

File

**COMMUNITY COLLEGE SYSTEM
MANAGEMENT LETTER
FISCAL YEAR 1989**

APRIL 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

90-25

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

COMMUNITY COLLEGE SYSTEM

STATEWIDE AUDIT FISCAL YEAR 1989

Public Release Date: April 26, 1990

No. 90-25

OBJECTIVE:

The audit scope was limited to the testing of major federal programs administered by the Community College System. We included the following federal programs:

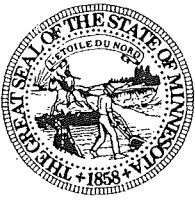
- Stafford Loans (formerly GSL),
- College Work Study,
- Perkins Loans (formerly NDSL), and
- PELL Grants.

CONCLUSIONS:

We found the Community College System Office or individual colleges had not complied with federal regulations in the following areas:

- Federal financial aid expenditures not accurately reported. (System Office)
- Excessive federal cash balances held in the federal college work study account. (System Office)
- Late charges on certain Perkins Loans not assessed as required. (System Office)
- Federal college work study funds disbursed to ineligible students. (Willmar Community College)
- PELL grant improperly paid. (Willmar and Minneapolis Community Colleges)
- Inadequate academic progress policy. (Minneapolis and Rochester Community Colleges)
- Improper budgets used for calculating financial need. (Worthington Community College)

Contact the Financial Audit Division for additional information.
(612) 296-1730



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
Saint Paul, Minnesota 55101

Dear Dr. Christenson:

We have conducted an audit of certain federal programs at the Community College System as a part of our statewide audit of the State of Minnesota's fiscal year 1989 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	Stafford Loans (formerly GSL)
84.033	College Work Study
84.038	Perkins Loans (formerly NDSL)
84.063	PELL Grant

As a part of this audit, we tested samples of students who received federal financial aid through each of the federal programs listed above. For each student we tested, we determined compliance with material federal legal provisions for the programs. Students from all colleges within the Community College System were included, as follows:

Austin Community College	Anoka-Ramsey Community College
Brainerd Community College	Fergus Falls Community College
Hibbing Community College	Inver Hills Community College
Itasca Community College	Lakewood Community College
Mesabi Community College	Minneapolis Community College
Normandale Community College	North Hennepin Community College
Northland Community College	Rainy River Community College
Rochester Community College	Vermilion Community College
Willmar Community College	Worthington Community College

We also reviewed certain system-wide procedures and controls at the Community College System Office. These included central controls over student payroll, Perkins repayments, and cash management.

Finally, we reviewed internal controls over federal financial aid on certain individual community colleges, offices, and centers during fiscal year 1989. We issued a separate report on each of these audits, and their

results are not repeated in this management letter. We evaluated internal controls at the following components of the Community College System during fiscal year 1989:

Arrowhead Comm. College Region Office	Rpt. #89-41
Hibbing Community College	Rpt. #89-44
Mesabi Community College	Rpt. #89-45
Minneapolis Community College	Rpt. #89-49
Itasca Community College	Rpt. #89-50
Cambridge Community College Center	Rpt. #89-63
Rainy River Community College	Rpt. #89-64
Vermilion Community College	Rpt. #89-69

The following findings discuss material instances of noncompliance with legal requirements relating to federal financial aid. Findings 1, 6, 8, and 9 discuss noncompliance with general administrative and eligibility requirements. Findings 2 and 4 relate to college work study. Findings 5 and 7 discuss Pell grant overpayments. Finding 3 relates to the Perkins Loan program. We have not organized these issues by federal program. Rather, we arranged them according to the entity responsible for resolution.

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 Community College System and its colleges for fiscal year 1989. 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.

COMMUNITY COLLEGE SYSTEM OFFICE

1. The Community College System Office is not accurately reporting federal financial aid expenditures.

The System Office is not accurately accumulating and presenting federal financial aid activity for the state's annual financial report and the single audit schedules. The System Office depends on financial information provided by the colleges to determine financial activity for the Community College System as a whole. However, the information provided by the colleges is not always complete and accurate and the System Office has not taken steps to verify the incoming information.

In several cases, the System Office did not include information from every college in their system-wide totals. For example, the System Office total for Pell Grants erroneously omitted two of the eighteen colleges representing \$1,500,000 in expenditures. It also omitted the Perkins Loan federal capital contributions for four colleges.

In many cases, the information that the colleges have provided to the System Office does not agree with the information the college submitted on the annual federal fiscal operations (FISAP) report. Seven of the

colleges did not accurately report to the System Office the required percentage state match amounts for the federal Perkins Loan program. In addition, the match amounts reported were \$127,000 less than the total match amount actually provided by the System Office to the colleges.

The System Office does not verify the college financial information. The System Office does not perform any comparisons between the FISAP reports and the financial activity reports. In addition, the System Office has detailed information for the federal college work study program and the Perkins Loan program available through its central systems. It also has information on the amount of state match provided to individual colleges during the year. However, it has not used this information to determine the reasonableness of the incoming information.

As a result of these problems, the financial activity has not been reported accurately. We adjusted the reported amounts in order to assure that the Community College System's financial activities relating to federal financial aid were fairly presented.

RECOMMENDATIONS

- The System Office should work with the individual colleges to help them accurately report annual federal financial aid activity.
- The System Office should verify the reasonableness of incoming federal financial aid financial activity reports and adjust the amounts as necessary.

2. The System Office maintains excessive federal cash balances in the federal college work study account.

During fiscal year 1989, the System Office maintained an average month end cash balance of approximately \$114,000 in its federal work study account in the state treasury. The federal share of the biweekly college work study payroll averaged approximately \$63,000 during the same period. Our analysis, based on month end cash balances and the number of days until the next payroll date, showed an average excess federal cash balance of approximately \$103,000 in the System Office account. Additional federal work study money also may be held in individual college bank accounts. Finally, the interest on the excess cash amounts is not being credited back to the federal work study program as required by federal regulations.

Each college is responsible for drawing down their own federal college work study funds. Within five days of the request, the Federal Reserve deposits the funds directly into each college's local bank account. At the request of the System Office, each college transfers money from their local account to the state treasury depository. The System Office is responsible for processing student payroll and maintaining a record of college's deposits. Biweekly, the System Office withdraws sufficient funds from the state account to pay the federal portion of the student payroll.

The U.S. Department of the Treasury Circular 1075 requires that recipients of federal funds limit cash balances to immediate needs. The U.S. Department of Education further states that cash on hand should not exceed the immediate needs of the student financial aid programs. The colleges should not hold any federal work study money in their local financial aid accounts. The Community College System should only have enough funds on hand to cover immediate payroll needs.

RECOMMENDATION

- The System Office should limit the amount of federal work study money on hand for the system as a whole to the amount necessary to fund immediate disbursement needs.

3. The System Office is not assessing late charges on certain Perkins Loans as required.

Currently, the System Office is only assessing late charges on delinquent repayments for loans issued after June 30, 1987. However, according to federal regulation 34 CFR 674.31(b)(5), late fees must be assessed on all delinquent repayments of Perkins Loans issued after January 1, 1986. System Office officials told us that the current Perkins repayment system cannot segregate this group of loans. However, in order to comply with the federal regulations, the System Office must make the necessary changes to ensure that late fees are assessed as required.

RECOMMENDATION

- The System Office should assess late fees on all delinquent repayments for Perkins Loans issued after January 1, 1986.

WILLMAR COMMUNITY COLLEGE

4. Willmar Community College disbursed federal college work study funds to ineligible students.

Willmar Community College disbursed federal funds inappropriately to two of the eight federal college work study students we tested. The college paid the two students a total of \$664 in federal college work study funds even though they were not eligible for federal financial aid. The financial aid office had determined that neither student had any financial need. Since they did not have financial need, according to applicable federal regulations, they were not eligible to work under the federal college work study program. The \$664 in federal workstudy received by these students is an overpayment and must be reimbursed to the federal college work study account. In addition, the college should review its process for assigning and paying federal college work study to make sure that such overpayments are avoided in the future.

RECOMMENDATIONS

- Willmar Community College should reimburse the federal college work study account for the \$664 overpayment.
- Willmar Community College should take steps to ensure that it does not continue to make federal college work study overpayments.

5. Willmar Community College overpaid a Pell grant.

Willmar Community College overpaid one of the five Pell grant recipients we tested during fiscal year 1989. The college paid a student \$734 in Pell grant funds, based on full-time enrollment status. However, the student dropped a class, which changed his status from full-time to half-time. The college did not recalculate his award as required by the applicable federal regulations. Enrolled half-time, the student was only eligible for a half-time Pell grant payment of \$367. As a result, the college overpaid the student \$367.

RECOMMENDATION

- Willmar Community College should reimburse the Pell grant program for the overpayment. The college should recalculate federal financial aid awards if the student's enrollment status changes.

MINNEAPOLIS COMMUNITY COLLEGE

6. Minneapolis Community College is not properly monitoring student academic progress.

During fiscal year 1989, Minneapolis Community College paid Pell grant funds to two students who did not maintain satisfactory academic progress. Under federal financial aid regulations, each college must establish a satisfactory academic progress policy and measure students' performance. The Minneapolis Community College policy requires students to complete a certain percentage of credits while maintaining a 2.0 grade point average. According to the policy, students not making satisfactory academic progress for three consecutive quarters are put on probation and are no longer eligible to receive federal financial aid.

In two of the ten students we tested, Minneapolis Community College paid Pell grants to students who were ineligible. The college satisfactory academic program policy requires students to complete 60 percent of credits attempted up to 43 credits and 75 percent of credits over 43 credits. One student received a \$355 Pell grant despite not achieving satisfactory academic progress during the previous four quarters. Her 21 percent completion rate was below the 60 percent requirement for students who have attempted less than 43 credits. Another student received a \$550 Pell grant when she only had a 17 percent completion rate during the previous four quarters. This rate falls short of the 75 percent requirement for students who have attempted over 43 credits.

RECOMMENDATIONS

- Minneapolis Community College should reimburse the Pell grant account for the \$905 in overpayments. The college should attempt to collect the overpayments from the students.
- Minneapolis Community College should only pay financial aid to students who are making satisfactory academic progress.

7. Minneapolis Community College paid a Pell grant to an ineligible student.

Minneapolis Community College paid a \$355 Pell grant to a student who was ineligible. Federal regulations require Pell grant recipients to be enrolled on at least a half-time basis. Half-time is defined as six credit hours or more per quarter. Institutions must calculate a student's payment for each term based on the enrollment status for that term. Students who drop below half-time status are not eligible to receive a Pell grant for that quarter. Minneapolis Community College paid one student \$355 in Pell grant funds without verifying his current enrollment status. The student had become ineligible after dropping from six to three credits.

RECOMMENDATIONS

- Minneapolis Community College should return the \$355 ineligible payment to the Pell account. The college should attempt to recover the overpayment from the student.
- Minneapolis Community College should verify the enrollment status of all students at the time financial aid is disbursed.

ROCHESTER COMMUNITY COLLEGE

8. Rochester Community College's satisfactory academic progress policy is inadequate.

Rochester Community College's satisfactory academic progress policy is inadequate in two respects. First, the college does not measure academic progress for the school summer sessions. For example, one Rochester Community College student registered for a total of 35 credits during winter, spring, and summer sessions of 1988-89. However, she did not successfully complete any of these credits. Under the college's policy, students who do not make satisfactory academic progress for three consecutive quarters face suspension and are no longer eligible for federal financial aid. However, the college did not count the nine credits the student attempted during the summer session as an academic quarter. As a result, the college awarded the student a \$2567 Stafford Loan in the fall quarter of 1989.

Rochester Community College also did not apply the satisfactory academic progress policy to one student. During fiscal year 1989, one ineligible student received a \$300 Perkins loan because college employees did not correctly identify his academic status. This student was ineligible because he did not complete the percentage of courses during the three previous quarters required by the policy. College employees were unable to explain why this student had continued to receive federal financial aid.

RECOMMENDATIONS

- Rochester Community College should include all quarters when measuring a students academic progress standing.
- Rochester Community College should apply its satisfactory academic progress policy to all students.
- Rochester Community College should repay the Perkins fund for the loan made to an ineligible student.

WORTHINGTON COMMUNITY COLLEGE

9. Worthington Community College used improper budgets for calculating financial need.

During fiscal year 1989, Worthington Community College routinely calculated financial need incorrectly. The financial aid office used living cost budgets for independent students based on a twelve month period. It used the twelve month period regardless of whether the student attended school year-round. Federal regulations were changed and no longer allow this practice. Beginning with the 1988-89 award year, schools were required to develop standard budgets based on the length of the award period only. They could no longer routinely develop budgets to accommodate living expenses for periods of non-enrollment.

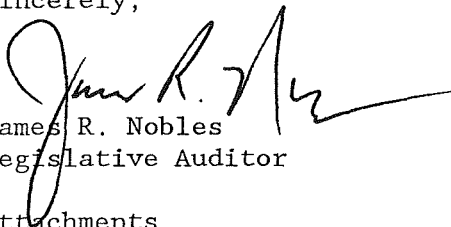
Because Worthington Community College used twelve month budget amounts for independent students, they increased the financial need for all of these students. As a result, the college may have overawarded federal financial aid to many of these independent students. The difference between the nine month and twelve month independent student budgets during fiscal year 1989 were \$2,435 and \$1,578 for students over and under 35 years of age, respectively. Although the financial aid office used the incorrect budget for both independent students we tested, neither resulted in an overpayment. We did not determine the extent of overpayments, if any, among other independent students, which resulted from the use of these erroneous budgets.

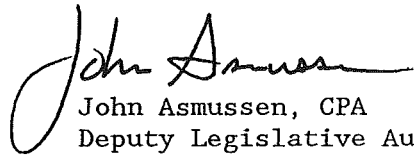
RECOMMENDATIONS

- Worthington Community College should determine the extent of overpayments resulting from the use of the erroneous budget amounts. They should remedy the overpayments as appropriate.
- Worthington Community College should use nine month budget amounts for independent students, as required by the federal regulations.

Thank you for your cooperation during this audit.

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

Attachments

END OF FIELDWORK: February 23, 1990

REPORT SIGNED ON: April 23, 1990



Office of the Chancellor
203 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612/296-3990

April 12, 1990

Jeanine Leifeld, CPA
Audit Manager
Office of The Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Jeanine;

In response to the Legislative Auditors' findings and recommendations contained in the audit report for the systemwide federal financial aid audit for the year ended June 30, 1989, the following action will be taken.

Finding 1

The Community College System Office is not accurately reporting federal financial aid expenditures.

This finding was caused by differences in the use of reporting package used by the colleges to report year end financial aid receipts and expenditures. The package allows many items to be listed on several different lines. This practice has made determining the completeness and accuracy of the report somewhat difficult. To correct this problem, the report format is being changed to require receipts and expenditures to be listed on specific lines. The modified report package will be completed by May 18, 1990 and all accounting and business officers will participate in a training session to assure the accuracy of future reports.

The person responsible for implementing the above mention resolution is Jim Harris. The expected completion date is July 31, 1990.

Finding 2

The System Office maintains excessive federal cash balances in the Federal College Work Study account.

A Lotus personal computer program will be developed to project and analyze the cash balance of the Federal Work Study for the System. The program should aid in limiting the amount of cash on hand to immediate payroll needs. We will also contact each college and request that they should not hold any Federal Work Study money in their local financial aid accounts.

The person responsible for implementing the above mentioned resolution is Jan Ahmann. The expected completion date is June 1, 1990.

Jeanine Leifeld
April 12, 1990
Page 2

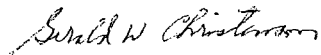
Finding 3

The System Office is not assessing late charges on certain Perkins Loans as requested.

A list of all Perkins Loans initiated between January 1, 1986 and June 30, 1987 will be generated and these loans will be "flagged" to have our computer system begin assessing late fees for delinquent repayments.

The person responsible for implementing the above mentioned resolution is Bob Hansen. The expected completion date is June 30, 1990.

Sincerely,



Gerald Christenson
Chancellor

GC:de

cc: Neil Christenson, Deputy Chancellor
Glenn Wood, Director of Fiscal Services



**WILLMAR
COMMUNITY
COLLEGE**

April 11, 1990

Jeanine Leifeld, C.P.A.
Audit Manager
Office of the Legislative
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

In response to the audit your staff conducted at Willmar Community College

4. Willmar Community College disbursed Federal College Work Study Funds to ineligible students.

Willmar Community College will refund \$664 to the Federal College Work Study Program for FY year 1989. The Financial Aid Office has and will continue to ensure that students will not be paid from sources that the students are not eligible for. With our computer payroll in place, we will be able to monitor the various programs more closely in the future.

5. Willmar Community College overpaid Pell Grant.
The college will reimburse the Pell Grant program \$367 as recommended by the auditor.

The student in question was enrolled as a full-time student and did drop to half time after the start of the quarter, but our computer system used a term called "eat-out," thus we have no record as to when the student dropped credits.

P.O. Box 797 Willmar, Minnesota 56201 (612) 231-5102

Equal Opportunity/Affirmative Action Employer

The Admission Office no longer uses the "eat-out" method and we will be able to track student credits in a timely manner.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Phillips". The signature is fluid and cursive, with the first name "Bert" being more prominent than the last name "Phillips".

Bert Phillips
Financial Aid Director

/bjo

cc: Harold Conradi
President WCC



1501 Hennepin Avenue
Minneapolis, MN 55403-1779
612/341-7000

April 11, 1990

Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

This letter is our formal written response to findings six and seven of your systemwide federal financial aid audit for the year ended, June 30, 1989.

Finding 6: Minneapolis Community College is not properly monitoring student academic progress.


Minneapolis Community College has ceased relying on the computer printouts supplied from our system office. We now check each student's academic progress on the computer by accessing each quarter. This process should alleviate all problems noted by the audit relative to satisfactory progress. Responsible persons: Josephine Reed-Taylor, Dean of Students; Rhoda Gallagher, Financial Aid. Completion date: 9/89.

Finding 7: Minneapolis Community College paid a Pell grant to an ineligible student.

Minneapolis Community College has implemented a system to verify the number of credits a student is registered for, before financial aid is disbursed. This procedure was operating prior to the field work of this audit, as a result of a previous audit finding. Responsible persons: Dave Piechowski, Business Officer; Rhoda Gallagher, Financial Aid. Completion date: 12/89 (completed).

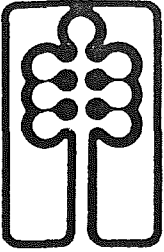
Thank you for bringing these findings to our attention.

Sincerely,


Earl W. Bowman, President
Minneapolis Community College

cc: Margaret A. Kircher
Rhoda Gallagher
Dave Piechowski
Josephine Reed-Taylor

T H E C I T Y C O L L E G E



ROCHESTER
COMMUNITY
COLLEGE

Celebrate
MINNESOTA 1990

April 18, 1990

Ms. Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

On April 17th I talked with Chris Buse about the letter I sent to you concerning our recent financial aid audit. The following further addresses the issues related to your recent audit review.

Effective immediately RCC will enforce its satisfactory progress policy on all students for all quarters. Mr. Jim Wignes, Associate Dean for Student Development, will be responsible for implementing this policy. Rochester Community College will also repay the Perkins fund \$300.00. Mr. Gary Swenson, Director of Business Services, will make arrangements to return this repayment immediately.

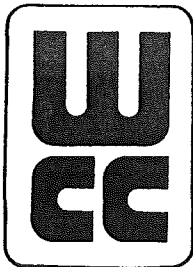
I trust this resolves your concerns.

Sincerely,

Ronald E. Thomas, PhD
Dean of Student and Community Services

RET:jjk

CC: G. Evans
J. Wignes
G. Swenson
G. Trisko



worthington
community college
the college that cares about you

April 2, 1990

Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

Per your letter of March 29, 1990, our formal written response to finding 9 of the systemwide federal financial aid audit for the year ending June 30, 1989 is as follows:

Twelve month budgets are no longer being used to calculate student budget. Those that were have been reviewed and adjusted.

Proper budget amounts are now being used according to Federal and State regulations.

Sincerely,

C.W. "Connie" Burchill
President

CWB"dr