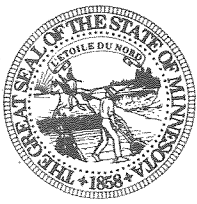


**COMMUNITY COLLEGE SYSTEM  
MANAGEMENT LETTER  
FISCAL YEAR 1987**

**MARCH 1988**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Dr. Gerald Christenson, Chancellor  
Community College System  
Room 203 Capitol Square Building  
550 Cedar Street  
St. Paul, Minnesota 55101

Dear Dr. Christenson:

We have reviewed certain accounting procedures and controls at the campuses of the Community College System as part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. The scope of our work has been limited to the federal programs cited in the Catalog of Federal Domestic Assistance (CFDA) which were included in the Single Audit scope. Specifically, for the Community College System those programs were:

<u>CFDA</u> <u>NUMBER</u>	<u>PROGRAM</u>
84.032	Guaranteed Student Loan (GSL)
84.033	College Work-Study (CWS)
84.038	National Direct Student Loan (NDSL)
84.063	PELL Grant

We emphasize that this has not been a complete financial and compliance audit of all programs within the Community College System. The work conducted is part of our annual Statewide Financial and Federal Compliance Audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the colleges of the Community College System for fiscal year 1987. Since the federal government is ultimately responsible for determining resolution of Single Audit recommendations, they will notify you of their final acceptance of your corrective actions.

The recommendations included in this letter are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. Progress on resolving these findings will be reviewed during our audit next year. This management letter contains all findings and recommendations developed during our audit. Since the issues included in this letter deal with the board office as well as individual community colleges, this letter is divided into sections which address the audit findings accordingly. Separate responses have been solicited from the respective individuals. In addition, Attachment I to this letter presents the results of supplemental audit tests on audit findings previously reported during 1987.

COMMUNITY COLLEGE BOARD OFFICE

1. Controls over the receipt and deposit of National Direct Student Loan (NDSL) collections is inadequate.

Administration of the NDSL program is shared between the community colleges and the board office. The colleges are responsible for awarding, disbursing, and recording loans as students enroll and attend college. Billing, collecting, and recording NDSL loan repayments after students have graduated is performed by the community college board office. During fiscal year 1987, approximately \$1.1 million in new loans was disbursed by the colleges and about \$800,000 was collected on outstanding loans by the board office.

Some internal control weaknesses exist over the receipt and deposit procedures for NDSL collections. First, one person at the board office is responsible for the receipt and deposit of the collections and also inputs the amounts received into the student records on the computer system. A good system of internal control provides adequate separation of duties so that the risk of errors or irregularities going undetected is minimized. Such a separation of duties is not present under the current system.

To compound the first weakness, the amount credited to the account receivable records each day is not reconciled to the amount deposited in the bank. There is a daily comparison of the amount credited to the account receivable records to the total of all the billing statements that are received with the payments. However, this provides no assurance that the amount credited to the account receivable records was actually received unless that amount is reconciled to the bank deposit. For example, a student could send in the billing statement but forget to send a check for the amount; or, a payment could be received and entered into the account receivable records but not deposited. In either instance, the error could go undetected because there is no reconciliation to the amount actually deposited in the bank. The board office should initiate such a reconciliation to be done by someone who has no access to cash receipts.

RECOMMENDATIONS

- The duties of receiving and depositing NDSL collections and updating the account receivable records should be separated.
- A reconciliation should be performed between the amount credited to the accounts receivable records each day and the amount deposited in the bank. This should be done by someone who has no access to cash receipts.

2. NDSL accounts turned over to collection agencies by the board office are not adequately monitored.

After the board office exhausts its means of collecting delinquent NDSL accounts, uncollectible accounts are turned over to collection agencies. The collection agencies attempt to locate and/or induce students to repay their loans. If successful, the accounts remain with the collection agency while students are making payments. As of June 30, 1987 there were 958 accounts at collection agencies with outstanding balances totaling approximately \$616,000.

There is a lack of control over monitoring the uncollectible accounts turned over to the collection agencies. First, there is no confirmation of outstanding balances at the collection agencies. Without such a procedure, the board could lose control over these accounts and fail to detect errors or irregularities that may occur.

Also, there are many accounts turned over to the collection agencies that remain inactive for an excessive period of time. We identified 122 accounts at collection agencies on January 23, 1988, that were inactive for at least one year. Of those 122, there were 31 that were inactive between one and two years, 64 inactive between two and three years, and 27 that were inactive for three to six years. If there is no action on accounts after a reasonable period of time, the accounts should be returned to the board office and other collection strategies should be pursued. We also noted that a contract with one of the collection agencies specifically states that student accounts showing no collection activity within 180 days shall be returned to the board office.

Federal regulations over the NDSL program require institutions that utilize the services of a collection agency to continually monitor the performance of the firms they are using. The periodic confirmation of accounts will ensure that the board office has current and accurate information on the accounts. It will also assist in identifying inactive accounts that remain at the collection agencies for an excessive period of time.

#### RECOMMENDATIONS

- A list of individual NDSL uncollectible loan balances should be obtained periodically from the collection agencies. These amounts should be reconciled to the account receivable records at the board office and any differences resolved.
- The board office should more closely monitor the accounts at collection agencies and request the return of any accounts that have remained inactive for an excessive period of time.

3. The board office inappropriately calculates service charges on NDSL loans turned over to collection agencies.

The board office contracts with collection agencies to collect delinquent NDSL funds from students for a specified fee. In fiscal year 1987, there were two principal agencies used. One charged a fee of 25 percent of the amount they collected and the other charged a fee of 33 1/3 percent of the amount collected. The amounts charged by the collection agencies are billed to the board office each month based on the gross collections that are resubmitted to the board office. Promissory notes signed by the students when they receive their NDSL funds specifically state that the student is liable for collection costs and other charges necessary for the collection of any amount not paid when due.

There is a problem with the method followed by the board office when adding the collection fee to an account balance. Before the account is turned over to a collection agency, the board office multiplies the balance by the collection fee percentage as stated in the contract and adds that amount to the account. The total amount is then turned over for collection. However, since the amount paid to the collection agency is based on a percent of total collections, the result is a loss of funds by the board office. For example, on a delinquent account with a balance of \$1,000, the board office would turn over \$1,250 to the collection agency and expect to receive the entire \$1,000 when collected. However, they actually pay collection costs of \$312 (25% of \$1,250) and receive only \$938 in principal. The loss of \$62 is ultimately absorbed by the NDSL fund and results in less funds available for new loans.

We tested 20 open accounts currently at collection agencies to determine the extent of NDSL funds lost due to the method followed. The test procedures assume that the loans were paid off immediately, the most conservative approach. The 20 sample items had outstanding balances totaling \$6,913. The amount the NDSL fund would lose on these accounts was estimated to be \$974.

Alternative methods to calculate collection fees should be considered by the board office to ensure that students pay all collection costs. In the example above, the board office should have added 33 1/3 percent to the balance before the account was turned over to the collection agency. For accounts turned over to a collection agency that charges a fee of 33 1/3 percent, the board office should add 50 percent to the account balance before turning it over. The staff at the board office explained that there was a clause in some promissory notes used in prior years that limited collection fees to 25 percent of the outstanding balance. The board office will have to treat these notes differently so that excess collection costs are not added to those balances.

#### RECOMMENDATION

- The board office should review the calculation they use to add collection fees to student balances. They should change the calculation to ensure that students are paying for all collection costs, if allowed in the promissory note.

4. Cash management of the NDSL funds needs to be improved.

Amounts received from students for repayments of NDSL loans are deposited each day by the board office in a local bank account. These funds are then returned to the community colleges to provide funding for the new loans that are awarded. Since the depository account is a non-interest bearing account, the board office occasionally invests the available NDSL funds in short-term instruments.

The board office explained that they maintain a balance of \$100,000 in the account in order to offset bank charges for processing the student work-study payroll which is processed through the same account. However, according to the Code of Federal Regulations, Chapter 34, parts 674.17 and 674.18, funds received under the NDSL program are held in trust for the intended student beneficiaries, and may be used only for making loans. Funds may not be used for any other purpose. By maintaining the \$100,000 in a non-interest bearing account, the board office is losing interest earnings that should be credited to the NDSL program.

The monthly bank balance indicates that the board office is not always investing available funds. Between July 1986 and July 1987, there were five months where the bank account balance ranged from \$314,000 to \$430,000. Yet on only four occasions did the board office invest excess funds in either 15 or 30 day certificates of deposit. At all other times these funds remained in the bank account without earning any interest.

RECOMMENDATION

- The board office should review their cash management procedures for the NDSL program. Any available cash should be invested to maximize interest earnings and to satisfy cash flow needs of the colleges as they disburse new loans.

MINNEAPOLIS COMMUNITY COLLEGE

5. Minneapolis Community College (MCC) is not adequately monitoring satisfactory academic progress.

According to the Code of Federal Regulations, Chapter 34, Part 668.16, institutions must develop a written policy defining satisfactory academic progress. The policy must include a qualitative measure, such as a minimum grade point average requirement, and a quantitative measure, such as the maximum time allowed for the student to complete an educational objective, degree, or certificate. Students must comply with the policy in order to be eligible for federal financial aid.

There are two problems at MCC regarding their policy on satisfactory academic progress. The first problem is that the existing policy is not adequately followed. One aspect of the policy developed by MCC states that a

student who does not meet satisfactory academic progress requirements for three consecutive quarters will not be eligible for financial aid in the following quarter. For fiscal year 1987, 30 student financial aid files and academic transcripts were tested for adherence to the academic progress policy. Five students were awarded financial aid, totaling \$4,675, even though they had not made satisfactory progress in the previous three quarters. These exceptions highlight the lack of an adequate method of tracking academic progress. Staff at the college indicated that modifications to the computerized system used in monitoring academic progress will ensure that students' progress is adequately controlled during the 1987-88 school year. However, problems were experienced when MCC was converting to this computerized system in 1987.


The other problem is that the policy developed by MCC to reinstate students financial aid eligibility is not reasonable. If a student does not meet the academic progress requirements after four consecutive quarters, they are placed on suspension and may no longer receive financial aid. However, the reinstatement policy currently allows financial aid eligibility to be reinstated if the student withdraws from MCC for three quarters and then re-enrolls. No other conditions for financial aid eligibility are placed on the student. This policy could permit a person to receive aid for an entire year without making academic progress, withdraw for three quarters and be eligible for aid upon enrollment again. Policies at all other community colleges and state universities require students to return on academic probation, make satisfactory academic progress, and/or appear before an appeal committee before their financial aid eligibility is reinstated.

#### RECOMMENDATIONS

- MCC must ensure that the system they use to monitor satisfactory academic progress is effective.
- MCC should strengthen its satisfactory academic progress policy for students who return to school after losing their financial aid eligibility.

Thank you for the cooperation extended to our staff during this audit.

Sincerely,

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

Attachment

March 15, 1988



COMMUNITY COLLEGE SYSTEM

RESULTS OF SUPPLEMENTAL AUDIT TESTS  
ON PREVIOUS AUDIT FINDINGS

In the audits of various community colleges completed between January and June 1987, some exceptions in the administration of federal financial aid programs were noted. The extent of certain exceptions could not be quantified at that time because fiscal year 1987 had not yet ended. Accordingly, additional audit testing was performed to quantify the exceptions for two audit findings. The results indicated that additional questioned costs were insignificant. Thus, this additional information is simply being disclosed to supplement the earlier audit findings. No new audit recommendations have been developed and the colleges were not asked to respond again. Their responses to the prior audit reports were sufficient to address our concerns.

NORTHLAND COMMUNITY COLLEGE (NCC)

1. Internal controls over college work study (CWS) time reporting need to be improved.

In our audit report #87-55 of NCC for fiscal years 1984 to 1986, we indicated in recommendation #12 that the college was adding hours to time sheets to reimburse students for meal expenses while on work study assignments. We reported that one student was given 14 additional hours for meal reimbursement. We tested all 41 CWS disbursements approved by the supervisor who was adding hours for meal reimbursement. Two more timesheets were found where hours were added. One timesheet indicated that six hours were added for meal reimbursement. The other timesheet had an additional 20 hours added to it. The extra hours may have been given to reimburse the student for use of a personal automobile. There was a note on the timesheet written by the student indicating that she had used her own car to travel to her work study assignment. Questioned costs for these items, at the CWS pay rate of \$3.35 per hour, total \$134. This amount includes the original 14 hour error noted in the initial audit report.

We also reported that all student time reports with other than whole hours were rounded up to the next full hour, allowing students to be paid for more time than actually worked. During fiscal year 1987, 106 students were receiving federal college work study financial aid. In a test of 81 timesheets for CWS disbursements during fiscal year 1987, we found that 21 were rounded up a half hour. Questioned costs for these items at the CWS pay rate of \$3.35 per hour, total \$35.

COMMUNITY COLLEGE SYSTEM

FERGUS FALLS COMMUNITY COLLEGE (FFCC)

1. Cumulative work study payments made to students are not monitored at FFCC.

During our audit of FFCC for fiscal years 1984 to 1986, we reported in audit report #87-50, recommendation #3 that the college was not monitoring cumulative work study payments made to students. This was reported based on one overpayment in the 19 sample items that were tested during the audit. We performed additional testing of 23 college work study awards granted during fiscal year 1987 in order to quantify the extent of this problem. No additional overpayments were identified as a result of testing fiscal 1987 records. The problem therefore seems limited to the control weakness addressed in our previous report.


DEPARTMENT : Community College System

STATE OF MINNESOTA

# Office Memorandum

DATE : March 15, 1988

TO : James R. Nobles  
Legislative Auditor

FROM :  Gerald W. Christenson  
Chancellor

PHONE : 296-3356

SUBJECT : Findings and Recommendations  
Federal Financial Aid Programs

We have reviewed the recommendations contained in the draft management letter summarizing the results of your 1987 audit of material federal financial aid programs. Your recommendations are numbered for reference and are followed by our response.

## Recommendation

- #1 The duties of receiving and depositing NDSL collections and updating the account receivable records should be separated.

## Response

This recommendation was implemented effective October 2, 1987.

## Recommendation

- #2 A reconciliation should be performed between the amount credited to the accounts receivable records each day and the amount deposited in the bank. This should be done by someone who has no access to cash receipts.

## Response

This recommendation was implemented effective October 2, 1987.

## Recommendation

- #3 A list of individual NDSL uncollectible loan balances should be obtained periodically from the collection agencies. These amounts should be reconciled to the account receivable records at the board office and any differences resolved.
- #4 The board office should more closely monitor the accounts at collection agencies and request the return of any accounts that have remained inactive for an excessive period of time.

Response

A listing will be provided by the collection agencies on a quarterly basis, effective March 31, 1988. The loan balances contained on the listing will be reconciled to the accounts receivable records in our office. Inactive accounts will be returned for alternative collection action.

The individual responsible for the implementation of these recommendations is Robert Hansen, Loan Collection Officer.

Recommendation

- #5 The board office should review the calculation they use to add collection fees to student balances. They should change the calculation to ensure that students are paying for all collection costs, if allowed in the promissory note.

Response

The calculations used to determine the amount to be collected by the agency will be changed to include total collection costs, if allowed in the promissory note, effective April 1, 1988.

The individual responsible for the implementation of this recommendation is Robert Hansen, Loan Collection Officer.

Recommendation

- #6 The board office should review their cash management procedures for the NDSL program. Any available cash should be invested to maximize interest earnings and to satisfy cash flow needs of the colleges as they disburse new loans.

Response

The NDSL checking account was converted to an interest bearing account effective January 1, 1988. Cash flow to the colleges has returned to a monthly transmittal of collections. These monthly collections are sent to the colleges by the fifteenth of the following month. The student payroll account will be assessed a monthly processing charge by the bank, which will be paid from operating (general) funds.

Minneapolis Community College will respond directly to the two recommendations concerning satisfactory academic progress.

We appreciate the opportunity to respond to the recommendations. Your assistance in improving the overall management of the financial aid programs is greatly appreciated.

cc: Jim Riebe, OLA  
Eric Radtke  
Glenn Wood  
Larry Maroney