Minnesota State Colleges and Universities

Statewide Audit
Fiscal Year Ended June 30, 1998

March 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-19

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SUMMARY

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Minnesota State Colleges and Universities

Statewide Audit – Selected Audit Areas
Fiscal Year Ended June 30, 1998

Public Release Date: March 12, 1999 No. 99-19

Background Information

The Minnesota State Colleges and Universities (MnSCU) system began operations on July 1, 1995. The new MnSCU system combined the former state university system and the former community college system with the technical colleges which had been local government entities prior to the merger. A 15-member board of trustees, appointed by the Governor, oversees the activities of MnSCU. Morris J. Anderson is the chancellor of the MnSCU system.

Audit Objectives

Our primary audit objective was to render an opinion on the State of Minnesota's financial statements. Our audit scope was limited to those MnSCU activities material to the state's general purpose financial statements for the year ended June 30, 1998. Another audit objective was to determine compliance with federal requirements.

Conclusions

We qualified our report, dated December 1, 1998, on the State of Minnesota's general purpose financial statements because sufficient audit evidence did not exist to support Minnesota's disclosures with respect to the year 2000. Auditing the state's and MnSCU's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that MnSCU is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which MnSCU does business will be year 2000 ready.

For the areas audited, MnSCU's financial activities were fairly presented in the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. MnSCU colleges and universities did not, however, submit complete and accurate information to the system office for certain financial activities. We also found that some capital project expenditures were not recorded in the correct fiscal year, and some colleges and universities used incorrect funds to report financial activities. In addition, the system office did not fully document differences between Agency Fund financial statements and financial activity recorded on the accounting system.

For the federal programs tested, MnSCU administered the programs in compliance with federal requirements, except that we noted some overpayments to students. We also noted minor unallowable and undocumented disbursements for the Carl D. Perkins Vocational Education Basic Grant program. We found internal control weaknesses related to student financial aid cash management at two campuses.

MnSCU Response

MnSCU agreed with the findings and recommendations in the audit report. MnSCU has developed a corrective action plan to resolve the findings.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Mike Byzewski	Auditor
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Patrick Phillips, CPA	Auditor
Rhonda Regnier, CPA	Auditor
Bryan Swartz	Auditor
Jason Stauffenecker	Auditor
Mike Willis	Auditor
April Synder	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Minnesota State Colleges and Universities system office at the exit conference held on March 3, 1999:

Morris Anderson	Chancellor
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Andrew Boss	Chair, MnSCU Board of Trustees Audit Committee
Al Finlayson	Director of System Accounting
Chris Halling	System Director for Student Financial Aid
Deb Winter	Director of Campus Accounting

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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morris J. Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board

We have performed certain audit procedures at the Minnesota State Colleges and Universities (MnSCU) system as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 1998. We also have audited certain federal financial assistance programs administered by MnSCU as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of MnSCU.

Table 1-1 identifies the financial activities within MnSCU that were material to the state's general purpose financial statements. We performed certain audit procedures on these MnSCU programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1998, were free of material misstatement.

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Table 1-1
Financial Statement Audit Scope
Fiscal Year 1998
(in millions)

Fund	Audit Area	Amount
General	Tuition and Fees	$280.9
Federal	Student Financial Assistance	$69.4
Capital Projects	Construction Projects	$32.9
Agency	Student Account Increases	$135.9
	Student Account Decreases	$134.0
College and University Retirement	Cash and Cash Equivalents	$18.2
	Investments	$428.9
	Contributions	$25.3
	Realized/Unrealized Gains (Losses)	$71.8
	Refunds	$19.7
Enterprise Activities	Cash and Cash Equivalents	$22.5
	Loans Receivable	$34.6
	Sales	$53.4
	Inventory	$6.5
Endowment	Gifts and Donations	$6.4

Note 1: Information presented in this table is intended to define our audit scope and not intended to present comprehensive MnSCU financial data.

Note 2: We also audited the financial statement presentation of payroll expenditures and compensated absences, fixed assets, other cash and investment accounts, and the Revenue Bond Fund, which is audited by a certified public accounting firm.

Source: State of Minnesota Comprehensive Annual Financial Report for the Year Ended June 30, 1998, and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

Table 1-2 identifies the federal programs included in our scope. We performed certain audit procedures on these MnSCU programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.

Table 1-2
Federal Program Expenditures
Fiscal Year 1998
(in millions)

CFDA	Program Name	Federal	State Match	Total
84.007	Federal Supplemental Educational Operation Grants (FSEOG)	$6.1	$2.0	$8.1
84.032	Federal Family Education Loans (FFEL)	$108.2	$0	$108.2
84.033	Federal Work Study (FWS)	$6.9	$2.1	$9.0
84.038	Perkins Loans	$5.5	$0	$5.5
84.063	Pell Grants	$56.6	$0	$56.6
84.048	Carl Perkins Vocational Education Basic Grants	$16.0	$.9	$16.9
84.047	Upward Bound	$1.8	$0	$1.8
	Total	$200.9	$5.0	$205.9

Source: MnSCU fiscal year 1998 federal financial schedules prepared for the Department of Finance.

Minnesota State Colleges and Universities

As part of our audit of MnSCU federal programs, we reviewed internal controls over student financial aid, federal work study, and the Perkins Loan program at the following five colleges and universities: Bemidji State University; Hennepin Technical College; Minnesota State University, Mankato; Minnesota West Community and Technical College; and St. Cloud State University.

We also relied on the internal control work performed on student financial aid packaging, awarding, and disbursing functions during audits of the following schools for which we issued separate reports in 1998.

- Anoka Ramsey Community College (Report Number 98-43)
- Fond-Du Lac Community and Tribal College (Report Number 98-39)
- Hibbing Community College (Report Number 98-40)
- Inver Hills Community College (Report Number 97-54)
- Itasca Community College (Report Number 99-12)
- Rainy River Community College (Report Number 97-53)
- North Hennepin Community College (Report Number 98-27)
- Ridgewater College (Report Number 98-60)
- Riverland College (Report Number 98-51)
- Rochester College (Report Number 98-28)
- Anoka Technical Community College (Report Number 98-55)
- St. Cloud Technical College (Report Number 98-38)
- South Central Technical College (Report Number 98-59)
- Red Wing/Winona Technical College (Report Number 98-35)

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's general purpose financial statements, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. MnSCU's management has been actively working with the colleges and universities to address the year 2000 issues. Also, MnSCU's Office of Internal Auditing monitors the department's progress on year 2000 compliance and reports to the MnSCU Board of Trustees on a monthly basis. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Auditing the state's or MnSCU's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that MnSCU is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which MnSCU does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB *Circular A-133*.

For the areas audited, MnSCU's financial activities were fairly presented in the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. However, MnSCU colleges and universities did not submit complete and accurate information to the system office for certain financial activities. We also found that some capital project expenditures were not recorded in the correct fiscal year, and some colleges and universities used incorrect funds to report financial activities. In addition, the system office did not fully document differences between Agency Fund financial statements and amounts recorded in the accounting system. These issues are further discussed in Findings 1-4.

For the federal programs tested, MnSCU administered the programs in compliance with federal requirements, except that we noted: (1) overawards in the student financial assistance program; (2) unallowable and undocumented disbursements for the Carl D. Perkins Vocational Education Basic Grant program; and (3) internal control weaknesses related to student financial aid cash management at two colleges. Findings 5 to 7 present the weaknesses identified in internal control and instances of noncompliance with federal regulations.

1. PRIOR FINDING SUBSTANTIALLYIMPLEMENTED: MnSCU experienced significant delays and difficulties in preparing its financial statements.

In our audit reports for fiscal years 1996 and 1997, we reported that MnSCU experienced delays of over two months in the preparation of financial statements because of untimely or incomplete reconciliations of local bank account balances to the accounting system. We also reported that colleges and universities were not recording all financial transactions in the MnSCU accounting system. Since fiscal year 1996 the system office staff held training workshops for colleges and universities on the bank reconciliation process and verified the accuracy of the reconciliations. The system office has also required that colleges and universities record all activity in the MnSCU accounting system. In fiscal year 1998 we noted significant improvement by MnSCU in meeting established deadlines for preparing financial statements. These improvements resulted from changes in the system office organizational structure for financial reporting and from colleges and universities improving their financial reporting practices.

Although we noted significant improvement, some problems remain with obtaining complete and timely information for financial reporting. In fiscal year 1998 we found that cash and investment balances and financial aid data reported by colleges and universities were untimely and incomplete. Because of the materiality of cash and investments (approximately $ 46.4 million in fiscal year 1998), the MnSCU system office relied on college and university bank account reconciliations to ensure the accuracy of cash and investments reported in the financial statements. Therefore, the system office required colleges and universities to submit their year end reconciliation of local bank account cash balances and MnSCU accounting records to the system office by July 31, 1998. Many colleges and universities, however, submitted the reconciliations in August and September, contributing to delays in the preparation of the financial statements. In addition, as identified in Table 1-3, five colleges did not submit the year end bank account reconciliation prior to the completion date for the financial statements. These unreconciled account balances totaled approximately $1.1 million.

Table 1-3
Unreconciled Bank Accounts
Fiscal Year 1998

Campus	Account Type
Anoka Ramsey Community College	Financial Aid Account
Pine Technical College	Financial Aid Account
Dakota Technical College	All Accounts
St. Cloud Technical College	All Accounts
Hennepin Technical College	All Accounts

Source: MnSCU accounting records.

Supporting documentation submitted by some colleges and universities also omitted information essential to verify the reconciliation. Documentation such as actual bank statements, identification of outstanding checks, and expense voucher and journal voucher detail are necessary for proper review of the reconciliation and to ensure that the amounts are reported correctly on the financial statements.

Minnesota State Colleges and Universities

Most colleges and universities did not provide requested electronic data for certain federal student financial aid programs. Thirteen colleges did not provide electronic disbursement data for the Federal Work Study program. Twenty-five colleges did not provide electronic award or disbursement data (if available) for the Federal Family Education Loan program. Two institutions did not provide the electronic information for the Perkins Loan program. In addition, most colleges and universities were over one month late in submitting a download of the remainder of their fiscal year 1998 financial aid activity. This information is used to verify approximately $183.3 million of disbursements recorded on the state's financial statements and to complete the federal compliance audit of student financial aid programs.

Colleges and universities also did not provide the Fiscal Operations and Application to Participate Report (FISAP), and a reconciliation of the electronic financial aid data to the FISAP by the established deadlines. The FISAP report summarizes activity reported to the federal government. Although the FISAP is due to the federal government on October 1 each year, most reports were not received by the system office until November 1, 1998, which is after MnSCU's deadline to submit financial information to the Department of Finance for inclusion in the state's financial statements. In addition, the colleges and universities were requested to submit a reconciliation of the FISAP to the download of financial aid data provided from their computer system. The reconciliations were over two months late, and some were incomplete.

These weaknesses necessitated additional analysis and over $8.5 million in adjustments by the MnSCU system office in order to prepare accurate financial statements. The difficulty in obtaining complete and accurate financial information from other sources, and the number and extent of the required adjustments, resulted in delays in the financial reporting process and negatively impacted our ability to independently verify the accuracy of the financial statements. The colleges and universities need to complete reconciliations timely to resolve errors and correct the accounting records and to ensure that MnSCU prepares accurate financial statements.

Recommendations

- *The MnSCU system office should ensure colleges and universities comply with established deadlines for submitting bank account reconciliations, FISAP reports, electronic data files for all financial aid accounting information, and reconciliations of the financial aid downloads to the FISAP reports.*

- *Colleges and universities should provide documentation to support bank account reconciliations.*

2. The MnSCU system office charged $3.1 million in capital project expenditures to incorrect fiscal years.

The MnSCU system office miscoded approximately $3.1 of $5.3 million in capital project expenditures between fiscal years 1998 and 1999. The errors resulted in a net understatement of expenditures in fiscal year 1998 of $1.1 million. Approximately $2.1 million in expenditures should have been charged to fiscal year 1998 but were miscoded to fiscal year 1999; another $1 million should have been recorded in fiscal year 1999 but was charged to fiscal year 1998.

Initial testing of capital project invoices paid after June 30, 1998, indicated that $3.1 million in expenditures were miscoded between 1998 and 1999 on the state's accounting system (MAPS). Colleges and universities recorded capital project expenditures on the MnSCU accounting system that interfaces with MAPS. The Department of Finance uses MAPS to prepare the state's financial statements. Further review of the transactions revealed that the colleges and universities properly recorded the expenditures on MnSCU accounting and that the MnSCU accounting to MAPS interface resulted in the expenditures being miscoded on MAPS. The MnSCU system office did not subsequently correct the coding errors in MAPS. Without charging the expenditures to the proper fiscal year, the financial statements would be misstated.

Recommendation

- *The system office should work with the Department of Finance to determine a process to more accurately report capital project accrued liabilities.*

3. MnSCU did not fully document differences between Agency Fund financial statements and financial activity recorded on the MnSCU accounting system.

The MnSCU system office did not provide an explanation for approximately $2.7 million of adjustments it made to Agency Fund financial activity recorded in MnSCU accounting for financial reporting purposes. The system office made approximately $61 million of adjustments to financial activity recorded in the MnSCU accounting system to prevent double counting the financial activity in more than one fund. For example, MnSCU appropriately eliminated the receipt of student loan money from the Higher Education Services Office ($38 million in fiscal year 1998) from the Agency Fund because that activity is reported in the state's financial statements as a component unit. Similarly, MnSCU eliminated payroll clearing account activity ($3 million) that was charged to other funds. In fiscal year 1998, MnSCU also eliminated approximately $17 million in transfers between accounts within the Agency Fund that resulted from consolidating bank accounts. The system office, however, could not explain an additional $2.7 million in differences between the accounting information in the Agency Fund and the Agency Fund financial statements. Documentation is necessary to substantiate the propriety of the differences and to ensure that the financial statements are accurate.

Recommendation

- *MnSCU should improve documentation of the financial reporting program that calculates the Agency Fund financial statement amounts from the accounting system transactions.*

4. Some colleges and universities recorded financial activity in the wrong fund types.

Certain colleges and universities incorrectly recorded approximately $2.1 million of financial activity in the Gift and Agency Funds. This activity should have been recorded in other fund types.

During our audit we noted that two state universities accounted for approximately $515,000 of training activity in the Gift Fund. For example, Minnesota State University, Mankato accounted for approximately $500,000 of customized training activity for AT&T in the Gift Fund. There is some question about whether this activity represented a private grant or a contractual relationship between Mankato and AT&T (the MnSCU Office of Internal Auditing is currently reviewing the authority and internal controls over this activity). Colleges and universities, however, typically account for training activities in special revenue funds. Gift funds should be used to account for donations accepted on behalf of the state and for the benefit of any college or university.

We also found that four colleges incorrectly recorded approximately $100,000 in expenditures for new capital projects in the Gift Fund. Technical colleges accounted for pre-merger capital project match in the Gift Fund. After the MnSCU merger, however, the system office instructed colleges and universities to record activity for new capital projects in the Capital Projects Fund. This accounting treatment is required by applicable accounting principles as promulgated in the *Codification of Governmental Accounting and Financial Reporting Standards Board,* Section G60.105.

In the Agency Fund, we found that St. Cloud State University recorded approximately $1.5 million in financial activity related to the university's computer store. This activity should be recorded in an Enterprise Fund if the intent is to measure profit (similar to a business). An Agency Fund should only be used to account for funds held in a custodial capacity. By recording financial activity in improper funds on the MnSCU accounting system, MnSCU's financial activity will be misstated in the financial statements.

Recommendation

- *MnSCU system office needs to ensure colleges and universities record financial activity in the proper funds for financial reporting.*

5. A limited number of students received overpayments of financial aid.

Four colleges and universities overpaid financial aid totaling $13,907 to seven students. We detected the overpayments as a result of testing 203 students that received financial aid in fiscal year 1998. Of the total students tested, we selected 56 students randomly and 147 students because of the amount of financial aid received or other unusual circumstances. In addition, we reviewed all financial aid disbursements to students for compliance with program limits. The overpayments occurred from payments in excess of financial aid program limits.

The overpayments occurred for a variety of reasons. For example, an overpayment occurred when a university did not use the most current information in the student's financial aid file. Other overpayments resulted when a university did not consider financial aid received during summer session as part of the total aid calculation, and when a university used the higher graduate program limits for an undergraduate student. Another overpayment resulted when a student attended two state colleges and the financial aid received at one college was not reported timely. Finally, an overpayment occurred when a university did not verify the academic progress of a student until the student failed to complete at least 67 percent of classes for three consecutive quarters. Some colleges and universities verify student academic progress more frequently which effectively limits overpayments to students with unsatisfactory academic progress. Table 1-4 summarizes the overpayments identified in our testing.

Table 1-4
Financial Aid Overpayments
Fiscal Year 1998

College	Federal Program	Annual Award Limit (*)	Award Amount	Over Payment	Overpayment Category
Moorhead	Perkins	$3,000	$3,600	$600	Omitted summer session
Metro State:					
Student #1	Pell	$1,686	$1,992	$306	Exceeded graduate limit
Student #2	FFEL	$16,500	$20,375	$3,875	Used outdated information
Student #3	FFEL	$10,500	$12,234	$1,734	Accounting errors
Normandale/ Inver Hills	FFEL	$7,500	$8,834	$1,334	Timing delays in recording financial aid for a student that attended two state colleges
Winona State:					
Student #1	FFEL	$4,477	$6,869	$2,392	Accounting error
Student #2	FFEL	$0	$3,666	$3,666	Academic progress not met

(*) = Annual award limits vary depending on the type of financial assistance and the academic grade level obtained by the student.

Source: Student financial aid activity reported by colleges and universities.

Recommendation

- *MnSCU colleges and universities identified above should work with the U.S. Department of Education to remedy the financial aid overpayments.*

6. Five colleges made six unallowable or undocumented disbursements for the Carl D. Perkins Basic Grant program (CFDA # 84.048).

In some cases, colleges used Carl Perkins federal funds to pay for unallowable expenditures such as car repairs, student loans, or bad debt write-offs. In other cases, colleges issued checks directly to students and did not obtain required documentation to ensure that students spent funds for an allowable purpose.

The Carl D. Perkins Vocational and Applied Technology Education Act of 1990 provides federal assistance to secondary, post secondary, and adult vocational education programs. The program provides funding to technical colleges to assist with the education of individuals with handicaps, or limited English speaking abilities, and educationally or economically disadvantaged individuals. The program also provides funding for education costs of individuals that participate in programs designed to eliminate gender bias and individuals in correctional institutions.

We noted the following violations of Carl Perkins program guidelines during our audit.

- Three colleges made emergency assistance payments totaling approximately $800 directly to students without requesting the necessary documentation to validate the expense.

- Two colleges loaned approximately $1,000 to students, and one of the colleges wrote-off the unallowable student loan of $827.

- One college used $354 in program funds for a student's car repairs.

The America Vocational Association (AVA) Handbook governs the use of Carl Perkins funds. The program guidelines allow colleges to make emergency assistance payments for items such as childcare and transportation. To receive these funds, students must demonstrate that they would not be able to attend classes without the assistance. However, program regulations require that the emergency assistance payments go directly to the third party vendor, or to the student when there is adequate documentation that the expense was incurred. The program guidelines prohibit the use of funds for student loans and do not allow loans to be written off. Chapter 6 of the AVA handbook identifies allowable costs and does not specify that funds can be used for car repairs.

Recommendation

- *The system office and colleges participating in the Carl Perkins program should ensure future program funds are spent in accordance with federal regulations.*

7. Two colleges did not coordinate the request for federal funds with the timing of financial aid disbursements to students.

Minnesota West Community and Technical College (MnWest College) did not limit requests for federal funds to immediate cash needs as required by federal regulations. In addition, MnWest College and Hennepin Technical College used state or local money to temporarily fund federal student financial aid programs. These colleges did not request federal funds to coincide with the disbursement of student financial aid.

MnWest College did not ensure federal program funds were requested timely and based on immediate cash needs. For example, on September 11, 1997, the college requested $378,465 of federal funds for estimated fall session PELL and SEOG disbursements. From September 15, 1997, through October 20, 1997, the college maintained $105,857 of excess federal cash in its local bank account. U.S. Treasury Circular 1075 requires that colleges disburse cash within three days of receipt or return the unused funds.

MnWest College also did not request federal reimbursement for federal work study funds totaling $76,710 from July 1997 through January 1998. Similarly, Hennepin Technical College only requested reimbursement for federal work study disbursements at approximately two-month intervals during the year. Federal work study expenditures in fiscal year 1998 at Hennepin Technical College totaled $92,413. These colleges used state or local funds to temporarily finance the federal work study program disbursements. As a result, the state or local accounts used to fund the federal programs lost interest earnings.

Recommendation

- *MnWest and Hennepin Technical Colleges should request federal funds on a timely basis but should also limit requests for federal funds to immediate cash needs.*

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Colleges and Universities (MnSCU) System. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 12, 1999.

James R. Nobles	Claudia J. Gudvangen
Legislative Auditor	Deputy Legislative Auditor

End of Fieldwork: January 30, 1999

Report Signed On: March 8, 1999

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Status of Prior Audit Issues
As of January 30, 1999

March 1998, Legislative Audit Report 98-16 examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1997. The scope included the following areas: tuition and fees; construction expenditures for specific projects; revenues and expenditures for federal student financial aid; and material revenue, expenditure, and asset balances in the MnSCU Enterprise Activities, Supplemental Retirement, Agency, and Gift Funds, as applicable. The report cited one financial statement issue pertaining to delays and difficulties in the preparation of financial statements. That issue was also a prior audit recommendation from fiscal year 1997. We classified the recommendation as substantially implemented. The system office continues to implement additional procedures to improve the integrity of data. See Finding 1 for the current discussion of this issue.

The report also cited three Single Audit issues including control weaknesses and noncompliance with federal regulations. The control weakness pertaining to the separation of duties over federal work study programs is substantially resolved. The remaining two compliance issues remain unresolved. In one case, a state university is continuing its efforts to collect financial aid overpayments made to students. The other compliance issue relates to a community college that disagreed with the finding and is waiting for the federal audit resolution process to be completed.

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's 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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MnSCU

Minnesota State Colleges & Universities

March 8, 1999

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar St.
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent audit report *concerning Statewide Audit – Selected Audit Areas for the year ended June 30, 1998.* The MnSCU Board of Trustees and my administration are strongly committed to the highest level of financial integrity in the financial management of the state's 36 colleges and universities. I was very pleased to note the progress made by both the System Office and presidents and administrators in improving the timeliness and accuracy of MnSCU's financial information. This has been an area both of considerable effort and large challenges in the past four years. As your audit points out, while significant improvements have been made work still remains to meet this commitment. Continuous improvement will be expected and assisted in the coming year.

The audit represented the third system wide review of financial aid information that is a part of the state's overall financial statements. MnSCU colleges and universities should be commended for the adequate controls over material financial aid programs and federal requirements compliance. MnSCU disbursed $187.4 million in federal financial aid in FY1998 to more than 50,000 students. I was pleased to see only 3 findings result from your review of what are technically highly exacting federal programs.

As always my thanks to your staff for the professional and courteous manner in which they conducted the audit. Listed below please find specific responses to each of the 7 findings including remedies.

1. Prior audit finding substantially implemented: MnSCU experienced significant delays and difficulties in preparing its financial statements.

Response: We are very pleased with the progress made by the colleges and universities in their efforts to provide accurate and timely financial information. This is a significant achievement for bot the individual institutions and the System Office. All of the colleges having unreconciled bank accounts as of June 30, 1998 have improved their reconciliation processes and have plans to have all bank accounts reconciled by the requested due date.
We have two efforts under way to identify remaining financial reporting problems. The MnSCU Office of Internal Auditing is currently conducting a study of the reliability of accounting information. Financial Reporting Unit staff in the System Office have in place a process to monitor accounting

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information for the colleges and universities to further identify problems and thus target institutions for increased monitoring and follow-up.

The System Office will also continue to work with all colleges and universities to improve accuracy and timeliness of financial information. We have identified system issues that contribute to problems in reconciling bank accounts and have requested system changes where necessary. We are also reviewing the financial reporting instructions and by May 31 will issue revised instructions, more clearly defining the information needed and changing due dates as needed.

2. The MnSCU system office charged $3.1 million in capital project expenditures to incorrect fiscal years.

Response: We will work with the department of Finance so that by May 31 we have identified a process that will result in more accurate reporting of accrued liabilities at fiscal year end.

3. MnSCU did not fully document differences between Agency Fund financial statements and financial activity recorded on the MnSCU accounting system.

Response: We will review and revise the documentation for the financial reporting program to ensure that all differences between information in the MnSCU accounting system and financial statement information are explained.

4. Some colleges and universities recorded financial activity in the wrong fund types.

Response: As part of an ongoing review and definition of chart of account elements, we are currently reviewing the MnSCU fund structure. At the conclusion of this work we will have clearly defined the types of activities to be included in each fund. We will monitor the activity in the various funds to identify any activity recorded in the wrong fund. St Cloud State University already has a process to move computer store activity to an enterprise fund by the end of March 1999.

5. A limited number of students received overpayments of financial aid.

Response:
Individual institutions are looking into these overpayments and will work with the U.S. Department of Education, as necessary, to resolve these financial aid issues.

6. Five colleges made unallowable or undocumented disbursements for the Carl D. Perkins Basic Grant program (CFDA #84.048)

Response: We will work with colleges and remind those receiving Carl Perkins funds of the allowable uses of the grants and that payments must comply with the federal regulations.

7. Two colleges did not coordinate the request for federal funds with the timing of financial aid disbursements to students.
Response: Minnesota West Community and Technical College and Hennepin Technical College have already implemented corrective action.

Sincerely,

Morrie Anderson
Chancellor

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