



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Minnesota State Colleges and Universities
Fiscal Year Ended June 30, 1999



MARCH 21, 2000

00-11

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



Summary

Management Letter

Minnesota State Colleges and Universities **Fiscal Year Ended June 30, 1999**

Key Findings and Recommendations:

- Many Minnesota State Colleges and Universities (MnSCU) campuses are not reconciling bank statements to accounting records in a timely manner. As of September 1999, the June 30 campus accounting records differed from bank balances by approximately \$3.7 million. As of January 2000, only about 50 percent of the campuses had reconciled their bank accounts during the previous three months. Untimely and incomplete reconciliations of bank statements to the accounting system negatively impact the integrity and reliability of MnSCU's financial reporting process. We recommended that the MnSCU system office continue to provide oversight and direction to ensure that MnSCU campuses complete timely reconciliations of bank statements to the accounting system. (Finding 1, page 3)
- MnSCU and the administrator of the individual retirement account plan did not refund excess administrative fees, currently valued at approximately \$547,000, to plan participants in a timely manner. These refunds are attributable to excess administrative fees charged to plan participants of the State University System in fiscal year 1994 and earlier. We recommended that MnSCU and the plan administrator identify the current and former plan participants and refund the administrative fees. (Finding 2, page 6)
- Internal controls over federal work study at Minneapolis Community and Technical College (MCTC) need improvement. The weaknesses, including inadequate documentation at MCTC, resulted in questioned costs. We recommended that MCTC strengthen procedures to comply with documentation requirements. (Finding 3, page 6)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federal programs. The scope of work in individual agencies is limited. During the fiscal year 1999 audit of MnSCU, our scope included tuition and fees, construction expenditures, federal student financial aid, and material revenue, expenditure, and asset balances in the MnSCU Enterprise Activities, Supplemental Retirement, and Agency Funds. The department's response to our recommendations is included in the report.

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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, CFE	Audit Director
Charlie Gill	Auditor
Susan Kachelmeyer, CPA, CISA	Auditor
Patrick Phillips, CPA	Auditor
Eric Roggeman	Auditor
Eric Wion, CPA, CISA	Auditor
Valerie Bechtum	Intern
Martha Moore	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following officials of the Minnesota State Colleges and Universities system office at the exit conference held on March 6, 2000:

Morris Andersen	Chancellor
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Beth Hammer Buse	Deputy Director of Internal Audit
Deb Winter	Director of Campus Accounting
Chris Halling	System Director, Financial Aid
Gary Janikowski	System Director, Personnel



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James 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

We have performed certain audit procedures at the Minnesota State Colleges and Universities (MnSCU) system as part of our audit of the general purpose financial statements of the State of Minnesota for the year ended June 30, 1999. We also 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, 1999. We emphasize that this has not been a comprehensive audit of MnSCU.

Table 1 identifies the financial activities within MnSCU that were material to the state's 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, 1999, were free of material misstatement.

Minnesota State Colleges and Universities

Table 1
Financial Statement Scope ⁽¹⁾
Fiscal Year 1999 (in millions)

<u>Fund</u>	<u>Audit Area</u>	<u>Balance Sheet</u>	<u>Operating Statement</u>
General	Tuition and Fees	--	\$275.4
Federal	Student Financial Assistance	--	70.4
Capital Projects	Construction Projects	--	63.8
Agency	Student Account Activity	--	163.5
College and University Retirement	Cash and Cash Equivalents	\$ 27.8	--
	Investments	487.9	--
	Contributions	--	29.3
	Investment Income	--	66.4
	Refunds	--	24.4
	Enterprise Activities	Cash and Investments	25.8
	Loans Receivable	34.8	--
	Inventory	7.0	--
	Sales	--	52.7

Note (1): Information presented in this table is intended to define our audit scope and not intended to present comprehensive MnSCU financial data. We also performed a limited review on payroll and compensated absences, fixed assets, other cash and investment accounts, and the Revenue Bond Fund which is audited by an external certified public accounting firm.

Source: State of Minnesota Comprehensive Annual Financial Report for the Year Ended June 30, 1999, and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

Table 2 identifies the major 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 requirements that are applicable to each of its federal programs.

Table 2
Federal Programs
Fiscal Year 1999 (in millions)

<u>CFDA</u>	<u>Major Programs</u>	<u>Amount</u>
	Student Financial Aid Cluster:	
84.007	Federal Supplemental Educational Operation Grants (FSEOG)	\$ 5.4
84.032	Federal Family Education Loans (FFEL) ⁽¹⁾	134.9
84.033	Federal Work Study (FWS)	5.6
84.038	Perkins Loans	5.8
84.063	Pell Grants	59.4
84.268	Federal Direct Student Loans	5.4
	Total Student Financial Aid Cluster	<u>\$216.5</u>
84.048	Carl Perkins Vocational Education Basic Grants	\$ 19.0

Note (1): MnSCU determines eligibility for the Federal Family Education Loan Programs. Private lenders finance the loans to students and collect loan payments.

Source: Department of Finance fiscal year 1999 Federal Financial Schedules prepared by MnSCU.

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As part of our work on student financial aid, we reviewed internal controls over the administration of federal financial aid at Minneapolis Community and Technical College. We also relied on the internal control work performed on student financial aid during audits of the following schools for which we issued separate reports in 1999.

- Bemidji State University (Report Number 99-47)
- Central Lakes College (Report Number 99-27)
- Century Community College (Report Number 99-30)
- Hennepin Technical College (Report Number 99-37)
- Laurentian Community and Technical College District (Report Number 99-39)
- Minnesota State University, Mankato (Report Number 99-45)
- MnWest Community and Technical College (Report Number 99-48)
- Northeast Service Unit/Arrowhead Community College Region (Report Number 99-50)
- Northwest Technical College (Report Number 99-36)
- Saint Cloud State University (Report Number 99-28)
- Southwest State University (Report Number 99-43)

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

Our December 1, 1999, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 1999, 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.

As a result of our audit procedures, we identified the following weaknesses in internal control and noncompliance with program requirements at MnSCU.

1. Prior Audit Recommendation Partially Implemented: Many MnSCU campuses are not reconciling bank statements to accounting records in a timely manner.

MnSCU campuses did not complete year-end reconciliations of local bank account balances to accounting system records by the July 30 deadline established by the MnSCU system office. In September the system office was dealing with differences between June 30 campus bank account balances and related accounting records of approximately \$3.7 million. These differences required significant additional analysis by the system office to accurately report the financial statement balances. At the time MnSCU

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completed its financial statements, the unreconciled difference totaled approximately \$234,000.

We have been reporting findings and recommendations to MnSCU campuses and the system office regarding the lack of timely or complete bank account reconciliations since fiscal year 1996. In fiscal year 1999 many campuses implemented a new accounts receivable module in the accounting system, which negatively impacted the ability of campuses to reconcile their bank accounts.

The MnSCU Finance Division and Office of Internal Audit continue to monitor and work with campuses to complete bank account reconciliations. A recent follow-up performed by MnSCU Internal Audit, however, confirmed that campuses continue to struggle with bank account reconciliations. As highlighted in Table 3, as of January 14, 2000, only about 50 percent of MnSCU campuses successfully completed bank account reconciliations for the months of September, October, and November 1999.

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**Table 3
Bank Reconciliation Status
As of January 14, 2000**

College/University Name	September 1999	October 1999	November 1999
Alexandria Technical College	Complete	Complete	Complete
Anoka Hennepin Technical College	Complete	Complete	Complete
Anoka Ramsey Community College	Limited	Limited	Limited
Bemidji State University	Complete	Complete	\$2,863.69
Central Lakes College	Complete	Complete	Complete
Century Comm/Tech College	(\$9,012.31)	Limited	Limited
Dakota Technical College	Complete	Complete	Complete
Fergus Falls Community College	Limited	Limited	Limited
Fond du Lac Community College	Complete	Complete	Complete
Hennepin Technical College	Complete	Complete	Complete
Hibbing Comm/Tech College	(\$2,425.20)	\$1,495.01	\$13,193.02
Inver Hills Community College	Limited	Limited	Limited
Itasca Community College	Complete	Complete	Complete
Lake Superior Comm/Tech College	Complete	Complete	Complete
Laurentian Comm/Tech College	Limited	Limited	Limited
Minnesota State University, Mankato	Complete	Limited	Limited
Metropolitan State University ⁽¹⁾	Limited	\$35,879.49	\$35,879.49
Minneapolis Comm/Tech College	Limited	Limited	Limited
Minnesota State College, Southeast Tech	\$5,439.65	\$5,439.65	\$5,439.65
Minnesota West Comm/Tech College	Complete	Complete	Complete
Moorhead State University	(\$915.26)	\$4,442.37	\$106.62
Normandale Community College	Limited	Limited	Limited
North Hennepin Community College	Limited	Limited	Limited
Northland Comm/Tech College	Complete	Complete	Complete
Northwest Technical College	Complete	Complete	Complete
Pine Technical College	\$1,405.78	\$1,405.78	\$1,405.78
Rainy River Community College	(\$11,831.57)	(\$11,831.57)	(\$11,831.57)
Ridgewater Comm/Tech College	(\$49.37)	(\$688.24)	(\$439.85)
Riverland Comm/Tech College	Complete	Complete	Complete
Rochester Comm/Tech College	Complete	Complete	Complete
South Central Technical College	Complete	Complete	Complete
Southwest State University	Limited	Limited	Limited
St. Cloud State University	(\$11,318.17)	(\$11,318.17)	(\$11,318.17)
St. Cloud Technical College	\$184,408.38	(\$67,871.88)	(\$68,776.09)
St. Paul Technical College	Complete	Complete	Complete
Winona State University	Complete	Complete	Complete

Legend: Dollar amount represents identified difference between MnSCU Accounting and bank balances.

Limited - Reconciliation not complete

Partial - Stabilized difference on reconciliation.

Complete - Reconciliation complete.

- (1) A review of the December reconciliation identified a difference of approximately \$95,000.

Source: MnSCU Office of Internal Auditing.

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Untimely and incomplete reconciliations of bank statements to the accounting system negatively impact the integrity and reliability of MnSCU's financial reporting and underlying accounting information, requires significant adjusting entries to the accounting system and financial statements, and results in delays in financial statement preparation.

Recommendation

- *The MnSCU system office needs to continue to provide the oversight and direction to ensure that MnSCU campuses complete timely reconciliations of bank statements to the accounting system. The system office should review campus bank account reconciliations monthly until this finding is resolved.*

2. MnSCU and the administrator of the individual retirement account plan did not refund excess administrative fees, currently valued at approximately \$547,000, to certain plan participants in a timely manner.

As of June 30, 1999, the MnSCU individual retirement account plan held investments valued at approximately \$547,000 that the State University System had authorized in fiscal year 1995 to be refunded to certain plan participants. MnSCU may charge participants in the Minnesota Supplemental Investment Fund a fee to cover costs associated with administering the plan. The State Board of Investment collected the fee and credited the amount to the State University System administrative account. In fiscal year 1995, the State University System determined that it did not need all of the administrative fees charged to participants and decided to refund the excess amount to state university employees participating in the plan in fiscal year 1994 and earlier. In fiscal year 1997, the plan administrator determined that the excess fee had not been refunded. Minn. Stat. Section 354B.25, Subd. 5, governs both the assessment of the administrative fee and the refund of excess charges.

As of June 30, 1999, Wells Fargo, MnSCU's record keeper for the plan, had not been able to identify eligible participants in order to refund the excess administrative fees. MnSCU and Wells Fargo stated that it is difficult to identify plan participants because the information system used to track and account for the excess administrative fees is incompatible with current technology. The market value of these investments has grown from \$279,000 as of July 1, 1995, to \$547,000 as of June 30, 1999.

Recommendation

- *MnSCU should work with Wells Fargo to identify eligible plan participants and refund the current value of the investments to those individuals.*

3. Minneapolis Community and Technical College (MCTC) did not administer federal work study in compliance with applicable requirements.

During this audit, we only reviewed internal controls over the administration of federal student financial aid at MCTC. As a result of our review, we found that MCTC did not

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comply with program requirements pertaining to documentation and billing procedures for federal work study. MCTC could not provide required documentation for:

- employment verifications for four students. We requested documentation based on federal requirements and the MCTC Work Study Handbook. The college could not locate employment verifications for four of the 10 random sample items tested. The federal government requires employment verifications to ensure that students are eligible for federal financial assistance.
- written job descriptions for two students employed outside the college. Job descriptions are required by federal regulations to ensure that students are being employed in eligible work activities.
- award authorizations for work study increases for two students. MCTC paid both students in excess of contract amounts. For the contract period August 17, 1998 through May 18, 1999, the college paid each student approximately \$900 more than authorized in their contracts. By not updating work study awards timely, the college risks disbursing more financial aid than students are eligible for and exceeding the work study funding authorized by the federal government.

MCTC also did not bill outside employers for work study contract amounts on a timely basis. Outside employers must provide a 25 percent match for students receiving federal work study funds. Student contracts specified quarterly billings. However, MCTC billed approximately \$3,800 in November 1999 for the 12-month period from July 1, 1998, through June 30, 1999. By not billing outside employers timely, MCTC may not collect the required payments.

Recommendation

- *MCTC should comply with program requirements pertaining to documentation and billing procedures.*

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

Five colleges and universities overpaid financial aid totaling \$17,311 to 14 students. We detected the overpayments as a result of testing 145 students who received financial aid in fiscal year 1999. Of the total students tested, we selected 50 students randomly. In addition, we reviewed financial aid disbursements to all students for compliance with program limits. As a result, we identified another 95 students for additional testing because of the amount of financial aid received or other unusual circumstances.

Eight overpayments occurred from payments in excess of financial aid program limits. Internal controls over federal work study at Minneapolis Community and Technical College, which had six additional overpayments resulting from incomplete documentation, were also identified as weak (See Finding 3).

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Table 4 summarizes the overpayments identified in our testing.

Table 4
Financial Aid Overpayments
Fiscal Year 1999

Campus	Federal Program	Annual Award Limit (1)	Disbursed Amount	Over-Payment (3)	Overpayment Category
Lake Superior College	FFEL	\$3,500	\$3,605	\$105	Exceeded undergraduate student loan limit
Metro State U - Student 1	Pell	\$3,000	\$3,066	\$66	Exceeded annual program limit
- Student 2	Pell	\$3,000	\$3,563	\$563	Exceeded annual program limit
- Student 3	FFEL	\$5,500	\$6,805	\$1,305	Exceeded undergraduate student loan limit
- Student 4	FFEL	\$10,500	\$13,597	\$3,097	Exceeded undergraduate student loan limit
- Student 5	FFEL	\$5,500	\$6,475	\$975	Exceeded undergraduate student loan limit
Moorhead State U	FFEL	\$5,500	\$6,160	\$660	Exceeded undergraduate student loan limit
Northwest TC	FFEL	\$10,500	\$12,125	\$1,625	Exceeded undergraduate student loan limit
Minneapolis CC/TC - Student 1	FWS	(2)	\$2,909	\$2,909	Missing documentation
- Student 2	FWS	(2)	\$207	\$207	Missing documentation
- Student 3	FWS	(2)	\$459	\$459	Missing documentation
- Student 4	FWS	(2)	\$3,540	\$3,540	Missing documentation
- Student 5	FWS	(2)	\$4,500	\$900	Exceeded contract limit
- Student 6	FWS	(2)	\$4,500	\$900	Exceeded contract limit

Note (1): Annual award limits vary depending on the type of financial assistance and the academic grade level obtained by the student.

Note (2): The annual award limit for FWS is limited to the cost of attendance amount not covered by other financial aid sources. This amount is different for each student.

Note (3): Overpayment amounts do not include loan service fees charged for processing the loans.

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

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Recommendation

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

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 21, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 11, 2000

Report Signed On: March 16, 2000

Minnesota State Colleges and Universities

Status of Prior Audit Issues As of February 11, 2000

March 1999, Legislative Audit Report 99-19 examined MnSCU's activities and programs material to the State of Minnesota's Annual Financial Report or the Single Audit for the year ended June 30, 1998. 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, and Agency 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 in fiscal year 1996 and 1997. We classified the recommendation as substantially implemented except for issues pertaining to bank account reconciliations. See Finding 1 for the current discussion of this issue.

MnSCU also resolved three additional financial statement issues pertaining to construction, Agency and Gift Fund accounting transactions.

The report cited three Single Audit issues including control weaknesses and noncompliance with federal regulations. These issues are resolved except for the collections of overpayments made to students. Some campuses have not completed efforts to collect financial aid overpayments made to students or are awaiting resolution of the overpayments by the federal government.

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. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings 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.



Minnesota State Colleges & Universities

March 16, 2000

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 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, 1999*. The Board of Trustees and my administration are strongly committed to the highest level of financial integrity in the management of the 36 colleges and universities.

The audit represents the fourth annual system wide review of MnSCU financial activities material to the state's Comprehensive Annual Financial Report. MnSCU colleges and universities continue to make progress in improving the timeliness and accuracy of MnSCU's financial information. Considerable effort has been devoted by both system office and college and university administrators in overall financial statement preparation and development of internal controls for new business systems. Their success is evident by the comparatively few problems identified in the major financial aid programs and related federal requirements. MnSCU colleges and universities disbursed over \$225 million in federal financial aid in FY 1999 to more than 50,000 students.

As always my thanks to your staff for the professional and courteous manner in which they conducted their work. Their work provides important feedback concerning financial reporting assurances.

Listed below please find specific responses to each of the four findings including remedies.

1. Prior Audit Recommendation Partially Implemented: Many MnSCU campuses are not reconciling bank statements to accounting records in a timely manner.

We view the lack of progress in the area of bank statement reconciliation to be a serious problem. We have made this issue a top priority in our work with campuses. The thirty-six colleges and university presidents and their staff also understand the concern, which has continued for some time now. We continue to work with all institutions having problems. We will also continue to have open labs where campuses can bring their reconciliation information and problems and work with System Office staff. These open labs have been very well received by the campuses.

As mentioned in your discussion, implementation of the new accounts receivable module created reconciliation problems for schools which in the past had consistently been able to reconcile on a timely basis. We are targeting our assistance to those campuses that implemented accounts receivable last spring.

We will also work with those having a stable unreconciled amount (for 3 or more months) to determine the advisability of writing off the remaining difference. While we don't expect the problems to be resolved quickly, we fully expect that all June 30 bank statements will be reconciled on a timely basis. Rosalie Greeman, Associate Vice Chancellor for Financial Reporting is responsible for assisting college and university presidents and financial administration staff to resolve this problem.

2. MnSCU and the administrator of the individual retirement account plan did not refund excess administrative fees, currently valued at approximately \$547,000 to certain plan participants in a timely manner.

We agree with the finding and have directed the plan record keeper to complete efforts to return excess administrative fees to approximately 2,700 MnSCU employee participants. The record keeper indicates that the refunds will be substantially completed by May 31, 2000.

3. Minneapolis Community and Technical College (MCTC) did not administer federal work-study in compliance with applicable requirements.

MCTC will review its administrative procedures over federal financial aid and make any needed changes to ensure that program requirements are adhered to and that off campus employers are billed on a timely basis.

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

Each of the institutions involved has reviewed the circumstances surrounding these overpayments in order to identify any changes needed to prevent future overpayments. Many of the causes of the problems at Metropolitan State University have been corrected, including the request for repayment of PELL overpayments.

Sincerely

/s/ Laura King

Laura M. King
Vice Chancellor
Chief Financial Officer