OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Minnesota State Colleges and Universities
Fiscal Year Ended June 30, 2000

MARCH 15, 2001 **01-15**

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

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Audit Participation

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

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Connie Stein	Auditor
Mike Willis, CPA, CIA	Auditor
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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 February 26, 2001:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Christopher Halling	System Director, Student Financial Aid
John Asmussen	Executive Director, Internal Auditing
Beth Buse	Deputy Director, Internal Auditing
Paul Portz	Internal Audit Coordinator

Metropolitan State University:

Cathleen Brannen	Vice President, Finance and Administration
Sue McMahon	Assistant Director, Financial Aid

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Report Summary

Key Findings and Recommendations:

- We issued a qualified audit opinion on the Minnesota State Colleges and Universities (MnSCU) Combined Balance Sheet as of June 30, 2000. The potential existed for liabilities on the balance sheet to be understated by $7 million for goods and services received by June 30 for which payment had not been made. MnSCU financial statements also did not adequately disclose significant violations during the year of statutory requirements for collateralizing bank deposits. Undercollateralized bank balances during the year ranged from approximately $1 million to $3.4 million for up to one week or more in duration at several colleges and universities. (Finding 1, page 5)

- Inadequate internal controls over financial reporting could result in material misstatements in the financial statements for fixed assets, state appropriation cash balances, and interfund activities. MnSCU had to adjust the fixed assets reported on the financial statements by $38 million for building projects based on additional information not appropriately recorded in the accounting system. In addition, MnSCU did not identify that the Department of Finance had not transferred appropriation cash balances of over $50 million to the MnSCU General Fund. Finally, MnSCU had to perform additional detailed analysis and adjustments to properly report interfund transactions in the financial statements. (Finding 2, page 6)

- We identified student financial aid overpayments totaling $88,607 to 25 students. (Finding 4, page 8) We also reported concerns over internal controls over financial aid at Metropolitan State University, Minnesota State University, Mankato, and Northwest Technical College related to the overpayments. (Findings 5, 6, and 7, pages 11, 12, and 13, respectively)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our audit scope was limited to those MnSCU activities material to the State of Minnesota's Comprehensive Annual Financial Report and the MnSCU Combined Balance Sheet.

Our 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. Selected activities were also reviewed in the MnSCU General, Special Revenue and Debt Service Funds. In addition, we reviewed the audit of the MnSCU Revenue Bond Fund financial statements which is performed by a certified public accounting firm. The department's response to our recommendations is included in the report.

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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) related to our audit of the State of Minnesota's financial statements and our audit of the MnSCU Combined Balance Sheet for the year ended June 30, 2000. In accordance with the Single Audit Act, we have also audited certain federal financial assistance programs administered by MnSCU for the year ended June 30, 2000, for compliance with federal requirements. We emphasize that this has not been a comprehensive audit of MnSCU.

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.

State Financial Statement Audit Objectives, Scope, and Conclusions

Our objective for the audit of the State of Minnesota's financial statements was to express an opinion on whether the state's general purpose financial statements presented fairly, in all material respects, its financial position, results of operations, and cash flows in conformity with generally accepted accounting principles for the year ended June 30, 2000. Our audit also addressed whether the combining and individual fund financial statements were fairly stated in relation to the general purpose financial statements taken as a whole.

Table 1 identifies the MnSCU financial activities that were material to the state's financial statements.

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Table 1
Financial Statement Audit Scope [1]
Fiscal Year 2000
(in Millions)

Fund	Audit Area	Amount
General	Tuition and Fees	$324.4
Federal	Student Financial Assistance	$75.7
Capital Projects	Construction Expenditures	$69.0
Agency	Assets and Liabilities	$30.7
College and University Retirement	Cash and Cash Equivalents	$24.4
	Investments	$528.0
	Contributions	$31.8
	Realized/Unrealized Gains (Losses)	$49.5
	Refunds	$35.3
Enterprise Activities	Cash and Investments	$25.9
	Loans Receivable	$35.5
	Sales	$52.8
	Inventory	$6.6

Note (1): Our audit scope also included payroll and compensated absences, general fixed assets, other cash and investment accounts, and the Revenue Fund (which is audited by a certified public accounting firm).
Note (2): Information presented in this table is intended to define our audit scope and not intended to present comprehensive MnSCU financial data.
Source: State of Minnesota Comprehensive Annual Financial Report for the Year Ended June 30, 2000, and the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

Our audit report, dated December 1, 2000, included an unqualified opinion on the State of Minnesota's general purpose financial statements contained in Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 2000.

MnSCU Combined Balance Sheet Audit Objectives, Scope, and Conclusions

The objective of our audit of the MnSCU Combined Balance Sheet was to express an opinion as to whether the Combined Balance Sheet presented fairly, in all material respects, the financial position of MnSCU as of June 30, 2000, in accordance with generally accepted accounting principles.

The MnSCU Combined Balance Sheet included the applicable funds, general fixed asset and long term debt account groups, and required disclosures. We performed certain audit procedures on the combined balance sheet sufficient to support our audit opinion regarding whether the balance sheet was free of material misstatement.

We issued a qualified opinion on the MnSCU Combined Balance Sheet in our report dated December 1, 2000. The qualified opinion resulted from a potential material understatement of liabilities on the MnSCU Combined Balance Sheet for goods and services that were received by June 30, 2000, but for which payment had not been made. In addition, the qualification resulted from the lack of adequate disclosure of uncollateralized bank balances during the year as required by generally accepted accounting principles. Finding 1 discusses both of these issues.

In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 2000, on our consideration of MnSCU's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We reported three material weaknesses in internal control pertaining to capitalizing fixed assets, reconciling state treasury cash balances, and reporting interfund financial activity, including interfund receivables and payables, as discussed in Finding 2.

We also identified several other issues related to financial reporting that could adversely affect MnSCU's ability to prepare accurate financial statements. We present those issues in Finding 3.

Single Audit Objectives, Scope, and Conclusions

Our audit of MnSCU's federal programs was designed to meet the requirements of the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. We performed certain audit procedures to obtain reasonable assurance about whether MnSCU administered its federal programs in compliance with federal requirements as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. Table 2 identifies the major federal programs included in our scope.

Table 2
Federal Program Audit Scope
Fiscal Year 2000
(in Millions)

CFDA	Federal Program	Amount
	Student Financial Aid Cluster:	
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)	$ 6.5
84.032	Federal Family Education Loans (FFEL)	155.8
84.033	Federal Work Study (FWS)	6.5
84.038	Perkins Loans	5.9
84.063	PELL Grants	60.9
84.268	Federal Direct Student Loans	5.8
	Total Student Financial Aid Cluster	$219.3
84.048	Carl Perkins Vocational Education Basic Grants	$ 16.2

Source: Department of Finance Schedule of Federal Expenditures for Fiscal Year 2000.

As part of our audit of federal student financial aid, we reviewed internal controls over the administration of financial aid funds at Inver Hills Community College, North Hennepin Community College, and St. Cloud State University. 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 2000.

- Winona State University (Report Number 00-18)
- St. Paul Technical College (Report Number 00-22)

- Fergus Falls Community College (Report Number 00-24)
- Northland Community and Technical College (Report Number 00-28)
- Metropolitan State University (Report Number 00-29)
- Normandale Community College (Report Number 00-35)
- Dakota County Technical College (Report Number 00-36)
- Minnesota State University, Moorhead (Report Number 00-37)
- South Central Technical College (Report Number 00-38)
- Pine Technical College (Report Number 00-41)
- Lake Superior College (Report Number 00-42)
- Alexandria Technical College (Report Number 00-43)
- Minneapolis Community and Technical College (Report Number 00-44)
- Rainy River Community College (Report Number 00-52)

For the federal programs tested, MnSCU administered the programs in compliance with federal requirements with the following exceptions. We reported inadequate internal controls over financial aid at three colleges and universities including Metropolitan State University (Finding 5), Minnesota State University, Mankato (Finding 6), and Northwest Technical College (Finding 7). We also noted 25 overpayments totaling $88,607 to MnSCU students that will need to be recovered as explained in Finding 4. In addition, Finding 8 discusses concurrent payments of PELL grant funds to students attending multiple institutions. These payments, which are prohibited by federal regulations, also resulted in overpayments that MnSCU will need to recover. Finding 9 discusses how North Hennepin Community College received more in Federal Work-Study reimbursements than it disbursed to students. Based on our audit, the college repaid the excess funds to the federal government.

At a later date, we will issue our report on the State of Minnesota's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133. The report will be incorporated into Minnesota's Compliance Report on Federally Assisted Programs for the Year Ended June 30, 2000.

1. The MnSCU financial statements did not accurately present liabilities for goods and services and did not adequately disclose noncompliance with statutory requirements for collateralization of bank deposits.

The following financial reporting exceptions resulted in a qualification to our audit opinion on the MnSCU Combined Balance Sheet as of June 30, 2000.

MnSCU potentially understated liabilities on the combined balance sheet by an estimated $7 million for goods and services received by June 30 for which payment had not been made. This problem resulted from colleges and universities recording erroneous information in the accounting system pertaining to the date the institutions received goods and services. Management reported approximately $5 million in additional General Fund liabilities and approximately $2 million in additional Enterprise Fund liabilities on the combined balance sheet as a result of detailed transaction analysis. MnSCU estimated, however, that potentially another $7 million in liabilities were not reported in the financial statements.

MnSCU also had significant violations of legal provisions relating to collateralization of deposits during the year. Minn. Stat. Section 9.031 requires that bank deposits be collateralized in sufficient amounts to ensure that deposits do not exceed 90 percent of the pledged collateral. Our testing identified several institutions that had undercollateralized bank balances ranging from approximately $1 million to $3.4 million for up to one week or more during the year.

Recommendations

- *The MnSCU financial reporting unit should work with the colleges and universities to ensure that:*

  -- *institutions accurately record expenditures for goods and services in the accounting system to support financial reporting of liabilities in accordance with generally accepted accounting principles; and*

  -- *institutions collateralize bank balances in accordance with statutory requirements and identify violations throughout the year so MnSCU can report significant violations in the footnotes to the financial statements, if applicable.*

2. Inadequate internal controls over financial reporting in certain areas could result in material misstatements in the financial statements.

In our report on compliance and internal control over financial reporting, dated December 1, 2000, we reported the following three weaknesses in internal control that could result in material misstatements in MnSCU's financial statements.

First, MnSCU did not have an adequate process in place to ensure that assets were appropriately capitalized in the General Fixed Asset Account Group. Some colleges and universities did not accurately code building construction expenditures in the accounting system. As a result, expenditures were not appropriately recorded in the fixed asset account group. Based on our audit procedures and management's additional analysis, MnSCU needed to record an additional $38 million in assets in the General Fixed Asset Account Group.

Second, MnSCU did not reconcile state treasury cash balances recorded on the MnSCU accounting system to state treasury cash balances recorded on the state's accounting system (MAPS). As a result, MnSCU did not identify that the Minnesota Department of Finance had not transferred cash of approximately $50 million to the MnSCU General Fund as of June 30. The auditors for the MnSCU Revenue Fund also reported a finding that cash balances for the Revenue Fund should be reconciled between MnSCU accounting and the state's accounting system on a monthly basis.

Third, MnSCU did not have an effective process to identify and properly classify interfund transfers and related receivables and payables on the combined balance sheet. Management had difficulty identifying interfund activity related to clearing accounts and had to record adjustments to balance the interfund activity in certain cases. Generally accepted accounting principles require that interfund activity be detailed in the financial statements. The auditors for the Revenue Fund also recommended that universities balance interfund transactions on a monthly basis.

The material weaknesses identified in accounting for fixed assets, cash in the state treasury, and interfund transfers resulted in missed deadlines and inefficiencies in the financial reporting process. In addition, the financial statements for the Revenue Fund were not finalized until six weeks after established deadlines with the Department of Finance.

Recommendations

- *The MnSCU financial reporting unit should work with colleges and universities to ensure that expenditures for buildings are accurately recorded in the accounting system in compliance with the capitalization policies and procedures.*

- *MnSCU should reconcile the cash balances in the state's accounting system to the cash balances in the MnSCU accounting system each month to ensure that cash transactions are appropriately recorded.*

- *MnSCU should develop a process to identify and classify interfund activity and work with institutions to ensure that clearing account financial activity is recorded in a timely manner in the appropriate funds.*

- *MnSCU needs to ensure that it adheres to the financial reporting deadlines for preparing Revenue Fund financial statements.*

3. Certain colleges and universities failed to provide timely or complete financial information essential for accurate financial reporting.

Certain colleges and universities failed to provide the system office with bank account reconciliations and financial information on equipment, as follows.

- Anoka Ramsey Community College and North Hennepin Community College did not complete reconciliations of bank account balances to the accounting system by the financial reporting deadline in fiscal years 1999 and 2000. Anoka Ramsey Community College also failed to complete the fiscal year 1998 bank reconciliations by the reporting deadline. In addition, Minneapolis Community and Technical College (MCTC) had an unreconciled balance of approximately $46,000 at June 30, 2000, and is not current with its bank account reconciliations. While the majority of MnSCU colleges and universities have successfully implemented our prior audit recommendations and are completing timely bank account reconciliations, we are concerned with the inability or lack of commitment on the part of the cited colleges to address this fundamental accounting control.

- Certain institutions did not add new equipment purchases transferred from the system office records to the institution records. These unrecorded equipment transfers amounted to approximately $2 million.

The absence of key controls, such as reconciling bank account balances and subsidiary equipment records to the accounting system, adversely impacts the integrity of the financial reporting process. Failure by MnSCU institutions to meet established financial reporting deadlines negatively impacts MnSCU's ability to efficiently prepare accurate financial statements.

Recommendation

- *MnSCU needs to ensure that all colleges and universities provide accurate information within established deadlines to support financial reporting objectives.*

4. Noncompliance with federal and state regulations and other control weaknesses resulted in overpayments of financial aid.

Certain colleges and universities overpaid a total of $88,607 in financial aid to 25 students. We reviewed financial aid disbursements to all MnSCU students for compliance with upper program limits In addition, we performed detailed tests on 152 MnSCU students who received financial aid in fiscal year 2000. Of the total students tested, we selected 50 students randomly and 102 students because of the amount of financial aid received or other unusual circumstances (key item tests). All overpayments occurred within the key item population of students.

Table 3 highlights the overpayments by institution. Overpayments occur typically as a result of a breakdown in internal controls. Finding 5 discusses control weaknesses at Metropolitan State University pertaining to noncompliance with federal regulations governing financial aid awarding and packaging. Finding 6 discusses control weaknesses at Minnesota State University, Mankato that resulted in duplicate payments and unauthorized disbursements**.** Finding 7 discusses the control weaknesses that resulted in Northwest Technical College disbursing aid to students in excess of the cost of attendance.

The breakdown in internal controls occurred primarily when institutions entered manual adjustments to the financial aid awards or used a subsystem to calculate a financial aid award. MnSCU could prevent most of the overpayments identified in Table 3 with a standard system of edits similar to those found in the financial aid module of ISRS (Integrated Student Record System).

Table 3
Financial Aid Overpayments
Fiscal Year 2000

Institution	Program Name/Source of Funds (E)	Annual Award Limit (A)	Authorized Amount	Over-Payment	Overpayment Category
Metro State					
- Student 1	SUB UNSUB	\$ 3,500 \$ 4,000	\$ 5,500 \$ 5,000	\$ 2,000 \$ 1,000	Student transcript not verified
- Student 2	SUB	\$ 3,500	\$ 5,000	\$ 1,500	Student transcript not verified
- Student 3	SUB UNSUB	\$ 3,500 \$ 4,000	\$ 5,500 \$ 5,000	\$ 2,000 \$ 1,000	Student transcript not verified
- Student 4 (B)	PELL SEOG SUB UNSUB	Not Eligible	\$ 3,563 \$ 300 \$ 6,688 \$ 3,563	\$ 3,563 \$ 300 \$ 6,688 \$ 3,563	Academic progress
- Student 5 (B)	PELL MN Grant Child Care SUB UNSUB	Not Eligible	\$ 4,350 \$ 939 \$ 3,180 \$ 8,200 \$ 4,550	\$ 4,350 \$ 939 \$ 3,180 \$ 8,200 \$ 4,550	Academic progress
- Student 6	SUB	\$ 5,500	\$ 6,889	\$ 1,389	Exceeded undergraduate student loan limit
- Student 7 (C)	SUB UNSUB	Not Eligible	\$12,165 \$10,578	\$12,165 \$10,578	Exceeded undergraduate aggregate loan limit
- Student 8	SUB	\$ 5,500	\$ 6,750	\$ 1,250	Exceeded undergraduate student loan limit
- Student 9	UNSUB (D)	\$15,056	\$16,077	\$ 1,021	Exceeded cost of attendance
- Student 10	UNSUB (D)	\$15,036	\$15,971	\$ 935	Exceeded cost of attendance
- Student 11	UNSUB (D)	\$14,884	\$14,998	\$ 114	Exceeded cost of attendance
MSU, Mankato					
- Student 1	University Funds	\$ 5,500	\$ 8,250	\$ 2,750	Duplicate payment
- Student 2	University Funds	\$ 5,500	\$ 6,267	\$ 767	Duplicate payment
- Student 3	University Funds	\$ 5,500	\$ 6,628	\$ 1,128	Duplicate payment
- Student 4	UNSUB (D)	\$18,280	\$18,790	\$ 510	Incorrect cost of attendance calculation
- Student 5	UNSUB	\$ 0	\$ 2,525	\$ 2,525	Exceeded undergraduate aggregate loan limit

- Student 6	MN Grant	$ 572	$ 1,002	$ 430	Ineligible for 2nd term
Northwest Tech - Student 1	UNSUB (D)	$14,685	$16,611	$ 1,926	Exceeded cost of attendance
- Student 2	UNSUB (D)	$14,685	$15,969	$ 1,284	Exceeded cost of attendance
- Student 3	UNSUB (D)	$15,168	$16,520	$ 1,352	Exceeded cost of attendance
Normandale - Student 1	UNSUB (D)	$15,060	$16,154	$ 1,094	Exceeded cost of attendance
Moorhead - Student 1	UNSUB - Direct	$ 4,000	$ 5,059	$ 1,059	Exceeded undergraduate student loan limit
- Student 2	UNSUB - Direct	$ 5,000	$ 6,035	$ 1,035	Exceeded undergraduate student loan limit
St Cloud State - Student 1	SUB	$ 3,500	$ 5,500	$ 2,000	Exceeded undergraduate student loan limit
- Student 2	University Funds	$ 462	$ 925	$ 462	Exceeded student's authorized financial aid

(A) = Annual award limits vary depending on the type of financial assistance and the academic grade level obtained by the student.
(B) = Overpayment amounts include $3,970 that occurred in fiscal year 2001.
(C) = Overpayment amounts include $4,243 that occurred in fiscal year 1999.
(D) = FFEL was not over the limit, but FFEL is the first financial aid repaid if financial aid exceeds cost of attendance.
(E) = Program Name/Source of Funds includes federal, state, or institution funds. Federal programs listed include the PELL grant program, the Federal Family Education Loan Programs (SUB is subsidized loans, UNSUB is unsubsidized loans, and UNSUB Direct is the direct loan program) and the Supplemental Educational Opportunity Loan Program. State programs include the Minnesota State Grant Program (MN Grant) and the Child Care Program. Institution funds represent overpayments resulting from disbursements that exceeded the amounts authorized to be paid to students that were not funded from third party sources.

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

Recommendations

- *MnSCU colleges and universities identified above should work with the U.S. Department of Education or the Minnesota Higher Education Services Office to remedy the applicable financial aid overpayments.*

- *The colleges and universities should seek recovery of overpayments from students as appropriate, including when overpayments were made from institution funds.*

- *MnSCU should work with colleges and universities to design controls to prevent or detect financial aid overpayments.*

5. Metropolitan State University (Metro State) did not comply with requirements pertaining to awarding, packaging, and disbursing federal financial aid in certain instances.

As a result of the number and pattern of ineligible financial aid overpayments made by Metro State, the university needs to improve its quality control system to ensure compliance with the requirements governing federal financial aid. We tested 30 Metro State students (we selected one student at random and 29 students based on the amount of aid received or unusual circumstances (key item tests)) for compliance with federal financial aid requirements and identified 11 overpayments. All errors we identified resulted from the key item tests we performed. The errors occurred because Metro State did not verify academic progress, modify awards after notification of additional financial aid, or verify student information pertaining to class level. In addition, Metro State did not calculate cost of attendance budgets correctly.

- Metro State relied primarily on student loan questionnaires and student academic records to establish the class level for FFEL (Federal Family Education Loan Program) award limits. Class level should be established from the official student grade transcripts. Student transcripts indicate the official credits completed by the student. By not relying on official grade transcripts, the institution made three overpayments (Table 3, Metro State Students 1 – 3).

- Metro State did not follow its satisfactory academic progress policy, which resulted in overpayments as noted in Table 3 (Metro State Students 4 and 5). According to university policy, a student is placed on probation for one semester after failing to maintain a 2.0 cumulative grade point average. The student must maintain satisfactory progress during the probation period or financial aid is suspended. Metro State placed on probation two students who failed to meet minimum academic progress. However, Metro State did not suspend financial aid even though the students' cumulative grade point average remained below the minimum of 2.0.

- Metro State's policy to award graduate level financial aid to students who have applied but not been accepted to a graduate program did not comply with federal regulations. This issue resulted in overpayments as noted in Table 3 (Metro State Students 6 and 8).

- Metro State did not adjust award amounts for three students after obtaining information that the students received additional financial aid from third parties. The additional financial aid resulted in awards that exceeded the cost of attendance as noted in Table 3 (Metro State Students 9 – 11). The institution had sufficient notice to adjust each student's financial aid package to prevent the overpayments from occurring.

- Metro State did not follow established university procedures when calculating cost of attendance budgets for two students. According to Metro State procedures, the cost of attendance calculation includes loan service fees for Stafford loans. However, we found the cost of attendance calculation for two students did not include the loan service fees, resulting in potential underpayments to the students. The institution manually calculated increases to the cost of attendance for these two students. The correct cost of attendance ensures the institution is packaging up to the maximum a student can receive without going over the cost of attendance.

Recommendations

- *Metro State should design a system of quality control to ensure compliance with federal requirements, as follows:*

  -- *Metro State should use student grade transcripts to establish the class level when determining financial aid award limits.*

  -- *Metro State should follow its academic progress policy and suspend financial aid awards accordingly.*

  --*Metro State should award graduate level financial aid based only on student admission into a graduate level program.*

  -- *Metro State should adjust award amounts for students after receiving notification of the student's receipt of financial aid from other sources.*

  -- *Metro State should calculate cost of attendance budgets for students on a consistent basis.*

6. Minnesota State University, Mankato (MSU, Mankato) did not establish sufficient controls to prevent duplicate payments and unauthorized disbursements during a financial aid system conversion.

MSU, Mankato struggled with implementation of a new financial aid system in fiscal year 2000. As a result, we noted a number of exceptions at MSU, Mankato pertaining to compliance with financial aid regulations. We sampled 28 MSU, Mankato students; we selected four students at random and 24 students based on the amount of aid received or unusual circumstances (key item tests). All exceptions we identified resulted from our procedures on key item tests. MSU, Mankato disbursed duplicate payments to three students, resulting in overpayments as noted in Table 3 (MSU, Mankato Students 1 – 3). The duplicate payments occurred as a result of a procedural error. However, MSU, Mankato did not have a procedure in place to reconcile disbursements to awards and, therefore, did not detect the overpayments.

MSU, Mankato disbursed two additional unauthorized financial aid amounts when student cancellation requests were not properly processed. In accordance with the university's policy, one student requested cancellation of an unsubsidized loan. The university received the request, but still disbursed the unsubsidized loan to the student. The institution also received notification that a student was ineligible for a Minnesota State Grant because the student had attended school for eight semesters, the maximum allowed. However, the institution still paid the grant, resulting in an overpayment of financial aid (Table 3, MSU, Mankato Student 6).

Our testing also indicated that MSU, Mankato did not maintain adequate documentation as follows.

- Four students either had missing or outdated Institutional Student Information Records (ISIR) in their files. Although the ISIR is available electronically, we could not confirm certain adjustments, including adjustments to the expected family contribution (EFC). The missing documentation resulted from issues related to the system conversion. The ISIR must be available in a consistent, comprehensive, and verifiable format for audit purposes according to federal regulations.

- MSU, Mankato did not consistently calculate cost of attendance budgets. The institution manually calculated increases to the cost of attendance with the following inconsistencies:

  -- One student had the undergraduate loan fee added instead of the graduate loan fee.

  -- One student's cost of attendance only consisted of the cost of attendance increase, and did not include the standard cost of attendance.

  -- One student had the wrong standard cost of attendance.

  -- One student had allowable miscellaneous expenses documented, but the amount was not added to the cost of attendance.

  -- One student had child care costs added incorrectly to the standard cost of attendance and other miscellaneous expenses (Table 3, MSU, Mankato Student 4).

Recommendations

- *MSU, Mankato should determine if it processed additional duplicate financial aid payments and resolve those exceptions, if applicable.*

- *MSU, Mankato should establish controls to prevent duplicate payments, unauthorized disbursements, and missing documentation.*

- *MSU, Mankato should calculate cost of attendance budgets for students on a consistent basis.*

7. Northwest Technical College paid financial aid in excess of the cost of attendance to three students.

Northwest Technical College did not have proper controls in place to ensure financial aid did not exceed the cost of attendance. Our testing disclosed three instances where the institution received notification of additional financial aid paid to a student. The student received the additional aid before the institution disbursed the spring financial aid payments, thereby providing the institution sufficient time to adjust the spring financial aid disbursement.

According to the Student Eligibility section of the Student Financial Aid Handbook, "The total aid the student may receive from the student financial aid programs and other sources, can't exceed the student's cost." The financial aid office received the notification of additional grant awards, but did not enter the amounts into the financial aid subsystem as additional awards. The business office also did not notify the financial aid office of additional awards that it received before disbursement began. The overpayments that resulted from this breakdown in internal controls are summarized in Table 3 (Northwest Technical College Students 1-3).

Recommendation

- *Northwest Technical College should ensure that all sources of financial aid are considered in determining federal financial aid awards to ensure that students do not receive financial aid that exceeds their cost of attendance.*

8. Four students received PELL grants from more than one institution simultaneously.

Four students received concurrent payments for PELL grants from two institutions. Code of Federal Regulations (34 CFR 690.11) prohibit a student from receiving PELL grants from more than one institution in the same term.

Concurrent payments occurred when students failed to inform institutions that they were attending another institution during the same term. However, the institution bears the responsibility of verifying information provided by the student. Currently, there are two federal reports that should be used to verify information provided by the student pertaining to enrollment. One report, the National Student Loan Data System (NSLDS), is a computerized online information system that can be used as a preventive control. According to the Student Financial Aid Handbook, this report must be used by institutions when a student transfers between institutions. A second report, the RFMS Multiple Reporting Response Report, identifies overpayments and concurrent enrollment. This report is an exception report that should be used to follow-up on potential overpayments or concurrent enrollments identified each month.

As noted in Table 4, unauthorized disbursements resulted in overpayments when the institutions did not review the applicable federal reports. We also noted that Metro State was delinquent in requesting reimbursement of financial aid from the federal government. The reimbursement request notifies the federal government which students have received PELL grants. Since Metro State was the last school to request reimbursement, the federal government considers the overpayment to have occurred at that institution. In our report number 00-29, issued in July, 2000, we recommended that Metro State should bill or seek reimbursement from all funding sources on a timely basis.

Table 4
Financial Aid Overpayments (PELL Concurrent Payments)
Fiscal Year 2000

Student	Award Amount	Financial Aid Disbursement	Unauthorized Payment (1)	Student Responsibility	Institution Responsibility	Institution Responsible
Student 1	$3,125	$3,644	$1562	$519	$1,043	Metro State
Student 2	$3,075	$4228	$1,025	$0 (2)	$1,025	Metro State
Student 3	$3,125	$3,515	$1,172	$390	$782	Metro State
Student 4	$3,125	$4,687	$1,562	$1,562	$0	MSU, Mankato

(1) = 100 percent of the subsequent request for federal reimbursement is treated as an unauthorized payment.
(2) = Student was underpaid the maximum PELL allowed for the year by $385 after the institution transferred institutional funds from
the Allis grant to cover the overpayment.

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

Recommendations

- *The cited universities should work with the U.S. Department of Education to remedy the overpayments, and recover funds from students if applicable.*
- *Institutions should verify that students are not attending another institution using the NSLDS. Institutions should also review the RFMS Multiple Reporting Response Report and follow-up promptly on potential overpayments and concurrent payments.*

9. North Hennepin Community College received more in Federal Work Study reimbursements than it disbursed to students.

North Hennepin Community College requested and received $46,907 more in Federal Work Study funds in fiscal year 2000 than necessary. Federal regulations allow an institution to use federal money to fund 75 percent of the Federal Work Study Program. During fiscal year 2000, the institution paid $97,573 to students participating in the Federal Work Study Program. The federal share of those payments was $73,180; however, the college requested and received $120,087 in federal funds. As a result of our audit, the college has repaid the excess funds to the federal government.

As a result of the institution requesting more Federal Work Study funds than needed, North Hennepin Community College incorrectly reported Federal Work Study payments on its 1999-2000 Fiscal Operations Report (FISAP). The institution based the FISAP disbursement amounts on federal funds received rather than the payments made to students.

Recommendation

- *North Hennepin Community College should submit a revised 1999-2000 FISAP report.*

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 15, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 31, 2001

Report Signed On: March 12, 2001

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Status of Prior Audit Issues
As of January 31, 2001

March 2000, Legislative Audit Report 00-11 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, 1999. The scope included the following areas: tuition and fees; construction expenditures; 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 reconciling bank statements to accounting records in a timely manner. We classified the recommendation as substantially implemented. See Finding 3 for the current discussion of this issue. A second issue pertaining to refunds of excess administrative fees in a retirement account was implemented.

The report cited two 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.

State of Minnesota Audit Follow-Up Process

The Minnesota State Colleges and Universities (MnSCU) system, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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Minnesota State Colleges & Universities

March 8, 2001

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent management letter concerning the audits performed by the OLA on behalf of MnSCU related to the *audit of the State of Minnesota Financial Statements, the MnSCU Combined Balance Sheet and certain federal financial assistance programs for the year ending June 30, 2000.* The audit represents the fifth annual system wide review of MnSCU financial activities material to the state's Comprehensive Annual Financial Report. It also represents the first audit of the MnSCU Balance Sheet and footnotes, a significant milestone for our five year old organization. The Board of Trustees and our administration are strongly committed to the highest level of financial integrity in the management of MnSCU's 35 colleges and universities. This commitment is affirmed by our steady and substantial progress toward audited system-wide financial statements for MnSCU.

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. In our view that progress is evidenced by the limited number of findings which were cited in the first MnSCU Balance Sheet audit. We have already undertaken remedies to these finding and are confident that they will be cured prior to the 2001 audit.

The audit of certain federal financial aid programs identified several areas of concern to us. Administration of federal aid programs is highly complex and subject to a high degree of risk of error. The federal audit procedures result in virtually every transaction being reviewed. MnSCU colleges and universities disbursed over $250 million in federal financial aid in 2000 for the benefit of over 50,000 students. While concerned about the number of findings, we are committed to assisting colleges and universities with training, systems changes and other communications to help them administer these programs.

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. The MnSCU financial statements did not accurately present liabilities for goods and services and did not adequately disclose noncompliance with statutory requirements for collateralization of bank deposits.

We agree and have provided institutions additional guidance on the date to be used for various financial transactions. We also have a report that provides an indication of the overall accuracy of the liability date used in payment transactions. This is provided to institutions and used by the System Office to identify where additional work is needed to ensure proper coding of the liability date for disbursements.

For collateral, we have identified which institutions do not have collateral sufficient to cover their peak cash periods. We are working with them to increase their collateral and to ensure adequate collateral in the future. Where collateral was not adequate we are developing a method to identify the periods and extent of the collateral deficiency so that it can be appropriately disclosed.

2 Inadequate internal controls over financial reporting in certain areas could result in material misstatements in the financial statements.

We have emphasized the correct coding for transactions to improve reporting of capital expenditures and assets and for identifying and accurately reporting interfund activity. We are working to identify institutions not properly coding such transactions and will work with them to improve procedures.

We have begun to reconcile cash in the state treasury with the cash balances in the MnSCU accounting system and are refining the process to identify all differences. We are also monitoring cash transfers to MnSCU's accounts in the state treasury and have already identified an instance where transfers were not made for a special appropriation. This has been corrected.

Staffing was a significant issue in the delay in preparation of the Revenue Fund statements. We now have a full time accountant responsible for the revenue fund including preparation of the financial statements.

3. Certain colleges and universities failed to provide timely or complete financial information essential for accurate financial reporting.

A variety of approaches are being used to improve both timeliness and completeness of information from the institutions. Reconciling key data, especially bank balances, continues to be a top priority in our work with institutions. While we continue to provide assistance to institutions, some are turning to other institutions for assistance. Institutions who have conquered these problems are an invaluable resource to those still struggling.

4. Noncompliance with federal and state regulations and other control weaknesses resulted in overpayments of financial aid.

Metropolitan State University agrees with this finding. Metro State is deeply concerned with the seriousness of the findings in this financial aid audit, and will make significant administrative changes to eliminate the possibility of such errors occurring in the future.

While overpayments were identified, Metro State doesn't agree with the amounts of overpayments for students 4 and 5 in Table 3. Based on their policy for reviewing academic progress for purposes of financial aid, these students were indeed overpaid but by lesser amounts and fewer terms than stated in the audit. For the federal financial aid programs the total overpayments for students 4 and 5 were $8,601 and $6,635 respectively.

To prevent such overpayments in the future, first and foremost, Metro State will move its financial aid activity to the ISRS Financial Aid module effective with fall 2001 term. The edits built into this Financial Aid module will prevent the kind of errors noted in the report.

In the meantime, individual file reviews are being conducted on FY 2001 aid recipients so that any other loan limit issues can be identified and corrected within the current award/fiscal year. Lastly Metropolitan State University will work with the Department of Education, the Minnesota Higher Education Services Office and the students involved to recover any overpayments as appropriate.

Responsible person: Jim Cleaveland, director of financial aid
Cathleen Brannen, vice president for administration and finance

Minnesota State University, Mankato has billed the student for the amount owing and will repay the funds to the Minnesota Higher Education Services Office. They will also bill the three students identified as receiving duplicate payments. The University has developed a report that will catch errors that result in overpayments. This report will be produced immediately after the fall and spring disbursements and then on a monthly basis as additional aid is awarded and disbursed.

Minnesota State University Moorhead agrees with the findings and will seek reimbursement of the overpayments.

Normandale Community College converted to the ISRS financial aid system and is using its reporting capability to identify any potential overpayments.

Northwest Technical College agrees that these three students were overpaid. They will work with the U.S. Department of Education and the students involved to remedy any financial aid overpayments as appropriate. NWTC will be converting to the ISRS financial aid system for the 2001 and 2002 academic year. See also response to finding 7.

5. Metropolitan State University (Metro State) did not comply with requirements pertaining to awarding, packaging, and disbursing federal financial aid in certain instances.

Metropolitan State University agrees that federal financial aid distribution problems have existed and will address these problems as explained below. They believe that reimbursement of financial aid from the federal government is now being requested in a timely manner.

Metro State based awards for students 1, 2, and 3 on the loan questionnaire, the Metro State institutional application and a count of previous credits using transcripts from prior institutions, but did not look at Metro State's class ranking. Metro State will change its practice so that class ranking is confirmed from transcript before awards are made.

The Satisfactory Academic Progress process has been redesigned to operate within the ISRS system, and beginning with spring 2000 term reports were to identify and notify students who failed to meet guidelines. Students who failed to meet guidelines at that point were sent academic warning letters for fall 2000. Files were again reviewed after fall 2000, grades were recorded, and during early spring term 2001, students who again failed to meet guidelines were sent letters placing them on probation. After grades are recorded for spring 2001, all students will again be reviewed for progress. Students already on probation will be reviewed for either satisfactory progress or termination of future financial aid.

Regarding the awarding of graduate-level aid to students not yet admitted to a graduate program, Metro State will change its practice to better conform to Department of Education eligibility guidelines. This change will affect graduate program admissions practices, and will need to be fully communicated to graduate departments for smooth implementation.

In addition, Metro State has instituted a full review of current aid recipients to identify and correct any other loan limitation problems in the current award year.

Regarding the findings for Students 9-11, the transition to the ISRS Financial Aid module in fall 2001 will eliminate the possibility of overawards caused by third party awards already made.

Metro will review its processes for calculating cost of attendance for all students to ensure consistency and avoid such potential underpayments as noted in the report.

Responsible person: Jim Cleaveland, director of financial aid
Cathleen Brannen, vice president for administration and finance
Esther Peralez, vice president for student affairs

6. Minnesota State University, Mankato (MSU, Mankato) did not establish sufficient controls to prevent duplicate payments and unauthorized disbursements during a financial aid system conversion.

The University has developed a report that identifies overpayments and is in the process of resolving those issues. During fiscal year 2000 the university converted to a financial aid delivery system that did not produce the expected results. The university has moved to using the MnSCU financial aid module for delivery of financial aid beginning with fall semester 2000 and is no longer experiencing the data problems. Controls are in place in the system to prevent duplicate payments

The system used for receiving an ISIR would not always produce a printed ISIR. The data was retrievable from various screens, but the document itself, in some cases, could not be printed. For the academic year beginning August 2000 the university is disbursing financial aid using ISRS and no longer has any problems printing ISIRs.

The University believes that missing documentation was a result of it not being filed correctly. Information was available on the computer; however, the original paper source could not be found. The University will stress with staff the importance of correct filing.

The University concurs that cost of attendance budgets should be calculated on a consistent basis. The MnSCU system will now do this function which will eliminate the opportunity for human error.

7. Northwest Technical College paid financial aid in excess of the cost of attendance to three students.

Northwest Technical College agrees that the three students were paid financial aid in excess of the maximum allowed. The third party financial aid for these students was paid only 1 or 2 days prior to the disbursement of all other financial aid by NWTC. NWTC does make a good faith effort to identify such third party payments and reduce other aid as needed. Because the third party payments occurred so close to the date all other financial aid is disbursed, there wasn't time to make another review to identify the third party payments.

Financial aid disbursements are calculated about a week prior to actual disbursements using NWTC's current financial aid system, SARA. While their process does catch most instances where a student has already received third party financial aid, in this case the payments were made so close together that they were not caught.

NWTC will be converting to the ISRS financial aid module for the 2001- 2002 academic year. The edits in this system will provide greater assurance that third party awards can be identified and adjustments can easily be made to avoid overpayments. NWTC is currently reviewing all FY 2001 financial aid to identify any additional overpayments and are taking corrective action as needed.

8. Four students received PELL grants from more than one institution simultaneously.

Metropolitan State University agrees with this finding.

Metro State does use the National Student Loan Data System (NSLDS) system as part of its process to prevent simultaneous financial aid awards, but notes that the NSLDS information is historical, so will not necessarily identify duplicate aid awards for a current term being packaged. The RFMS Multiple Reporting Response Report, which has not been entirely reliable, is nonetheless an important tool in resolving problems as they arise. RFMS reports have been run for the current aid year terms, and all discrepancies are being checked and appropriate action taken.

Responsible person: Jim Cleaveland, director of financial aid
Cathleen Brannen, vice president for administration and finance

As to the timeliness of Metro State's drawdowns from the federal government, a record of all such drawdowns in the past 18 months indicates that any timing problems Metro State may have experienced in the past have now been fully resolved.

Responsible person: Jill Bemis, director of finance
Bruce Stene, grants accountant

Minnesota State University, Mankato is working with the Department of Education and the other school to correct the unauthorized payment. The payment occurred when the student registered at another university, but did not cancel his registration when he enrolled at Mankato. The other university has indicated they will be withdrawing the student allowing Mankato to collect the payment from the U.S. Department of Education on behalf of the student. The University is utilizing the U.S. Department of Education Potential Over Payments report as well as referencing the NSLDS system. The report is looked at regularly and any discrepancies followed up on.

9. North Hennepin Community College received more in Federal Work Study reimbursements than it disbursed to students.

The college agrees with the finding and in error, drew down $47,000 in federal work-study funds. Those funds were returned to the Department of Education on February 14, 2001. A corrected FISAP will be submitted by March 9, 2001.

Sincerely,

Laura M. King
Vice Chancellor - Chief Financial Officer