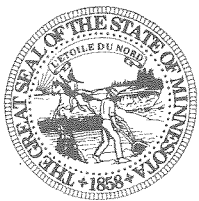


**HIGHER EDUCATION COORDINATING BOARD
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 1988**

SEPTEMBER 1988

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Dr. Kathleen Kies, Acting Executive Director
Higher Education Coordinating Board
400 Capitol Square Building
500 Cedar Street
Saint Paul, Minnesota 55101

Dear Dr. Kies:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1988 financial statements and federal programs. The scope of our work has been limited to:

- the Minnesota Scholarship and Grant-in-Aid program;
- federal programs included in the single audit scope, specifically the Guaranteed Student Loan program CFDA #84.032 and the Paul Douglas Scholarship program CFDA #84.176; and
- the status of prior audit findings.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's requirements for all federal programs administered by your department in fiscal year 1988.

The various student loan funds are audited by a CPA firm. The Guaranteed Student Loan program loans are serviced by the HEMAR Service Corporation. A CPA firm conducts a review of the loan servicing procedures for the Guaranteed Student Loan program. We will evaluate their work as part of our audit of the State of Minnesota's fiscal year 1988 financial statements.

Findings #1, 2, and 4 through 6 from the fiscal year 1987 audit have been resolved. Finding #3 has not been resolved and is presented again in this letter as finding #1. We will review your progress on resolving this finding during our audit next year.

1. PRIOR FINDING NOT RESOLVED. The method for disbursing grants for the Minnesota Scholarship and Grant-in-Aid program needs to be improved.

The Minnesota Scholarship and Grant-in-Aid program is a need-based grant that is awarded to eligible Minnesota students. During fiscal year 1988, about \$64.7 million was disbursed to students. The Higher Education Coordinating Board (HECB) utilizes a computer system to calculate the financial aid award and record all disbursements and refunds for the program.

HECB disburses the financial aid checks and a payment roster to the appropriate institutions. All students receive full-time awards regardless of whether they are attending only half or three-quarter time. When HECB disburses the full aid award, they are relying entirely on the institutions to refund the correct amount for students who are not full-time. If the schools are withholding money or inaccurately calculating refunds, HECB could be losing a substantial amount of aid money since many of the schools submit large refunds back to HECB. In fiscal year 1988, \$16.2 million of the \$71.6 million sent to the schools was refunded to HECB. HECB is disbursing an excess of 23 percent which the institutions may be holding for their own investment interests. By disbursing in this manner, HECB is following poor cash management practices and losing investment income for the state.

HECB does have some controls to monitor the refund process but the controls do not adequately ensure that accurate refunds will be returned on a timely basis. Institutions are required to return the payment rosters and any refunds within 30 days after they are received. However, there is no penalty involved if the rosters and refunds are not returned. HECB has an internal audit staff which reviews each institution's records every five to six years. However, with such a delay, HECB could have lost a substantial amount of investment income.


HECB should devise tighter controls for disbursing the original awards to the schools. One possible solution would be to estimate the amount that should be disbursed to schools which receive lump sum checks by reviewing prior years awards and refunds. This would reduce some of the refunds required and thereby cut down on the potential misuse by the institutions. HECB has also developed the Alternate Delivery System with the six state universities. The universities are responsible for calculating the awards and requesting the money from HECB. HECB reviews the requests and disburses the money. This type of procedure will improve disbursement controls for the grant program when it is perfected.


RECOMMENDATION

- *HECB should devise a system that would improve the cash disbursement controls over the Minnesota Scholarship and Grant-in-Aid program.*

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

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

September 15, 1988

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HIGHER EDUCATION
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OFFICE OF THE EXECUTIVE DIRECTOR

September 15, 1988

James Nobles, Legislative Auditor
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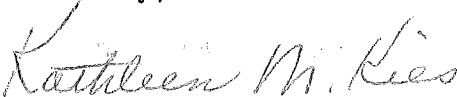
Dear Mr. Nobles:

Attached is the HECB's response to the draft audit finding and recommendation as presented to the HECB at the exit conference August 30, 1988. We feel that this response will adequately answer the concerns in your audit report.

Due to the difficulties in implementing a comprehensive cash disbursement method for all institutions participating in the Minnesota Scholarship and Grant-In-Aid Program, because of their differing needs and accounting capabilities, we have determined the best way to fulfill the requirement of the recommendation is to request legislative authority to charge interest to those institutions who do not return excess funds in a timely manner. This will allow all institutions to use the disbursement method that best fits their needs and charge interest only to those institutions that do not promptly return excess funds. The attached document provides the detail on how we are proceeding with implementing the Recommendation.

We would like to thank the auditors from your office who performed their duties in a professional manner.

Sincerely,



Kathleen M. Kies
Acting Executive Director

KMK:cjn

Attachment

HIGHER EDUCATION COORDINATING BOARD
RESPONSE TO THE OFFICE OF LEGISLATIVE AUDITOR'S AUDIT RECOMMENDATION

Recommendation

HECB should devise a system that would improve the cash disbursement controls over the Minnesota Scholarship and Grant-In-Aid Program.

Response

Based on discussions at the audit closing conference, it appears that the Office of Legislative Auditor's main concern was the extensive period of time many post-secondary institutions held state monies, without paying interest, before returning refunds for students not attending or attending less than full-time.

The HECB disburses scholarships and grant funds to post-secondary institutions using three methods:

1. Prepare a State Warrant for each recipient and send them to the institutions for delivery to the recipient, in accordance with program criteria.
2. Prepare a single State Warrant payable to the institution for a number of program recipients. The institution deposits the warrant and prepares individual checks to eligible students.
3. Send funds payable to an institution based on estimated usage for a term using the Alternate Delivery Concept.

The concern of the auditors is in method number two where institutions cash the State Warrant and hold the unused funds for a time period longer than the time program procedures determine is necessary. To address this concern, the HECB is requesting legislative approval to charge institutions interest on unused funds that are returned after the time period defined in the program criteria. The interest would be deposited in the State Treasury.