such control weaknesses significantly increase the risk that errors or irregularities could occur and go undetected.

The college also did not provide adequate security for employees and receipts in transit between the college and the bank. A business office staff member delivers daily receipts to the local bank for deposit. The college did not use a courier service, and other college employees, such as campus security, did not accompany this individual when transporting receipts. Without adequate safeguards, employee safety and the security of deposits are at risk.

Recommendations

- *Ridgewater Community & Technical College should separate responsibilities for collecting, depositing, and recording tuition receipts among employees in the business office.*
- *The college should consider integrating FBM/SBM program registration and tuition collections through the registrar's and business offices, or develop mitigating controls over FBM/SBM course collections.*
- *The management of Ridgewater Community & Technical College should review options for providing security for employees and cash when in transit between the college and the bank.*

7. The college did not promptly deposit its receipts and did not record tuition and bookstore revenues in MnSCU accounting on a timely basis.

Ridgewater Community & Technical College did not promptly deposit tuition and bookstore receipts in compliance with Minnesota Statutes and did not record tuition and bookstore revenue in the accounting system on a daily basis. Instead of posting receipts daily, both the Hutchinson and Willmar campus business offices posted several days, and sometimes several weeks, worth of activity at one time. Delinquent posting of transactions results in untimely transfers of tuition from the college's local depository account to the state treasury. Not posting financial

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information timely could negatively impact the college's ability to monitor financial operations. Additionally, Minnesota Statutes Section 16A.275 requires that receipts be deposited daily or when deposits on hand exceed \$250. Undeposited receipts retained on the college campuses are susceptible to misuse or theft. In addition, the state lost the opportunity to earn interest on these funds.

We noted the following examples about each campus:

- For the Willmar campus, two of eight tuition deposits and one of nine bookstore deposits tested had receipts that were not promptly deposited. In several instances, the business office accumulated two to three days worth of tuition receipts in one deposit. For example, tuition receipts totaling \$930,285 for the three days ending March 21, 1997, were not recorded in MnSCU accounting until March 25, 1997. These receipts included \$27,149 of collections from March 19, 1997, which were not deposited until March 21, 1997. Also included were receipts totaling \$15,666 which were collected on March 21, 1997, and not deposited until March 26, 1997.
- Four of six tuition deposits and nine of nine bookstore deposits for the Hutchinson campus were not made timely. We noted that the Hutchinson campus business office deposited several days of receipts at one time throughout fiscal years 1996 and 1997. For example, the college did not deposit bookstore receipts totaling \$9,912 from November 27 through December 2, 1996, until December 12, 1996. The business office did not post these revenues into MnSCU accounting until February 24, 1997. The practice of nonprompt deposits and untimely posting of tuition and bookstore revenue transactions continued in the Hutchinson campus business office through March 1998.

Recommendations

- *Ridgewater Community & Technical College should deposit receipts, totaling \$250 or more, on a daily basis as required by Minn. Stat. Section 16A.275.*
- *The college should post tuition and bookstore revenue transactions to MnSCU accounting on a daily basis.*

8. The college did not follow the established policy for tuition and fee refunds.

Ridgewater Community & Technical College did not obtain proper authorization for tuition and fee refunds to students. Tuition refunds totaled approximately \$74,000 for fiscal year 1996 and \$70,000 for fiscal year 1997. College policy requires that tuition and fee refund forms be reviewed and approved by the college registrar or a dean of the college. However, we found that for fiscal years 1996 and 1997, there were no indications that these forms were reviewed by any college administrator. Without proper review and approval of tuition refund forms, ineligible students could receive refunds.

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Recommendation

- *Tuition and fee refunds should be reviewed and approved by an appropriate college administrator, pursuant to college policy.*

9. Ridgewater Community & Technical College did not verify the accuracy of cafeteria and vending machine commissions.

The college did not verify the accuracy of commissions earned from cafeteria and vending machine receipts. The college had separate contracts with vendors for cafeteria and vending operations at the Willmar and Hutchinson campuses. These contracts require an external audit of cafeteria and vending receipts, which is the basis for the commission earned by the college. A CPA firm completed an audit of the Willmar campus receipts for fiscal years 1989 through 1994. However, the college has not requested an audit since 1994. In addition, there never has been an audit of the receipts at the Hutchinson campus. Another option the college may consider, in lieu of an external audit, is to use college staff to review and test vendor cafeteria and vending receipts used to determine commissions. Cafeteria and vending commissions earned by the college totaled \$50,000 for the past two years. An audit completed in compliance with vendor contracts, or staff review of vendor cafeteria and vending receipts, would provide the college an assurance that commissions received were accurate.

Recommendation

- *Ridgewater Community & Technical College should utilize college staff or obtain external audits of its cafeteria and vending receipts staff to ensure the accuracy of commissions paid by the contractor.*

10. Ridgewater Community & Technical College did not have adequate controls over student activity receipts and change funds.

The college did not have proper controls over its student activity receipts. The athletic department and the student activity center were the largest areas collecting student activity receipts. The college collected approximately \$28,000 in fiscal years 1996 and 1997. Both the athletic department and the student center employed student workers to sell tickets and collect cash. There was no independent reconciliation of tickets sold to cash received. Without a comparison, the college did not know if the ticket revenues were complete. A reconciliation by someone independent of the person selling tickets is necessary to ensure that the department deposits all receipts collected.

The process for obtaining change funds is also inadequate. The athletic department obtained change funds by borrowing money from the letter club. The student activity center director used her own money for change and then recovered the money after ticket sales had started. The lack of an adequate process to establish and return change funds for ticket sales could lead to the misappropriation of funds. The college should establish procedures that would allow the business office to provide change funds for student activity events.

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Recommendations

- *Ridgewater Community & Technical College should require that someone independent of the ticket seller complete a reconciliation of ticket sales to cash received for each event.*
- *The college should develop a process to establish student activity change funds that would eliminate borrowing from other sources.*

Chapter 4. Payroll

Chapter Conclusions

Ridgewater Community & Technical College designed and implemented internal controls to provide reasonable assurance that employees received the correct pay and that payroll expenditures were accurately reported in the accounting records. However, the college did not independently verify that SEMA4 payroll hours were properly processed by the payroll input clerk. For the items tested, the college compensated its employees in compliance with applicable bargaining unit contract provisions and management's authorization.

Ridgewater Community and Technical College employed approximately 368 staff, consisting of full-time and part-time faculty and other personnel, during fiscal year 1997. Payroll expenditures comprised approximately 61 percent of total college expenditures, totaling \$15,750,000 during fiscal year 1997. Employees at Ridgewater Community and Technical College are members of numerous compensation plans:

- Minnesota Community College Faculty Association (MCCFA),
- United Technical College Educators Plan (UTCE),
- American Federation of State, County, and Municipal Employees (AFSCME),
- Middle Management Association (MMA),
- Minnesota Association of Professional Employees (MAPE),
- Excluded Administrator's Plan,
- Commissioner's Plan, and
- Managerial Plan.

During fiscal year 1996, the college used the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process salary and personnel information while the state's personnel/payroll system (PPS) was used to process deductions and generate payroll warrants. Early in fiscal year 1997, the college began using the State Employee Management (SEMA4) system. Faculty and administrators vacation and sick leave is maintained locally by the college while classified employee leave is recorded in SEMA4.

Ridgewater Community and Technical College had separate human resource and payroll sections. The human resources office updated SCUPPS appointments and salaries. The payroll office collected employee timesheets for update of SEMA4 mass time entry and was responsible for ensuring proper recording of payroll expenditures in MnSCU accounting. The college began to input its own payroll in August 1996. Previously, this function was performed by the MnSCU System Office.

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Audit Objectives and Methodology

Our review of college payroll expenditures focused on the following questions:

- Did Ridgewater Community & Technical College design and implement internal controls to provide reasonable assurance that employees received the correct compensation and that payroll expenditures were accurately reported in the accounting records?
- Did college payroll transactions comply with applicable bargaining unit contracts and management's authorization?

To answer these questions, we made inquiries of college staff to gain an understanding of the internal control structure over the payroll and personnel processes. We analyzed payroll expenditure levels to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions.

Conclusions

The college designed and implemented internal controls to provide reasonable assurance that employees received the correct pay and that payroll expenditures were accurately reported in the accounting records. However, as noted in Finding 11, the college did not independently verify that timesheet hours and leave taken were properly input into SEMA4 by the payroll clerk. For the items tested, the college properly compensated its employees in compliance with applicable bargaining unit contract provisions and management's authorization.

11. The college did not independently verify the accuracy of timesheet hours posted and processed during SEMA4 mass time entry.

An independent staff member was not assigned responsibility to verify hours processed on SEMA4. A payroll clerk entered timesheet hours into SEMA4 during mass time entry. This same clerk also verified that employee timesheet hours were properly posted, using the SEMA4 Payroll Register. In essence, the payroll clerk verifies her own input. Ideally, independent staff should verify payroll hours input and processed in SEMA4. Without using independent staff, the college increases the risk that inaccurate posting of hours worked or leave taken could occur and go undetected.

Recommendation

- *Ridgewater Community & Technical College should provide for an independent verification of the accuracy of timesheet hours processed in SEMA4.*

Chapter 5. Bookstore Operations

Chapter Conclusions

Ridgewater Community & Technical College did not prepare complete financial statements to monitor the status of bookstore financial activities. College controls provided reasonable assurance that bookstore expenses were accurately recorded on MnSCU accounting; however, we found that indirect costs or overhead were not allocated to the bookstores. We also noted that both college bookstores lacked necessary controls over receipts. As mentioned in Finding 7, both bookstores did not post receipts to MnSCU accounting on a daily basis. The Willmar campus bookstore accumulated daily sales to post month-end transactions into the accounting system. The Hutchinson campus bookstore did not retain supporting documentation for individual transactions and did not deposit receipts daily. In addition, the college did not investigate and resolve cash differences in daily receipt collections at the Willmar campus bookstore.

Each college campus operates a bookstore and records financial activity separately. The bookstores sell textbooks, school supplies, clothing, gifts, candy, and other items. The following table illustrates the two bookstores' financial activities for fiscal year 1997.

Table 5-1
Ridgewater Community & Technical College Bookstores
Budgetary Basis Revenues and Expenses Summary
Fiscal Year 1997

	Willmar	Hutchinson
Revenue:		
Sale of books	\$ 850,020	\$ 136,499
Sale of school supplies	52,583	105,254
Sales of novelties and apparel	46,742	12,303
Other revenue	61,879	1,503
Total Revenue	\$1,011,224	\$ 255,559
Expenses:		
Book purchases	\$ 629,794	\$ 185,874
Bookstore salaries	90,773	40,391
School supplies	41,615	28,156
Supplies & materials not for resale	10,447	11,450
Apparel and other purchases	99,407	16,963
Building repairs and remodeling	133,101	0
Total Expenses	\$1,005,137	\$ 282,834
Revenue Over/(Under) Expenses (1)	\$ 6,087	(\$ 27,275)

(1) Financial information is incomplete and does not permit net income to be measured. Adjustments were made for misrecorded revenues; however, certain operating costs for rent, utilities, and depreciation are not reflected. See Finding 13.

Source: MnSCU accounting system as of April 2, 1998, and adjustment by auditor to reflect actual sales.

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The two bookstores process sales through cash registers. Students have the option of paying by check, cash, credit card or charges to financial aid. Each day at the Willmar bookstore, the bookstore assistant closed out the cash register. The employee removed the change fund then reconciled the cash collected to the sales recorded on the register tape. The bookstore employees prepared the deposit. At the end of the month, the business office recorded receipts into MnSCU accounting. Controls were weaker at the Hutchinson bookstore as discussed in Findings 14 and 15.

Audit Objectives and Methodology

We focused our review of bookstore revenues and expenditures on the following objectives:

- Did Ridgewater College design internal controls to provide reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records?
- Did the college bookstores design internal controls to provide reasonable assurance that bookstore disbursements were documented, properly authorized, and accurately recorded?
- Did the college have an effective process to monitor the status of financial activities?

To address these questions, we interviewed bookstore and business office employees to gain an understanding of internal controls over the bookstore revenue and expenditures. We performed analytical reviews and tested transactions to determine if the college properly documented and accurately recorded transactions on the MnSCU accounting system. We also reviewed bookstore financial statements prepared by the college for each campus.

Conclusions

Ridgewater Community & Technical College did not prepare complete financial statements to monitor the status of bookstore financial activities. College controls provided reasonable assurance that bookstore expenses were accurately recorded in the accounting records. However, we noted that indirect or overhead costs were not allocated to bookstore operations. We also found that both college bookstores lacked controls over receipts. As reported in Finding 7, neither bookstore posted receipts to MnSCU accounting on a daily basis. We found that the Willmar campus bookstore prepared daily sales summaries to support month-end transactions posted into the accounting system. The Hutchinson campus bookstore did not retain adequate documentation for transactions and did not deposit collections daily. In addition, the college did not investigate and resolve cash differences in daily receipt collections at the Willmar campus bookstore.

12. Ridgewater Community & Technical College did not prepare complete and accurate financial statements to monitor bookstore activities.

The college did not properly record bookstore revenue on MnSCU accounting to produce an accurate income statement for the bookstores to monitor their financial activities. We adjusted fiscal year 1997 bookstore revenue shown in Table 5-1 to reflect actual sales not properly recorded in MnSCU accounting. The college understated the Hutchinson campus bookstore revenue by \$65,212 for sales incorrectly posted to fiscal year 1998. We also noted the college business office initiated erroneous adjustment transactions, totaling \$174,000, to Willmar

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campus bookstore revenues. The college used the wrong receipts correction screen, which created adjustment transactions that the accounting system did not recognize. The college later determined that the adjustments were unnecessary, but it did not pursue the matter since the MnSCU accounting system did not include these transactions in its trial balance and balance available reports. We alerted the system office and they made the necessary correction to MnSCU accounting in June 1998. Once recognized by the accounting system, the college had to reverse the transactions to properly state bookstore sales. In addition, the college cannot prepare an accurate income statement since the college does not have information on rent, utilities, or depreciation. The bookstore is an auxiliary enterprise and should account for operations in a manner similar to private business.

An income statement can also help determine if the correct markup is being applied to the cost of goods sold. As shown in Table 1-2, the Enterprise Fund had a large fund balance of \$1.3 million on June 30, 1997. A large percentage of this fund balance resulted from bookstore profits. If the markup is too low, the bookstore will not recover its costs. If markup is too high, the bookstore could overcharge the students. The college may wish to evaluate its markup policy given the large fund balance. An income statement would assist in determining the correct amount of markup.

Recommendations

- *The college should properly record its bookstore activities in MnSCU accounting.*
- *The college should produce an accurate income statement for bookstore activity, determine if the markup is reasonable, and review profits and fund balance.*

13. The Hutchinson campus bookstore did not consistently close out the cash register daily nor maintain adequate documentation supporting receipts.

We noted two problems with the way the Hutchinson campus bookstore documents and controls its receipts collected.

- The Hutchinson bookstore cash register was not consistently closed out at the end of each business day. Our review of cash register documents indicated that the campus generally closed out its cash register weekly. Closing out the cash register daily allows the bookstore staff to correct errors and identify any cash shortage or overage. Also, since various staff and student workers perform cashier functions, closing out daily would help to identify individuals responsible for processing transactions.
- The Hutchinson bookstore did not consistently back up detailed transaction supporting its daily collections. The bookstore used a point-of-sale system to record daily transactions. The point-of-sale system did not post individual transactions to a cash register tape, instead it recorded individual transactions in the bookstore's computer. The system required that daily activity be backed up regularly to a tape or disk because individual transactions were automatically purged after seven days. If the system was not regularly backed-up, summary data by the week, month, or year would only be available. We found that the Hutchinson bookstore did not consistently backup the data on its point-of-sale system and individual transactions were not available. Without complete records of

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its daily operations, the bookstore could not provide reasonable assurance that it properly recorded all transactions.

Recommendations

- *The Ridgewater Community & Technical College - Hutchinson campus bookstore should close out its cash register on a daily basis.*
- *The Hutchinson campus should ensure that it properly backs up its bookstore point-of-sale system transactions to provide a record of all cash receipts.*

14. The Willmar bookstore did not resolve all cash shortages and overages.

Management of the Willmar campus bookstore did not investigate receipt shortages and overages from bookstore daily sales. The bookstore closes out both of its cash registers each day and prints a sales tape. However, neither the bookstore manager nor the business office pursued reasons for differences between the cash register sales tape and actual receipts deposited. Table 5-2 shows examples of shortages or overages we noted during fiscal year 1997.

Table 5-2
Ridgewater Community & Technical College - Willmar Campus
Selected Bookstore Cash Receipt Shortages and Overages
Fiscal Year 1997

Date	Cash Register Number	Total Sales	Total (Short)Over	Percentage of Sales
3/24/97	1	\$ 323.94	\$ (192.25)	(59.35%)
3/11/97	1	5,128.29	(108.12)	(2.11%)
3/11/97	2	5,896.15	119.55	2.03%
3/5/97	1	10,388.38	(675.19)	(6.50%)
3/5/97	2	17,155.85	945.78	5.51%
12/3/96	1	6,422.04	(36.60)	(0.57%)
12/3/96	2	12,444.55	(77.41)	(0.62%)
9/3/96	1	21,322.94	(35.79)	(0.17%)
9/3/96	2	6,131.58	(252.85)	(4.12%)

Source: Willmar campus bookstore daily receipt reports for fiscal year 1997.

To ensure the accuracy of the cash receipts deposited and minimize the risk of theft, the college should investigate and resolve differences between the actual cash collected and sales recorded by the bookstore cash registers.

Recommendation

- *Ridgewater Community & Technical College-Willmar campus should resolve all cash shortages or overages.*

Chapter 6. Student Financial Aid

Chapter Conclusion

The college complied with material finance-related laws and regulations governing the drawdown and reporting of federal financial aid, for the items tested. The college designed controls to provide reasonable assurance that it properly recorded financial aid activities in the accounting system and that eligible students received the correct financial aid. However, we found the college did not reconcile SAFE financial aid awards to payments in the student receivable system (CIS). Also, a difference between the Perkins Loan accounts receivable balance reported in the FISAP and the Perkins balance reported on the centralized Perkins Loan Management System (LMS) needs to be resolved. Finally, the college needs to reconcile foundation scholarships to ensure it properly coordinated all funding sources in determining financial aid awards.

Ridgewater Community & Technical College participates in various student financial aid programs administered by the U.S. Department of Education. Table 6-1 shows federal financial aid payments made to students for the first three quarters of the current 1997-98 academic year.

Table 6-1
Ridgewater Community & Technical College
Federal Financial Aid Payments to Students
For Three Quarters of 1997- 1998

<u>CFDA</u>	<u>Financial Aid Program</u>	<u>Students</u>	<u>Awards</u>
84.063	Federal Pell Grant	1,152	\$1,585,729
84.032	Federal Family Education Loan (FFEL)	1,489	\$2,350,885
	- Subsidized Stafford Loan		
84.032	Federal Family Education Loan (FFEL)	686	\$938,293
	- Unsubsidized Stafford Loan		
84.033	Federal Work-Study (FWS)	549	\$507,468
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	670	\$291,805
84.038	Federal Perkins Loan	13	\$12,900

Source: College Student Financial Aid System (SAFE) as of May 5, 1998.

The federal Pell Grant is the first source of assistance to the students. Pell Grant payments are not limited to the available funds at the colleges, therefore, all eligible students receive aid. The maximum federal Pell Grant for a full-time student in the 1997-98 award year was \$2,700.

Under the Federal Family Education Loan Program, private lenders provide the loan principal 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

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deferment periods. For Unsubsidized Federal Stafford Loans and the Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

The Federal Work-Study Program (FWS) and Federal Supplemental Educational Opportunity Grants (FSEOG) are additional sources of student federal financial aid. The federal share for both of these programs may not exceed 75 percent of the total FWS wages and FSEOG grants. Colleges must contribute a non-federal share of 25 percent.

Ridgewater Community & Technical College also participates in the Federal Perkins Loan program. Federal Perkins Loans are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay their post secondary educational costs. Schools must give priority to students with exceptional financial need. Individual campuses are responsible for awarding, disbursing, and entering loan amounts into the system-wide loan management system. The loan management system automatically updates disbursement transactions once a week. MnSCU system office Loan Management System (LMS) responsibilities include corresponding with students going into repayment status, receiving all loan repayments, and pursuing delinquent loans.

The college also processes student financial aid grants funded by the State of Minnesota. These programs complement the federal financial aid available to eligible students. During the first three quarters of the 1997-98 school year, the college disbursed Minnesota State Grants totaling \$1,191,347 to 1,658 students.

The Ridgewater College Foundation provided scholarships and grants to students attending the college. Foundation financial statements show that scholarships totaling \$190,000 were provided to students during fiscal year 1997.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to financial aid programs as of May 1998:

- Did the college design internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable laws and regulations?
- Did the college comply with applicable laws and regulations for managing federal cash and reporting federal expenditures?

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

Conclusions

Ridgewater Community & Technical College designed and implemented controls to provide reasonable assurance that it properly recorded financial aid activities in the accounting system

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and that eligible students received the correct financial aid. However, we found the college did not compare financial aid awards recorded in its SAFE financial aid system to disbursements in the student receivable system. Also, an unresolved difference exists between the Perkins Loan accounts receivable balance reported to the federal government in the FISAP and the Perkins balance reported on the central Perkins Loan Management System (LMS). Finally, the college needs to reconcile foundation scholarships to ensure it properly coordinated all funding sources in determining financial aid awards. For the items tested, the college complied with material finance-related laws and regulations governing the drawdown of federal cash and reporting of federal financial aid.

15. The college did not compare financial aid awards recorded in the student financial aid system (SAFE) to disbursements in the student receivable system.

Ridgewater Community & Technical College makes payments to students using the CIS student receivable system while the financial aid system (SAFE) reports the students' awarded financial aid. However, the college did not complete periodic reconciliations of student financial aid awards in SAFE to payments in the CIS system used to monitor outstanding receivables. As of May 5, 1998, we noted fiscal year 1998 PELL Grant disbursements totaled \$1,599,428 according to the CIS system while SAFE reflected awards of \$1,585,729. A periodic comparison between the two systems would help to ensure the accuracy and completeness of information. Not verifying the accuracy of disbursements could result in a payment of financial aid that exceeds a student's financial need.

Recommendation

- *Ridgewater Community & Technical College should complete periodic comparisons of financial aid awards recorded on SAFE and disbursements recorded on the CIS student receivable system.*

16. The college's outstanding Perkins loan principal balance in the Loan Management System (LMS) differs from the balance reported on the Fiscal Operations and Application Report (FISAP).

The Ridgewater Community & Technical College outstanding Perkins Loan principal balance in the Perkins Loan Management System (LMS) exceeds the amount reported to the federal government by \$14,530. The LMS system identifies loan principal balances that borrowers need to repay. The balances are calculated based on new loans issued, actual collections, and any cancelled transactions. The outstanding loan balance reported in LMS was \$141,642. However, according to the fiscal year 1997 FISAP submitted to the federal government, the outstanding Perkins Loan principal balance was \$127,112. The college has not resolved the \$14,530 difference. The college records used to prepare the FISAP should agree with LMS balances and activity. The resulting difference represents inaccurate reporting of loan balances or recording of financial activity for this program.

Recommendation

- *Ridgewater Community & Technical College should work with the MnSCU System Office to resolve the difference between the Federal Perkins loan FISAP balance and the MnSCU centralized LMS system balance.*

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- 17. The college did not verify that all scholarships received from the college foundation were recorded on its accounting and financial aid systems.**

Ridgewater Community & Technical did not verify that it recorded all foundation scholarships on its accounting and financial aid systems. An external audit report for the foundation showed fiscal year 1997 scholarship expenditures totaled \$190,000. However, we noted that the college only recorded \$136,000 on its accounting system. It is not clear whether the remaining \$54,000 was unrecorded or paid to recipients not attending the college. The college should reconcile scholarships reported by the foundation to the amount recorded on the MnSCU accounting system. The reconciliation would ensure that the college identified and recorded all scholarships for students attending the college.

The financial aid office must make a reasonable effort to identify and coordinate foundation scholarships, or other financial resources that a student receives, in determining federal financial aid awards. However, the college did not record some scholarships in the student financial aid system (SAFE). For example, we noted that the college foundation received a grant that required funds be distributed among four students. Financial aid records show that only \$200 of a \$600 scholarship received by one student was recorded in the student financial aid system. Two of the students did not attend school after receiving their award. Their supplemental funding was not recorded on their financial aid records. By not recording all foundation scholarships and grants, financial aid records were incomplete and possible overawards could have occurred.

Recommendations

- *Ridgewater Community & Technical College should strengthen controls over the coordination of foundation scholarships. A reconciliation is needed to compare accounting and financial aid system balances to ensure all resources are recorded and properly coordinated.*
- *The college should review the financial aid files for the four students in question that received foundation scholarships during 1997. If external funding was not properly coordinated, the college should determine if an overaward occurred and work with the federal government to remedy the overpayment.*

Chapter 7. Purchased Services, Supplies, and Equipment

Chapter Conclusions

Ridgewater Community & Technical College designed controls to provide reasonable assurance that expenditures for purchased services, supplies, and equipment were properly documented and processed and accurately recorded in the accounting records. However, the college did not complete a physical inventory count and ensure proper recording to safeguard its fixed assets. For the items tested, the college complied with MnSCU's purchasing policies and management's authorization.

Ridgewater Community and Technical College incurred expenditures for purchased services, supplies, and equipment totaling \$6,257,314 in fiscal year 1997. The college had a centralized purchasing department responsible for ordering and purchasing supplies, equipment, and services for the college. Employees submitted approved purchase requisition form to the purchasing department before ordering supplies and equipment. Purchasing staff reviewed the budget, ensuring that sufficient funds were available in the applicable cost center, and used MnSCU guidelines to solicit bids and select vendors to complete purchases. The receiving department viewed the packing slips and compared to the purchase order for accuracy. Accounts payable staff matched invoices to the respective purchase order and packing slip before processing the payment. Table 7-1 provides a breakdown of fiscal year 1997 purchases by fund.

Table 7-1
Ridgewater Community & Technical College
Purchased Services, Supplies, and Equipment Expenditures by Fund
Fiscal Year 1997

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>
Purchased services	\$ 2,856,737	\$487,285	\$128,231
Supplies	1,393,648	63,572	20,977
Equipment	<u>1,136,306</u>	<u>137,694</u>	<u>32,864</u>
Total	<u>\$5,386,691</u>	<u>\$688,551</u>	<u>\$182,072</u>

Note: Purchased services include rent, repairs, utilities, and other miscellaneous services.

Source: MnSCU Trial Balance as of April 2, 1998.

Ridgewater Community & Technical College

Audit Objectives, Scope, and Methodology

Our primary objectives for purchased services, supplies, and equipment were to answer the following questions:

- Did the college design internal controls to provide reasonable assurance that expenditures for goods and services were properly documented and processed and accurately reported in the accounting records?
- Did the college's purchasing and expenditure process comply with applicable legal requirements?

To address these questions, we made inquiries of college staff to gain an understanding of the internal controls over purchasing and the disbursement process for services, supplies, and equipment. We performed analytical reviews and tested a sample of expenditure transactions by tracing to supporting documentation and the accounting records. Transactions were tested to ensure that MnSCU purchasing policies were followed and management's authorization was provided.

Conclusions

Ridgewater Community & Technical College designed and implemented internal controls to provide reasonable assurance that expenditures for goods and services were properly documented and processed and accurately recorded in the accounting records. However, we found that the college did not complete a physical inventory count, and did not ensure proper recording of all fixed assets on its inventory records. For the items tested, the college complied with MnSCU purchasing requirements and management's authorization.

18. The college did not complete a physical inventory count and did not record all fixed assets on its fixed assets records.

Ridgewater Community & Technical College had not completed a physical inventory of equipment located at the campuses. The college did identify the fixed assets it held when it merged into MnSCU, however, no physical verification has been completed since then. In addition, the previous fixed assets system could not be used to update the current college fixed assets record-keeping system. College staff did record new equipment purchases over \$2,000 on its current fixed assets system, but assets acquired at the time of the merger are not recorded. Physical inventory counts and complete fixed assets records are essential to safeguard and control college assets.

Recommendation

- *Ridgewater Community & Technical College should complete a physical inventory count and ensure proper recording of all equipment on its fixed assets system.*

Chapter 8. Federal Grant Receipts

Chapter Conclusion

Ridgewater Community & Technical College designed internal controls to provide reasonable assurance that federal grant reimbursements were accurately determined and properly recorded in its accounting system.

Ridgewater Community & Technical College collected federal grants totaling \$2,585,048 for fiscal years 1996 and 1997. Table 8-1 shows these receipts by grant program.

Table 8-1
Ridgewater Community & Technical College
Summary of Federal Grant Receipts
Fiscal Year 1996 and 1997

<u>Federal Grant Type</u>	<u>1996</u>	<u>1997</u>
Carl Perkins Grant	\$ 518,400	\$ 575,001
Job Training & Employment Grants	521,092	422,576
Other Federal Grants	<u>416,947</u>	<u>131,032</u>
Total	<u>\$1,456,439</u>	<u>\$1,128,609</u>

Source: MnSCU Trial Balance as of April 2, 1998.

The college received a majority of its federal funding from Carl Perkins grant allocations through the MnSCU system office. College funding is based upon the proportion of Pell grant recipients and recipients of assistance from the Bureau of Indian Affairs at the college compared to the total number of recipients in the state. This grant is examined during the Statewide and Single Audit and no findings were developed.

The Department of Economic Security provided Job Training and Employment Grants to the college. The college uses these grants to provide job training opportunities for eligible students. The conditions of the grant require an external audit. The college contracted with a public accounting firm to complete the audit, which identified no questioned costs or findings.

The college also received other federal grants. Most of these grants are from the U.S. Department of Agriculture and fund specific projects. For example, the college received federal funding for Baltic, Slovakian, and Lithuanian groups to participate in the college Dairy Genetics program and attend the World Dairy Show. The college incurs expenditures and submits claims to the federal agency for reimbursement.

Ridgewater Community & Technical College

Audit Objective and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that federal grant reimbursements were accurately determined and properly recorded in the accounting records?

To address this question, we made inquiries of college staff to gain an understanding of federal grant receipt process. We also tested the federal grant receipts to ensure that the college had correctly calculated federal program reimbursements and properly recorded these federal program receipts in the accounting records.

Conclusion

Ridgewater Community & Technical College designed internal controls to provide reasonable assurance that the federal grant reimbursements were accurately determined and properly recorded in their accounting records.

Ridgewater Community & Technical College

Status of Prior Audit Issues As of June 9, 1998

Most Recent Audit

Legislative Audit Report 98-16, issued in March 1998, covered the material federal financial aid programs administered by the State of Minnesota in fiscal year 1997. 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 did not include any findings related specifically to Ridgewater Community & Technical College.

Other Audit History

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1996. This report did not include any findings related specifically to Ridgewater Community College or Willmar-Hutchinson Technical College.

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 one issue relating to Willmar Community College. The finding identified an Unsubsidized Stafford Loan overpayment to one student. The finding was resolved.

An audit of the Hutchinson-Willmar Technical College, issued by a public accounting firm in November 1995, provided an opinion on the college's financial statements for fiscal year 1995. This audit included federal financial aid programs administered by the college for fiscal year 1995. It contained two findings. One issue related to insufficient collateral for deposits at one bank. This issue remains unresolved and is repeated in this report as Finding 3. The last issue dealt with the college receiving reimbursement for Pell grant awards that were not previously recognized by the U.S. Department of Education. This issue was resolved by the college.

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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**RIDGEWATER
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WILLMAR & HUTCHINSON
A COMMUNITY AND TECHNICAL COLLEGE

Hutchinson Campus
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October 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 Ridgewater Community and Technical College for the period from July 1, 1995, through June 30, 1997. Ridgewater Community and Technical College's formal written response to the audit findings is enclosed.

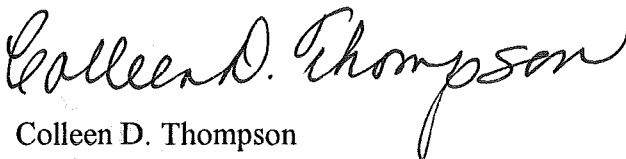
I want to thank Brad White, audit manager; Jack Hirschfield, auditor-in-charge; and team members Claudia Gudvangen, Rhonda Regnier, Charlie Gill, and Rick Weinmeyer for their professionalism, thoroughness, advice, and willingness to work with campus staff to improve those areas cited in the audit findings.

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...Willmar Community College and Hutchinson-Willmar Regional Technical College. The second half of the audit period followed the July 1, 1996, consolidation of the two colleges which formed Ridgewater Community and Technical College, with campuses in Willmar and Hutchinson.

We are pleased with the audit process and report, and have made significant progress in resolving the findings. Thank you for the opportunity to share the improvements we have made since the audit and our plans to implement the recommendations.

Please contact me if you have questions regarding the attached response.

Sincerely yours,



Colleen D. Thompson
Interim President

Enclosure

Response to Audit Findings
Ridgewater Community & Technical College
10/16/98

Finding 1. The college did not properly record certain financial activity accurately and timely on the MnSCU accounting system.

Ridgewater College has implemented procedures to ensure all financial activity is recorded properly and timely into the MnSCU accounting system. Corrections have been made to the items mentioned related to tuition and fees, bookstore receipts, the payroll clearing account, and the federal financial aid fund balance.

Persons Responsible: Gary Myhre and Terry Swenson
Projected Completion Date: Implementation Completed

Finding 2. The college did not resolve the cash difference between MnSCU accounting and the all-college account.

Ridgewater College is making every effort to resolve any variance that exists between the all-college bank account and MnSCU accounting. Monthly reconcilements are being completed for all local bank accounts.

Person Responsible: Terry Swenson
Projected Completion Date: Implementation Ongoing

Finding 3. Ridgewater Community & Technical College did not effectively monitor and maintain sufficient collateral for its two largest local bank accounts.

Ridgewater College has made arrangements with the local banks to assist us in monitoring our collateral balance to ensure sufficient collateral is being pledged to safeguard our bank accounts. Daily monitoring will occur during peak receipt periods (i.e., the beginning of semesters).

Person Responsible: Terry Swenson
Projected Completion Date: Completed

Finding 4. Security controls to access college computerized business systems require improvement.

Ridgewater College has eliminated the CIS generic user ID in the business office, and individual user ID's are being reflected on all cashiering transactions.

A systems security administrator will be identified within Ridgewater College. This person will evaluate job responsibilities to restrict access to the business systems. Terminated or transferred employee ID's will be promptly canceled, and an ongoing periodic review of systems user security codes will be done. Ridgewater College will also work with System Office staff to determine which System Office staff need access to Ridgewater College's business systems.

Person Responsible: Gary Myhre
Projected Completion Date: 12/31/98

Finding 5. The college has not developed a policy for funding of the child care operations.

The Ridgewater College management team will establish a policy on funding for child care operations, and alternative sources of revenue will be sought to reduce any child care center operating losses (i.e., foundation solicitations, other auxiliary revenues, etc.) The System Office has been requested to assist in the study of financing child care center operations.

Person Responsible: Gary Myhre
Projected Completion Date: 6/30/99

Finding 6. Ridgewater Community & Technical College did not adequately safeguard receipts and separate duties over the receipt collection process for tuition and other fees.

Ridgewater College will implement procedures to provide greater separation of duties in the collection, depositing, and recording of tuition receipts (i.e., person independent of drawer session closure will enter receipts into MnSCU accounting).

A statewide task force was created several months ago and is currently working on establishing procedures for integration of FBM/SBM program registration and tuition collections into the college's registration and business office procedures. We are awaiting recommendations from this task force.

Willmar Campus security personnel will be assigned the responsibility of delivering deposits to the banks. An appropriate courier service is being sought to provide a similar service at the Hutchinson Campus.

Persons Responsible: Gary Myhre and Terry Swenson
Projected Completion Date: 12/31/98

Finding 7. The college did not promptly deposit its receipts and did not record tuition and bookstore revenues in MnSCU accounting on a timely basis.

Ridgewater College's business office has implemented procedures to ensure that all receipts are deposited and posted promptly on a daily basis to comply with Statute 16A.275.

Person Responsible: Terry Swenson
Projected Completion Date: Completed

Finding 8. The college did not follow the established policy for tuition and fee refunds.

Ridgewater College's registrar or designee will review and approve tuition and fee refund forms prior to the business office issuing refunds.

Person Responsible: Terry Swenson
Projected Completion Date: 11/30/98

Finding 9. Ridgewater Community & Technical College did not verify the accuracy of cafeteria and vending machine commissions.

Existing contract language between Ridgewater College and the food service contractors on both campuses requires monthly sales volume reports to accompany monthly commission checks and also requires annual audit reports of receipts. This contract language will be enforced.

Person Responsible: Gary Myhre
Projected Completion Date: 12/31/98

Finding 10. Ridgewater Community & Technical College did not have adequate controls over student activity receipts and change funds.

Ridgewater College's business office will develop and require the submission of a reconciliation form for ticket sales and receipts by clubs, organizations, and other student activities. There will also be a process to make change funds available for activities and clubs/organizations that will be part of the reconciliation process.

Person Responsible: Terry Swenson
Projected Completion Date: 12/1/98

Finding 11. The college did not independently verify the accuracy of timesheet hours posted and processed during SEMA4 mass time entry.

A Ridgewater College employee, independent of the payroll clerk who enters timesheet hours into SEMA4 during mass time entry, now verifies the accuracy of the entries.

Person Responsible: Gary Myhre
Projected Completion Date: Completed

Finding 12. Ridgewater Community & Technical College did not prepare complete and accurate financial statements to monitor bookstore activities.

Ridgewater College bookstore entries will be recorded into MnSCU accounting on a daily basis.

Income statements have been developed for bookstore activity for FY96, FY97, and FY98. Mark-up and profit percentages will be evaluated for reasonableness.

The college is anticipating assistance from the System Office on a policy regarding the matter of allocating overhead costs to auxiliary enterprises.

Person Responsible: Gary Myhre and Terry Swenson
Projected Completion Date: 12/31/98

Finding 13. The Hutchinson campus bookstore did not consistently close out the cash register daily nor maintain adequate documentation supporting receipts.

Ridgewater College's bookstore at the Hutchinson Campus is closing out its cash register and making deposits on a daily basis. We have discontinued use of the point-of-sale system and are utilizing the detailed cash register tape to support the daily sales activity.

Person Responsible: Gary Myhre and Terry Swenson
Projected Completion Date: Completed

Finding 14. The Willmar bookstore did not resolve all cash shortages and overages.

Ridgewater College's bookstore manager at the Willmar Campus will investigate and attempt to resolve all cash shortages and overages. Potentially unresolved differences will be reported to the accounting director for further resolution. Footnotes will be included on all reconciliation sales reports, referencing any overages and shortages.

Person Responsible: Terry Swenson
Projected Completion Date: Completed

Finding 15. The college did not compare financial aid awards recorded in the student financial aid system (SAFE) to disbursements in the student receivable system.

Ridgewater College will implement a procedure to periodically reconcile disbursements recorded in the CIS system with awards recorded in the SAFE system. (Note: The CIS system will no longer be used after FY99.) Any material differences will be resolved and properly adjusted.

Person Responsible: Terry Swenson
Projected Completion Date: 12/31/98

Finding 16. The college's outstanding Perkins loan principal balance in the Loan Management System (LMS) differs from the balance reported on the Fiscal Operations and Application Report (FISAP).

Ridgewater College is seeking the assistance of system office staff/internal auditing to work with the LMS staff to resolve this problem of reconciling the loan balance on the LMS system vs. the FISAP. This problem extends back to the early 1980's and continues to be unresolved.

In the interest of time and cost, we suggest an adjustment on either system to complete this reconciliation. Future reconciliations will keep these systems in balance.

Person Responsible: Gary Myhre and Terry Swenson
Projected Completion Date: 6/30/99

Finding 17. The college did not verify that all scholarships received from the college foundation were recorded on its accounting and financial aid systems.

Ridgewater College and the Ridgewater College Foundation have established procedures whereby all student awards are processed through the college's accounting and financial aid systems. The business and financial aid offices of the college will complete a reconciliation to ensure that these awards are properly recorded.

Ridgewater College has examined the financial aid records of the four students in question who received direct scholarship payments. One of the four students did not receive any financial aid awards other than the scholarship. Each of the other three students' records showed remaining, unmet need balances which exceeded the amount of scholarships received. Thus, it was determined that no over-awards exist for these students.

Person Responsible: Terry Swenson
Projected Completion Date: Completed

Finding 18. The college did not complete a physical inventory count and did not record all fixed assets on its fixed assets records.

Ridgewater College is attempting to combine the assets of the former Hutchinson-Willmar Regional Technical College (HWRTC) and the former Willmar Community College into its current fixed asset system and is experiencing problems with the HWRTC conversion. Currently we are looking at rekeying much of the former HWRTC data and are seeking assistance from System Office to find alternatives to this manual rekeying effort. We intend to complete a physical inventory by the end of FY99.

Person Responsible: Terry Swenson
Projected Completion Date: 6/30/99