

July 10, 1998

To: Dr. David Longanecker, Assistant Secretary
Office of Postsecondary Education

From: William Allen, Regional Inspector General for Audit
Western Area Manager, Kansas City Office

Subject: Review of the Title III, Strengthening Institutions Program at Donnelly
College, Kansas City, Kansas (Audit Control Number A0780005)

We have reviewed the Strengthening Institutions Program at Donnelly College for the period October 1, 1996, through September 30, 1997. Our objective was to determine whether Donnelly College properly accounted for and expended Federal funds received under the Higher Education Act, Title III, Strengthening Institutions Program, in accordance with applicable program regulations. This letter presents our findings and recommendations.

Donnelly College concurred with all of our findings and recommendations. A copy of Donnelly College's response is included as Attachment 3.

Salary Expenditures Were Claimed and Reported Based on Budgeted Amounts

We reviewed all salary expenditures for April, May and June 1997 and found that Donnelly College claimed and reported salary expenditures based on budgeted amounts rather than actual expenditures.

Education Department General Administrative Regulations at 34 Code of Federal Regulations (CFR) 74.21(b)(4), require that Recipients' financial management systems shall provide for "...Comparison of outlays with budget amounts for each award..."

If financial transactions incurred to operate a program are not adequately identified, or reflected in the accounting records, errors could result in the school's financial statements and data submitted to the Department.

We recommend that the Assistant Secretary for Postsecondary Education require Donnelly College to work with its Independent Public Accountant to develop a system to ensure that salary expenses are appropriately charged in accordance with the provisions of applicable Federal cost principles,

General Administrative Regulations, and the terms and conditions of the award.

Donnelly College's Response:

Donnelly College officials responded that the institution immediately changed its procedures so that all claimed and reported expenditures are based on actual salary expenditures. Donnelly has also contacted its new Independent Public Accountant to review the Business Office's system and procedures and to provide any additional suggestions to help assure that all charged salary expenses are consistent with Federal cost principles, Education Department General Administrative Regulations, and the terms and conditions of the award.

Accounting Records Did Not Reflect All Transactions

Donnelly College's accounting records did not adequately identify the sources and applications of Federal funds. We found that:

- C In one of seven cases, receipt of Federal funds was improperly recorded in the general ledger.
- C In two cases, receipts recorded in the cash disbursement journal combined several months of funds for the Student Support Services Program with Strengthening Institutions Program funds so that the amount for each program could not be distinguished.
- C Expenditures of \$21,213 reported to the Department in January 1997 were not recorded in the general ledger or cash disbursements journal. (We were able to determine, however, that these expenditures were made.)

Federal regulations at 34 CFR 74.21(b)(2), Standards for Financial Management Systems, require financial management systems which "...identify adequately the source and application of funds for federally-sponsored activities...."

Had Donnelly College adequately reconciled its accounting records these errors could have been discovered and corrected in a timely manner. Transactions not reflected in the accounting records, or not adequately identified, could result in errors in the school's financial statements and data submitted to the Department.

We recommend that the Assistant Secretary for Postsecondary Education require Donnelly College to work with its Independent Public Accountant to establish and consistently provide a clear audit trail of sources and uses of Federal funds and develop procedures for regular reconciliations to ensure that errors and irregularities are detected and corrected in a timely manner.

Donnelly College's Response:

Donnelly College officials responded that the institution established a new controller position effective May 1, 1998, and hired a well-trained and experienced accountant. The new Controller is developing procedures to ensure that the College's accounting records are appropriately reconciled in a timely manner. In addition, Donnelly has requested that the school's Independent Public Accountant review the Business Office's procedures and provide additional guidance to help ensure that regular reconciliations are made and a clear audit trail is established regarding the source and use of Federal funds.

Non-salary Expenditures Were Not Always Adequately Supported

Donnelly College did not adequately support all of its grant expenditures or consistently follow its established procedures. We found three of the 25 expenditures reviewed did not include adequate documentation to support the expenditures. Regulations at 34 CFR 74.21(b)(7), Standards for Financial Management Systems, require, "...accounting records including cost accounting records that are supported by source documents...."

In addition, we found that nine of the 25 expenditures reviewed did not include proper, authorizing signatures. Donnelly College procedures, *Grant Information and Office Procedures*, require signatures of a department head and the Title III coordinator for non-salary expenditures.

Expenditures made without adequate supporting documentation may be inappropriate. Failure to follow established procedures may result in unauthorized expenditures.

We recommend that the Assistant Secretary for Postsecondary Education require Donnelly College to work with its Independent Public Accountant to develop a system to ensure that all expenditures are fully supported and receive proper approval and authorization in accordance with the provisions of the applicable Federal cost principles and terms and conditions of the award.

Donnelly College's Response:

Donnelly College officials responded that the institution's Director of Business Affairs and the Coordinator of the Title III Program have already changed the College's procedures to ensure that appropriate documentation is collected and maintained on all Federal grant expenditures, and that all appropriate authorizing signatures are secured consistent with College policy and Federal Regulations. Furthermore, the College is asking its Independent Public Accountant to review the College's system and provide the College with additional advice to help ensure that all expenditures are fully supported and receive proper approvals and authorizations consistent with applicable Federal cost principles and terms and conditions of the award.

Scope and Methodology

The objective of our audit was to determine whether Donnelly College properly accounted for and expended Federal funds received under the Higher Education Act of 1965, Title III, Strengthening Institutions Program, in accordance with applicable program regulations.

To accomplish our audit objectives, we reviewed applicable Federal regulations and Donnelly College's accounting and bank records. In addition, we analyzed:

- C Reports of Donnelly College activities from other entities including the most recent Single Audit Report for award year ended June 30, 1996;
- C The most recent program review conducted by the U.S. Department of Education, Office of Postsecondary Education, Student Financial Assistance staff, for the period of July 1, 1989, through March 10, 1997; and
- C The Quality Control Review of the school's Independent Public Accountant, conducted by our office, for the award year ended June 30, 1996.

We also interviewed school officials responsible for administering the Strengthening Institutions Program.

We sampled both salary and non-salary costs to determine whether the school was accurately recording and reporting expenditure information to the Department of Education. We reviewed 25 randomly selected non-salary expenditures from a universe of 145 non-salary expenditures included in the audit period. We reviewed all salary expenditures for April, May and June 1997. We reviewed seven draw downs totaling \$640,159, for the period October 1, 1996, through September 30, 1997.

To achieve our audit objective we relied on computer-processed data contained in Donnelly College's accounting system - specifically the general ledger, payroll register and cash disbursements journal. Although we did not assess general and application controls at Donnelly College, we performed extensive substantive testing of the computer-processed data and we concluded that the data was sufficiently reliable to meet the audit objectives. Our conclusion was based on testing the accuracy, authenticity, and completeness of the data by comparing source records to computer data and computer data to source records.

Our audit of the Strengthening Institutions Program covered the period October 1, 1996, through September 30, 1997. We performed fieldwork February 12, 1998, through March 10, 1998, at Donnelly College's campus, in Kansas City, Kansas. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.

Statement on Management Controls

We assessed Donnelly College's management control structure, policies, procedures, and practices applicable to the scope of our audit. The purpose of our review was to assess the level of control risk for determining the nature, extent, and timing of substantive tests. For the purpose of this report, we assessed and classified the significant controls into the following categories:

- C Cash Management
- C Expenditures
- C Record Keeping

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, our assessments disclosed weaknesses specifically related to expenditures and record keeping. These weaknesses and their effects are discussed in greater detail in the body of this report.