

**STATE UNIVERSITY SYSTEM
MANAGEMENT LETTER
FISCAL YEAR 1990**

APRIL 1991

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

91-24

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

STATE UNIVERSITY SYSTEM

STATEWIDE AUDIT FISCAL YEAR 1990

Public Release Date: April 12, 1991

No. 91-24

OBJECTIVE:

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

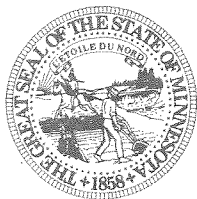
- Stafford Loans (formerly GSL),
- Perkins Loans (formerly NDSL), and
- PELL Grants.

CONCLUSIONS:

We found that the individual state universities noted had not complied with federal regulations in the following areas:

- No repayment of noninstitutional aid upon withdrawal. (St. Cloud State University)
- State match not deposited under Perkins Loans in a timely manner. (Bemidji State University)
- Financial aid paid to an ineligible student. (Moorhead State University)
- Academic progress policies not being followed. (Moorhead State University)
- Family contribution amounts incorrectly calculated. (Moorhead State University)
- Federal capital contribution received after the award period.

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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Robert Carothers, Chancellor
State University System

Members of the State University Board

State University Presidents

Audit Scope

We have conducted an audit of certain federal programs at the State University System as a part of our statewide audit of the State of Minnesota's fiscal year 1990 financial statements and federal programs. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the federal programs of the State University System are free of material misstatements.

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 State University System those programs were:

<u>CFDA</u> <u>NUMBER</u>	<u>PROGRAM</u>
84.032	Stafford Loan (formerly GSL)
84.038	Perkins Loan (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 tested, we determined compliance with material federal legal provisions for the programs. Students from all universities within the State University System were included, as follows:

St. Cloud State University	Southwest State University
Mankato State University	Winona State University
Bemidji State University	Moorhead State University
Metro State University	

We also reviewed the internal controls at Bemidji and Mankato State Universities over the federal financial aid programs listed above.

Representative Ann Rest, Chair
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Finally, we reviewed internal controls over federal financial aid at certain individual state universities during fiscal year 1990. We issued separate reports on each of these audits, and the results are not repeated in this management letter. We evaluated internal controls at the following components of the State University System during fiscal year 1990:

St. Cloud State University	Rpt. #90-34
Winona State University	Rpt. #90-59

Conclusions

We determined, with the exception of finding 2, that the internal controls in effect at June 30, 1990 provided reasonable assurance that Bemidji and Mankato State Universities were managing their federal financial aid programs in compliance with applicable laws and regulations.

The results of our tests indicated the following instances of noncompliance with legal requirements relating to federal financial aid. Findings 1, 3, 4, 5, and 6 discuss noncompliance with general administrative and eligibility requirements. We have not organized these issues by federal program. Rather, we arranged them according to the entity responsible for resolution. Findings 1-6 are directed to the specific campuses.

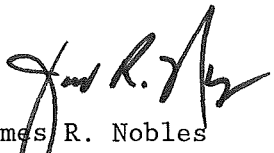
Except for the issues discussed in the preceding paragraph, with respect to the items tested, the State University System complied, in all material respects, with the provisions referred to in the previous paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State University System had not complied, in all material respects, with those provisions.

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 State University System for fiscal year 1990. 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.

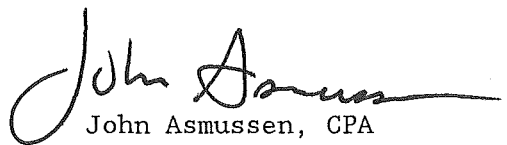
This report is intended for the information of the Legislative Audit Commission and the management of the State University System. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 12, 1991.

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Dr. Robert Carothers, Chancellor
Members of the State University Board
State University Presidents
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We would like to thank the staff of the State University System for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 1, 1991

REPORT SIGNED ON: April 8, 1991

STATE UNIVERSITY SYSTEM

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this report:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Marla Conroy, CPA	Auditor-in-Charge
Sonya Hill	Auditor
Mary Jacobson, CPA	Auditor
Mark Johnson	Auditor
Susan Rumpca	Auditor

STATE UNIVERSITY SYSTEM

I. CURRENT FINDINGS AND RECOMMENDATIONS

1. St. Cloud State University does not require students to repay non-institutional financial aid when withdrawing from school.

St. Cloud State University does not pursue repayment of non-institutional financial aid when a student withdraws from school. Students may receive financial aid greater than the amount needed to pay current institutional charges which include tuition and fees. The additional financial aid is for non-institutional costs, such as books, rent, and other living expenses. The student receives this portion of the financial aid directly.

Federal regulations state a student may need to repay a portion of the federal financial aid which the institution disbursed directly to the student. It further states to determine the amount to be repaid, the institution should subtract from total non-institutional costs a portion attributable to reasonable expenses incurred during the student's enrollment. Federal regulations state that if the cash disbursement is greater than a student's living expenses up to the withdrawal date, the student must repay the excess amount. Institutions determine the enrollment period based on the last recorded day of class attendance. However, if the institution can not verify the last day of attendance, the institution should require the student and/or professor to certify as to the last day of class attendance.

We have presented this recommendation in the 1988 and 1989 audit reports. St. Cloud State has not implemented a repayment policy to date. The university stated that it is in compliance with the intent of the regulations. The school believes each student who withdraws has already incurred living expenses which exceed the amount of cash disbursed. The school bases their premise on each student paying a large deposit on an apartment and one month's rent before attending the university. In addition, the school believes each student paid for books and transportation before their withdrawal date. We do not believe this policy meets the federal requirements. Nor do we believe that the university has cited reasonable premises. Furthermore, all other state universities have adopted appropriate policies.

The practice of not pursuing repayment of aid distributed for non-institutional costs is not consistent with the federal regulations. The university should determine the student's living expenses incurred up to the date of withdrawal. St. Cloud State University should develop and enforce a repayment policy. The policy would include, at a minimum, the manner by which the school will verify the last day of attendance. In addition, it would provide a guide in determining the amount of non-institutional costs that were spent while the student was enrolled.

RECOMMENDATION

- St. Cloud State University should establish a financial aid repayment policy which includes repayment of the non-institutional portion of the aid given.

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2. Bemidji State University did not follow state match requirements for the Perkins loan program.

Bemidji State University did not deposit the state match for the Perkins loan program in a timely manner. Federal regulation requires schools that draw federal funds for the Perkins loan program to provide a one-ninth matching share. The regulations further require schools to deposit the state match before or at the same time they deposit the federal contribution. Bemidji State University received federal payments on September 1, 1989 and January 25, 1990. The university did not deposit the corresponding match until September 14, 1989 and March 1, 1990.

RECOMMENDATION

- Bemidji State University should deposit the state matching funds into the Perkins Loan account before or at the same time they deposit the federal contribution.

3. Moorhead State University paid financial aid to an ineligible student.

During the 1989-90 academic year, Moorhead State University disbursed \$2,300 in Pell and \$1,522 in Stafford loan funds to an ineligible student. Moorhead State also awarded the student \$2,300 in Pell and \$3,850 in Stafford loan funds during the 1990-91 academic year. At the time of this report, Moorhead State had disbursed two-thirds of the 1990-91 award to the student. The student was ineligible because he defaulted on a guaranteed student loan issued in 1971-72.

Federal regulations prohibit any student who is in default on a Title IV loan to receive current Title IV money. The student provided a letter from the United States Department of Education. The letter stated that the loan had been written off due to the inability to collect. Although the loan may have been written off, the borrower is still in default status. Federal regulations provide guidelines concerning default status. A borrower remains in default unless discharged in bankruptcy, death, total disability, or borrower arranges to repay the debt. There was no evidence that the individual met any of those conditions.

RECOMMENDATION

- Moorhead State University should return the ineligible payments to the federal accounts.

4. Moorhead State University needs to follow its policies on satisfactory academic progress.

Moorhead State University is not monitoring satisfactory academic progress in accordance with the standards established for financial aid recipients. The university does not consider classes taken for a satisfactory grade in determining the number of credits enrolled. These are classes taken for a

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pass or fail grade. By not considering these classes, the university is not monitoring the grade point average requirements according to the school's policy. Therefore, students who do not meet the guidelines may continue to receive financial aid.

The university is not consistent when monitoring credits taken for a satisfactory grade. Moorhead State's policy requires students to complete a certain percentage of credits attempted during the academic year. The university considers students receiving grades of at least a D or a S (satisfactory) as successfully completing the credit. The university also requires the student to achieve a minimum grade point average (GPA). The school bases the minimum GPA guidelines on the number of credits enrolled. For example, the policy requires students to maintain a minimum 1.6 cumulative GPA after 24 credits of enrollment, a 1.9 after 60 credits, and a 2.0 after 135 credits. Moorhead's current practice is inconsistent because it does not consider a credit taken for a satisfactory grade in determining the number of credits enrolled. The number of credits enrolled is the basis for monitoring the minimum GPA a student must achieve to remain in good standing. The university considers these credits successfully completed, but does not consider these credits when monitoring the student's required GPA. These courses are not considered in the GPA computation. However, according to the universities policy, these courses should be considered when determining the number of enrolled credits.

RECOMMENDATION

- Moorhead State University should follow its standard of academic progress policy as it relates to those credits receiving satisfactory grades.

5. Moorhead State University used improper family contribution amounts for calculating financial need.

Moorhead State improperly calculated the family contribution for students attending less than three quarters during the academic year. The university prorated the nine month family contribution figures based on the quarters attended. When a student submits an application for financial aid it is forwarded to the federal processor. The federal processor is an independent agency which generates the student aid report based on the student's application data. The student aid report provides the family contribution given the number of months a student attends school. The family contribution figure is subtracted from the cost of attendance to arrive at the student's financial needs. The family contribution amounts printed on the student aid report are the official amounts specified by law for enrollment periods other than nine months. The universities must use these calculations for dependent and independent students who do not have dependents.

Because Moorhead State University used the incorrect family contribution figures, there is a possibility that overawards may exist. The university determines financial need by subtracting the expected family contribution

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and any other resources available to the student from the cost of attendance. Although the financial aid office used the incorrect family contributions for two of the students we tested, neither resulted in an overpayment.

RECOMMENDATION

- Moorhead State University should use the alternate family contribution amounts for enrollment periods other than nine months.

6. Winona State received an ineligible amount of Perkins federal capital contribution.

Winona State University received 1988-89 Perkins federal capital contribution funds after the award period. Federal guidelines establish a June 30, 1989 cut off when requesting funds. Winona State requested \$27,589 of the 1988-89 authorization in March 1990. The Catalog of Federal Domestic Programs state that Perkins funds are awarded for use by participating institutions for one award year at a time. We question whether Winona State had the authority to request these funds after the award year.

In addition, the university did not deposit the corresponding state match in a timely manner. Winona deposited the corresponding state match in May 1990. Federal regulations require a one ninth match of the Perkins federal contribution. Regulations state that the match is to be deposited into the Perkins account before or at the same time as the deposit of federal funds.

RECOMMENDATION

- Winona State should contact the Department of Education to determine the disposition of these funds.

ST. CLOUD STATE UNIVERSITY



Office of the President

720 South 4th Avenue
St. Cloud, Minnesota 56301-4498
(612) 255-2122

April 2, 1991

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

Dear Mr. Donahue:

This letter responds to your March 22, 1991, letter in which you request information concerning the implementation of the recommendation contained in the Federal Financial Aid Audit for the year ended June 30, 1990.

I will address the only audit finding which was that of the student withdrawing from school not being required to repay non-institutional financial aid.

We are currently reviewing the federal regulations concerning the requirements necessary for students withdrawing from school and the calculations needed to repay non-institutional financial aid. We anticipate having a procedure in place which complies with the regulations by the first summer session of 1991 (June 10, 1991).

It is my hope we will then be in compliance with the regulations concerning the repayment of non-institutional financial aid. If you have any questions concerning this letter, feel free to contact me.

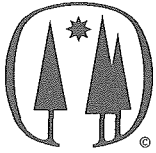
Sincerely,

A handwritten signature in cursive script that reads 'Brendan J. McDonald'.

Brendan J. McDonald
President

BJM/sp

cc: Ed McMahon
Bill Radovich
Diana Burlison



BEMIDJI

STATE UNIVERSITY

BUSINESS AND ACCOUNTING SERVICES
218-755-2064

March 26, 1991

Mr. Thomas Donahue
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Donahue:

I am in receipt of your letter dated March 22, 1991, requesting a formal written response to finding 2. Bemidji State University's Sponsored Project Accountant, Mr. Dennis Burgess, will be the responsible person to make certain that the state match is deposited into the Perkins Loan account before or at the same time we deposit new Federal capitol contributions. This responsibility was put in place the date of the exit interview, Friday, January 25, 1991.

I would like to thank you and your staff for the suggestions and recommendations made during their visit. Should you have any questions regarding this response, please contact me at 218-755-2743. Thank you.

Sincerely,

Gerald S. Amble
Business Manger

cc: Dr. Leslie C. Duly, President
Mr. Thomas A. Faecke, Vice-President for Administrative
and Student Affairs
Mr. Dennis Burgess, Sponsored Project Accountant
Mr. John Schullo, Director of Student Financial Aid

GSA:kb

MOORHEAD
STATE UNIVERSITY

Moorhead, Minnesota 56563

Office of the President

April 2, 1991

Thomas Donahue, CPA
Office of the Legislative Auditor
Veterans Service Bldg.
St. Paul, MN 55155

Dear Mr. Donahue:

Moorhead State University has received and reviewed the legislative audit report for fiscal year 1990 and submits the following responses:

Finding #3 **Responsible Party: David Anderson**

Moorhead State paid financial aid to an ineligible student.

The Financial Aid Office determined at the time of the initial award and continues to believe that the award was valid and that the student had met his obligation on the defaulted loan. At this time, an interpretation has been requested from the Department of Education regional office. If the Department's decision invalidates the award, Moorhead State University will repay the programs from which the student was funded. Repayment to Pell Grant for \$3,833 and to the Stafford Loan program for \$4,088 will be made. Spring 1990-91 disbursements were not released to the student pending the outcome of this review.

Finding #4

Responsible Party: Academic Vice President
Roland Barden

Moorhead State needs to follow its policies on satisfactory academic progress.

Office of the Vice President for Academic Affairs and the Financial Aid Office will establish procedures to ensure that the University's Satisfactory Academic Progress standards are followed.

Finding #5

Responsible Party: David Anderson

Proration of Family Contribution

Moorhead State University implemented the method of establishing the family contribution indicated in the audit report for the 1990-91 school year and will continue to use this method in the future.

Yours very truly,

A handwritten signature in cursive script that reads "Roland Dille".

Dr. Roland Dille
President

RD/sl

cc: VP Kopita
David Anderson



April 3, 1991

Thomas Donahue, Audit Manager
State of Minnesota
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Donahue:

RE: State of Minnesota, Office of the Legislative Audit
Federal Financial Audit FY90
Finding 6: Winona State received an ineligible amount of Perkins
federal capital contribution.

Winona State University received 1988-89 Perkins federal capital contribution funds after the award period. Federal guidelines establish a June 30, 1989 cut off when requesting funds. Winona State requested \$27,589 of the 1988-89 authorization in March 1990. The Catalog of Federal Domestic Programs state that Perkins funds are awarded for use by participating institutions for one award year at a time. We questions whether Winona State had the authority to request these funds after the award year.

In addition, the university did not deposit the corresponding state match in a timely manner. Winona deposited the corresponding state match in May 1990. Federal regulations require a one ninth match of the Perkins federal contribution. Regulations state that the match is to be deposited into the Perkins account before or at the same time as the deposit of federal funds.

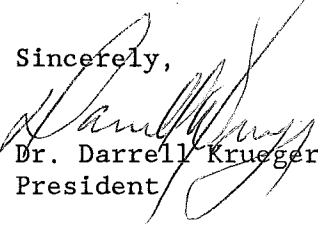
RECOMMENDATION

Winona State should contact the Department of Education to determine the disposition of these funds.

1 of 2 pages

Winona State University contacted the Federal Department of Education (Robert Coats) on February 15 and March 1, 1991. The Federal Department of Education will allow WSU to retain \$21,302 of that \$27,589 with appropriate adjustments to be made in the WSU accounting system. A refund of \$6,287 will be made to the Federal Government and \$698 to the State of Minnesota. Responsible persons are John Kane, Interim Vice President for Administrative Affairs and Jerry Varner, College Management Officer. The projected completion date is May 15, 1991.

Sincerely,



Dr. Darrell Krueger
President