COMMUNITY COLLEGE SYSTEM
MANAGEMENT LETTER
FISCAL YEAR 1990

MAY 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-25

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

COMMUNITY COLLEGE SYSTEM

STATEWIDE AUDIT
FISCAL YEAR 1990

Public Release Date: May 1, 1991 No. 91-25

OBJECTIVE:

TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS: relating to federal student financial aid programs administered by the Community College System Office.

CONCLUSIONS:

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

- The Community College System Office inappropriately wrote off delinquent Perkins Loans.
- The Community College System Office needs to improve Perkins Loan collection procedures and assess late fees correctly.
- Satisfactory academic progress policies at community college campuses do not meet minimum federal guidelines.
- Cash management over some federal programs needs improvement.
- Austin Community College's Perkins Loan disbursement procedures do not comply with federal requirements.
- Mesabi Community College paid financial aid to an ineligible student and did not document all cost of attendance adjustments.
- Minneapolis Community College paid financial aid to an ineligible student.
- North Hennepin Community College did not resolve conflicting information in a student aid file and paid financial aid to two students who were not making satisfactory academic progress.
- Rochester Community College improperly withdrew funds from the college Pell account and is making inappropriate adjustments to students' expected family contributions.
- Worthington Community College is not complying with financial aid transcript requirements.

We also found two areas where internal controls need to be improved:

- The Community College System Office is not accurately reporting federal financial aid expenditures.
- Willmar Community College's Perkins Loan disbursement and accounting procedures are inadequate.

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. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Community College Presidents and Provosts

Audit Scope

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 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 Community College 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 Community College System those programs were:

CFDA NUMBER	PROGRAM
84.032	Stafford Loans (formerly GSL)
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	Cambridge Community College Center
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 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 1990. We issued a separate report 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 Community College System during fiscal year 1990:

Willmar Community College	Rpt. #90-35
Normandale Community College	Rpt. #90-48
Community College System Office	Rpt. #90-53
Brainerd Community College	Rpt. #90-54
Fergus Falls Community College	Rpt. #90-55
North Hennepin Community College	Rpt. #90-64
Northland Community College	Rpt. #90-70

Conclusions

The results of our tests indicated the following instances of noncompliance with legal requirements relating to federal financial aid. Findings 5, 6, 9, 12, 14, 15, and 17 discuss noncompliance with general administrative and eligibility requirements. Findings 8, 10, 11, and 13 discuss grant and loan overpayments. Findings 2, 3, 4, and 7 relate 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. Findings 1-6 are directed to the Community College System Office. Findings 7-17 relate to specific campuses.

Except for the issues discussed in the preceding paragraph, with respect to the items tested, the Community College 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 Community College System had not complied, in all material respects, with those provisions.

We also noted certain matters involving internal control structure and its operation that we reported in findings 1 and 16.

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 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 Community College System. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 2, 1991.

We would like to thank the staff of the Community College System for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 12, 1991

REPORT SIGNED ON: April 26, 1991

COMMUNITY COLLEGE 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
Jeanine Leifeld, CPA	Audit Manager
Chris Buse, CPA	Auditor-in-Charge
Beth Hammer, CPA	Senior Auditor
Eric Jacobson	Senior Auditor

COMMUNITY COLLEGE SYSTEM

COMMUNITY COLLEGE SYSTEM OFFICE

1. PRIOR FINDING NOT RESOLVED: 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. System Office employees depend on information provided by the colleges to determine the 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 information.

System Office employees summarize individual college financial information without correcting basic errors and omissions. For example, the system-wide total for Pell Grants erroneously omitted one of the eighteen colleges representing $793,000 in expenditures. In another case, a decimal point error caused another college's Pell Grant expenditures to be understated by $450,000. In addition, System Office employees were unable to give us an accurate, detailed list of federal and state capital contributions by campus for the Perkins Loan program.

The System Office needs to verify the accuracy of colleges' financial information. In many cases, financial information provided by colleges does not agree with the information they included on their annual federal fiscal operations (FISAP) reports. The System Office has detailed information for the Perkins Loan program available through its central loan repayment system. 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 federal financial aid financial activity reports prepared by the colleges and adjust the amounts as necessary.**

2. The Community College System Office inappropriately wrote off delinquent student loans.

During fiscal year 1990, the Community College System improperly cancelled 107 Perkins (formerly National Direct Student) Loans totalling $81,597.

Federal regulations only permit institutions to write off loans under certain limited conditions. The System Office wrote off the loans even though none of them met any of the cancellation conditions specified in the federal regulations.

Worthington Community College had issued 106 of the loans, totalling $77,616. We were told that employees at the college had found these loans in a desk drawer. We found no evidence that the college had ever attempted to bill for or collect some of these loans. Most of the loans were missing important documentation, such as promissory notes and social security numbers. Many were already past the statute of limitations deadlines.

The System Office requested, and was granted, approval from the state Executive Council to assign these loans to the U.S. Department of Education (USDE) for collection. Institutions that follow all prescribed billing and collection procedures may assign defaulted loans to the USDE. By accepting assignments, USDE acquires all rights, title, and interest in the loans. However, System Office employees wrote off these loans rather than attempting to assign them.

The System Office also wrote off one loan issued at Rochester Community College totalling $3,981. System Office employees could not explain why this loan was written off.

Federal regulations require institutions to reimburse their loan fund for the outstanding balance of defaulted loans in certain instances. Institutions must reimburse their fund if they did not follow prescribed collection procedures. Institutions also must reimburse their fund if they did not record or retain promissory notes.

RECOMMENDATIONS

- **Worthington Community College should repay their Perkins Loan Fund $63,828 for the principal value of the 106 loans improperly cancelled.**

- **The System Office should reinstate the $3,981 Rochester Community College loan on the Loan Management System and pursue collection.**

3. <u>The Community College System's Perkins Loan collection procedures need improvement</u>.

The System Office's Perkins Loan collection procedures are inadequate. The System Office loan collection staff do not aggressively pursue collection from delinquent borrowers. Federal regulations define billing procedures as the series of actions routinely performed to notify borrowers of payments due on their accounts. Billing procedures also include reminding borrowers when payments are overdue and demanding payment of those overdue amounts. Collection procedures encompass the series of more intensive efforts, including litigation against borrowers who do not respond to routine billing procedures.

The System Office does not have standardized procedures for collecting past due loan accounts. Without human intervention, the loan repayment computer system simply continues to send delinquent borrowers monthly billing statements with the same overdue notice. Although the System Office relies on collection agencies to pursue delinquent borrowers, the System Office loan staff have no standard procedures outlining when they should refer accounts to these agencies. We reviewed five loan accounts over 800 days past due and found that four had never been sent to collection agencies. The remaining account was returned from an agency in 1986 and attempts to collect were discontinued. The System Office staff had not contacted any of these borrowers by phone since May 1988. They had not made a second attempt to collect on the loans nor had they sued any of these borrowers, as required by federal law.

The Perkins Loan fund depends on repayments from existing borrowers to provide the source of capital for new loans. Weak billing and collection procedures reduce the amount of money the colleges have available for issuing new loans. As of June 30, 1990, nearly 16 percent of the Community College System's loan capital was tied up in delinquent accounts. Colleges could issue over $1,000,000 in new Perkins Loans if these past due amounts were collected.

RECOMMENDATION

- **The System Office should develop collection procedures in accordance with the federal regulations.**

4. <u>The System Office assesses late fees on Perkins Loans incorrectly</u>.

The student loan repayment computer system only assesses late fees on the first payment missed by students. It does not assess additional late fees for subsequent late or missed payments until students become current in their repayment schedules again. For loans issued after January 1, 1986, federal regulations require schools to assess late charges whenever the institution sends overdue or demand notices to the borrower or "takes any steps...to secure any part of an installment payment not made when due."

RECOMMENDATION

- **The System Office should revise the loan repayment computer system so that it assesses late fees in accordance with the federal regulations.**

5. Satisfactory academic progress policies at community college campuses do not meet minimum federal guidelines.

The satisfactory academic progress policies at community college campuses do not include all elements required by federal regulations. To be eligible for federal financial aid, a student must be making satisfactory academic progress according to the institution's policy. Federal regulations outline parameters for institutions to use in establishing their standards of satisfactory academic progress. The following is a summary of some of the major required elements missing from the community colleges' academic progress policies:

- Three of 19 policies do not state a maximum time frame in which students must complete their degree or certificate. Federal regulations require institutions to determine these maximum time frames based on enrollment status;

- Twelve of 19 policies do not have a cumulative quantitative measure of academic progress. Institutions must determine the minimum percentage of work students must complete each quarter to finish their degrees within the maximum time frame. This minimum percentage must be on a cumulative basis. A quantitative standard which is not cumulative is useful for identifying a student's progress for a specific quarter. However, it does not indicate of whether students are progressing towards their degree as scheduled;

- None of the colleges' policies completely define the effects of incompletes, withdrawals, repeats, and remedial courses on student's academic progress;

- One policy does not specify procedures for appealing satisfactory academic progress determinations; and

In addition, seven of 19 policies specify periods of time when student's academic progress is not measured. This generally relates to periods of enrollment in which the student took only a limited number of credits, such as summer courses. Federal regulations require institutions to divide the maximum time frame to complete a degree into increments. Institutions must determine at the end of each increment whether students have successfully completed the appropriate percentage of work according to the established schedule. Institutions should include all courses in the academic progress calculation.

All institutions participating in federal financial aid programs must establish, publish, and apply reasonable standards for measuring academic progress. The U.S. Department of Education considers an institution's standards to be reasonable if they include all elements specified in the federal regulations. System Office staff needs to become familiar with the federal regulations governing satisfactory academic progress. The System Office also needs to help campuses modify their academic progress policies so that they comply with the minimum federal guidelines.

RECOMMENDATION

- **The System Office should verify that all colleges' satisfactory academic progress policies comply with minimum federal requirements.**

6. Cash management over some federal grant programs needs improvement.

The System Office is maintaining excessive cash balances in their non-financial aid federal grant programs. The System Office is responsible for managing cash for all of the Community College System's non-financial aid federal grant programs. The System Office grant accountant monitors cash balances and notifies campuses when to request additional funds from the U.S. Treasury.

The System Office is not limited federal cash balances to amounts needed immediately. Federal regulations require institutions to limit cash advances to the minimum amounts necessary to carry out the purpose of the program. The timing of cash advances should be as close as possible to the actual cash disbursements.

RECOMMENDATION

- **The System Office should limit federal grant cash balances to amounts reasonably necessary for immediate program needs.**

AUSTIN COMMUNITY COLLEGE

7. Austin Community College's Perkins Loan disbursement procedures do not comply with federal requirements.

Austin Community College requires students to sign promissory notes for loan advances when they register for classes. As a result, some student promissory notes contain inaccurate disbursement dates and amounts. For example, on November 22, 89, a half-time student at Austin Community College signed a promissory note for a $200 Perkins Loan. However, on December 18, 89, the college issued her a $400 check based upon her revised enrollment status. College employees never amended her promissory note to reflect the additional $200 awarded. Federal guidelines require students to sign promissory notes each time they receive disbursements. It is not an acceptable practice for students to sign in advance. Without valid promissory notes, schools may have no recourse against borrowers who default.

RECOMMENDATION

- **Austin Community College should require students to sign promissory notes at the time they receive their loan disbursements.**

MESABI COMMUNITY COLLEGE

8. Mesabi Community College paid financial aid to an ineligible student.

Mesabi Community College paid a $750 Pell grant to a student who was not making satisfactory academic progress. Students must make satisfactory academic progress in accordance with the institution's policy to continue to be eligible for federal financial aid. Mesabi Community College's policy requires students with 30 credits or less to maintain a grade point average of 1.5 and successfully complete 75 percent of their courses. The college disqualifies students from receiving aid if they do not meet these minimum standards for two consecutive quarters. One student received a $750 Pell Grant even though he did not complete 75 percent of his courses during the preceding two quarters. The college agrees that the student should not have been paid, but was unable to explain the cause of the error.

RECOMMENDATION

- **Mesabi Community College should reimburse the Pell grant account $750 for the ineligible payment.**

9. Mesabi Community College did not document all cost of attendance adjustments.

Mesabi Community College has changed the cost of attendance for certain students without proper documentation. The college has set the cost of attendance budget for dependent students who live at home with their parents at $4,804. Despite this limit, the financial aid office routinely increases the cost of attendance budget of each dependent student living at home to $5,804 when the student commutes more than 15 miles to school. Federal regulations provide financial aid administrators with the authority to make cost of attendance adjustments. However, these adjustments must be made on an individual basis and must be documented according to the individual student's circumstances. The college had neither documented the the reasons for these adjustments nor the reasonableness of the amount of the adjustment in the students' financial aid files.

RECOMMENDATION

- **Mesabi Community College should document the reasons for all cost of attendance adjustments in students' financial aid files.**

MINNEAPOLIS COMMUNITY COLLEGE

10. <u>Minneapolis Community College paid financial aid to an ineligible student</u>.

Minneapolis Community College paid a $730 Pell Grant and a $686 Stafford Loan to a student who was not making satisfactory academic progress. Students must make satisfactory academic progress in accordance with the institution's policy to continue to be eligible for federal financial aid. Minneapolis Community College's policy requires students that have attempted more than 42 credits to complete 75 percent of their courses and with a grade point average of 2.0. The college places students on probation and disqualifies them from receiving aid if they do not meet the minimum standards for three consecutive quarters. One student received a $730 Pell Grant and a $686 Stafford Loan even though he did not meet the college's percentage of completion standards during the three preceding quarters. The college agreed that the student did not meet the college's academic progress standards.

RECOMMENDATIONS

- **Minneapolis Community College should reimburse the Pell Grant account $730 for the ineligible payment.**

- **Minneapolis Community College should work with the U.S. Department of Education to remedy the $686 Stafford Loan disbursed to an ineligible student.**

NORTH HENNEPIN COMMUNITY COLLEGE

11. <u>North Hennepin Community College paid financial aid to two students who were not making satisfactory academic progress</u>.

North Hennepin Community College violated its academic progress policy by paying financial aid to two students who were not making satisfactory academic progress. Students must make satisfactory progress in accordance with the institution's policy to be eligible for financial aid. The North Hennepin Community College policy stipulates that freshmen must complete 50 percent of their credits while maintaining a 1.5 grade point average. The policy requires sophomores to complete 67 percent of their credits with a 2.0 grade point average. According to the college policy, "students who fail to complete the appropriate credits or grade point average . . . for two quarters will be disqualified from receiving aid."

The college paid one student a $150 Supplemental Educational Opportunity Grants, a $500 Perkins Loan, and $892 in Pell Grants, even though he did not meet the minimum completion ratio for two quarters. Another student received a $630 Pell Grant after failing to complete the required percentage of courses the two preceding quarters. The college academic progress policy allows any student whose aid has been terminated to register an appeal with the dean of students. Neither student registered an appeal with the dean.

RECOMMENDATION

- **North Hennepin Community College should repay their Pell Grant, Supplemental Educational Opportunity Grant, and Perkins Loan accounts $1,522, $150, and $500, respectively, for the ineligible payments.**

12. North Hennepin Community College did not resolve conflicting information in a student financial aid file.

North Hennepin Community College paid one student a $2250 Pell Grant without first investigating conflicting information in her file. Federal regulations require institutions to resolve discrepancies in financial aid information received from different sources. The student's financial aid application indicated that she had $35,000 of unreimbursed medical and dental expenses during 1988. These medical and dental expenses allowed her to receive a full $2250 Pell Grant. This same student's income tax return indicated that she had no unreimbursed medical and dental expenses. In addition, there was a notation on the student's application that the correct amount of medical and dental expenses was only $350. Using this lower medical and dental expense amount, the student was ineligible for a Pell Grant.

RECOMMENDATIONS

- **North Hennepin Community College should resolve this conflicting information and reimburse the Pell Grant account $2,250 for the ineligible payment, if necessary.**

- **North Hennepin Community College should resolve conflicting information before disbursing financial aid.**

ROCHESTER COMMUNITY COLLEGE

13. Rochester Community College improperly withdrew funds from the college Pell account.

College employees withdrew $250 from the college's Pell account to pay the tuition and fees of a student who never attended classes. The student registered for classes and qualified for a Pell grant. However, six days after the quarter began, the business office received a letter from the student stating that he would not be attending school that quarter. However, the college never dropped the student's classes from the registration system. After the quarter ended, the business office deposited the student's $250 Pell Grant check into the college tuition account to partially pay for his tuition and fees. Federal regulations require institutions to recalculate Pell Grants to reflect only the number of classes in which students begin attendance. Since this student never attended any classes and notified the college, the college should have returned his check to the Pell account.

RECOMMENDATION

- **Rochester Community College should repay $250 to their Pell account for the grant used to pay the tuition and fees of a student who never attended.**

14. Rochester Community College is making inappropriate adjustments to students' expected family contributions.

The financial aid office at Rochester Community College routinely requires a $1,200 minimum family contribution from independent students. The calculation of the amount students and their families are expected to contribute influences the amount of federal financial aid for which students are eligible. Family contribution is generally calculated by using formulas known as the "Congressional Methodology." Financial aid administrators are allowed to adjust a student's family contribution to reflect individual circumstances. However, the aid administrator should only adjust the family contribution if the student has personal circumstances not taken into account by the family contribution formula. The reason for the adjustment must be documented in the student's file.

In six instances, the college replaced independent students' calculated family contribution amounts with a higher $1,200 minimum value. These minimum family contributions reduced the amounts of aid that the students were eligible to receive. The college reduced one student's aid eligibility $1,123 by replacing her $77 calculated family contribution with the $1,200 minimum value. The college did not base these adjustments on individual circumstances or document the reasons for them.

RECOMMENDATIONS

- Rochester Community College should only adjust student's family contributions on a case by case basis to reflect individual circumstances.
- Rochester Community College should document the reasons for all adjustments in students' files.

WILLMAR COMMUNITY COLLEGE

15. Willmar Community College's procedures for packaging financial aid need improvement.

Willmar Community College's procedures for packaging financial aid are inadequate. In one case, the financial aid office overpaid a student \$1,338. The student's financial aid file was incomplete and did not consider financial aid the student received from other sources. In addition, although the financial aid director told us that he did not expect the student to contribute the \$243 calculated as expected family contribution, the decision to adjust her family contribution amount was not documented in her file. The college disbursed grants and loans to this student totalling \$10,353. Considering the \$243 decrease in family contribution, the college overpaid the student by \$1,338.

In addition, the college does not correct federal financial aid overawards which are less than \$100. Although the financial aid office calculated a \$4,223 financial need for one student, the student received a \$2,250 Pell Grant and a \$2,057 Perkins Loan. Financial aid totalled \$4,307, resulting in an \$84 overpayment. When questioned, financial aid personnel told us that they do not adjust overawards which are less than \$100. Federal regulations prohibit institutions from overawarding students. The regulations do not allow for a \$100 margin of error.

RECOMMENDATIONS

- **Willmar Community College should reimburse their Perkins Loan Fund \$1,422 for loans that exceeded the financial need of students.**

- **Willmar Community College should not package campus based aid in excess of students' financial need.**

- **Willmar Community College should document the reasons for all adjustments made to students' expected family contributions.**

16. Willmar Community College's Perkins Loan disbursement and accounting procedures are inadequate.

Internal controls over Perkins Loans at Willmar Community College are weak in two areas: the financial aid office performs incompatible accounting functions and the college does not enter loan information timely.

The financial aid office has responsibility for authorizing Perkins Loans and entering transactions into the statewide loan management system, as well as having access to the loan checks. Although the business office writes the loan checks, financial aid office staff receive the checks and attach promissory notes to them. They return the checks to the business office where students sign the promissory notes and pick up their checks. The financial aid office then enters the loan authorization and disbursement information into the loan management system. Because of this lack of separation of duties, errors or irregularities could occur and go undetected by employees during their normal course of business. To improve controls and reduce the risk of improprieties, the financial aid office should not have access to loan checks. In addition, the business office should enter all loan disbursement information into the loan management system.

Controls over Perkins Loans are also weak because the college does not enter loan disbursement information into the loan management system timely nor do they adequately verify the information entered. Timely data entry reduces the risk of posting inaccurate information to the system. Timely posting also helps ensure that all disbursements are added. The Community College System Office uses the information in the loan management system to bill borrowers and collect their repayments. Loans not posted to the loan management system might never be repaid. We noted one instance where the college did not enter a student's $2,400 May and June loan disbursements until October. They entered this same student's $875 September loan disbursement in February. The financial aid office made another $1700 entry in February to record the student's December loan disbursement. However, the student only received $875. The financial aid office made a $600 correcting entry in April, leaving the student's principal balance overstated by $250. To improve controls and ensure that all borrowers get billed, the college must promptly post all disbursements to the loan management system.

RECOMMENDATIONS

- **Willmar Community College should separate the loan authorization and disbursement posting duties. Also, the college should not allow the financial aid office to have access to the loan checks.**
- **Willmar Community College should promptly post all disbursements to the loan management system.**
- **Willmar Community College should correct the student's principal balance in the loan management system.**

WORTHINGTON COMMUNITY COLLEGE

17. Worthington Community College is not complying with financial aid transcript requirements.

The Worthington Community College financial aid office did not obtain financial aid transcripts for any of the three transfer students we reviewed. When a student transfers from one school to another, federal regulations require the new school to receive a financial aid transcript from the previous school. Colleges need information from financial aid transcripts to monitor two aspects of student eligibility. First, transcripts tell administrators how much aid transfer students received from other schools. This information is essential for preventing overawards. Secondly, financial aid transcripts identify students who are in default or owe repayments on grants or loans. Students that are in default or owe repayments are ineligible for additional financial aid.

RECOMMENDATION

- Worthington Community College should request financial aid transcripts from schools transfer students previously attended, as required.

Minnesota Community Colleges

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612/296-3990

April 12, 1991

Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Jeanine:

In response to the Legislative Auditors' findings and recommendations contained in the audit report for the system wide financial aid audit for the year ended June 30, 1990, the following action will be taken:

Finding 1

PRIOR FINDING NOT RESOLVED: The Community College System Office is not accurately reporting federal financial aid expenditures.

RECOMMENDATIONS

A. The System Office should work with the individual colleges to help them accurately report annual federal financial aid activity.

B. The System Office should verify the reasonableness of federal financial aid financial activity reports prepared by the colleges and adjust the amounts as necessary.

RESPONSE

The Community College System Internal Auditor will perform financial statement audits at each campus to assure the accuracy of annual reports, which are the source of all federal financial aid reported. Completing these audits by September 30, 1991 will assure the reasonableness and accuracy of all financial activity reported. The System Internal Auditor will report all findings and recommendations to the Community College Board and the college presidents.

The person responsible for implementing the above resolution is Jim Harris, Internal Auditor.

Finding 2

The Community College System Office inappropriately wrote off delinquent student loans.

RECOMMENDATIONS

A. Worthington Community College should repay their Perkins Loan Fund $63,828 for the principal value of the 106 loans improperly cancelled.

B. The System Office should reinstate the $3,981 Rochester Community College loan on the Loan Management System and pursue collection.

RESPONSE

We are in the process of reviewing the Worthington accounts to determine which accounts can be assigned to the Office of Education and those on which to pursue collection. They all have been re-entered into the computerized system as outstanding loans.

The Rochester Community College loan has been reinstated and is in the billing cycle.

The person responsible for implementing the above resolution is Suzanne Traaseth, Student Loan Officer.

Finding 3

The Community College System's Perkins Loan collection procedures need improvement.

RECOMMENDATION

The System Office should develop collection procedures in accordance with the federal regulations

RESPONSE

A collection procedures manual has been written and is presently being implemented, which includes specific steps for telephone contact, collection notices and referring accounts to collection agencies. We are in the process of pursuing collection through conciliation court.

The person responsible for implementing the above resolution is Suzanne Traaseth, Student Loan Officer.

Finding 4

The System Office assesses late fees on Perkins Loans incorrectly.

RECOMMENDATION

The System Office should revise the loan repayment computer system so that it assesses late fees in accordance with the federal regulations.

RESPONSE

Beginning with the April 11, 1991 billing cycle, all past due Perkins loan borrowers will be assessed late fees on a monthly basis until the account is turned over to a collection agency, which will be in compliance with federal regulations.

The person responsible for implementing the above resolution is Suzanne Traaseth, Student Loan Officer.

Finding 5

Satisfactory academic progress policies at Community College campuses do not meet minimum federal guidelines.

RECOMMENDATION

The System Office should verify that all colleges' satisfactory academic progress policies comply with minimum federal requirements.

RESPONSE

The college policies alluded to in the findings will be identified. Each college that has elements missing in its academic progress policy will be required to develop those elements, and to submit them and its entire policy to the System Office. Development and submission of these elements and policies will occur prior to July 1, 1991.

A model policy framework, which includes all of the elements specified in the federal regulations, will be developed by the System Office. This model will be developed and distributed to all campuses prior to the start of Fall Quarter, 1991.

The person responsible for implementing the above resolution is Banning Hanscom, Vice Chancellor for Student Services.

Finding 6

RECOMMENDATION

The System Office should limit federal grant cash balance to amounts reasonably necessary for immediate program needs.

RESPONSE

The problem with managing the cash balances is that we must rely on the colleges to request and deposit funds from the federal government. In some cases, it has taken over a month to obtain and deposit needed cash. These delays force us to hold cash to meet payrolls and not pay other expenses. The delay of payment of non-payroll expenses causes "prompt pay" violations.

We will continue to work with the colleges to speed up requests, which should allow more frequent drawdowns. This will enable us to carry smaller cash balances. This process will start immediately.

The person responsible for implementing the above resolution is Jim Schneider, Grant Accounting Supervisor.

Sincerely,

Gerald W. Christenson
Chancellor

GWC:dje

cc: Neil Christenson, Deputy Chancellor
Ron Williams, Vice Chancellor, Instruction & Student Services
Banning Hanscom, Vice Chancellor, Student Services
Glenn Wood, Director of Fiscal Services
Larry Maroney, General Accounting Supervisor
Suzanne Traaseth, Loan Officer
Jim Schneider, Grant Accounting Supervisor
Jim Harris, Internal Auditor

AUDRESP/TXTI4A32

AUSTIN COMMUNITY COLLEGE

1600 8TH AVE. N.W.
AUSTIN, MINNESOTA 55912-1470
TELEPHONE 507-433-0505

April 1, 1991

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

Dear Ms. Leifeld,

Attached is a written response to finding # 7 for Austin Community College for the federal financial aid audit for the year ended June 30, 1990.

If you have any questions on our response, please call our Accounting Supervisor, Brad Doss at 433-0523.

Sincerely,

Steven Wallace

Dr. Steven Wallace
President

SW/bjh

Enclosures

cc: Jim Harris, MCCS Internal Auditor

FINDING # 7

Austin Community College's Perkins Loan disbursement procedures do not comply with federal requirements.

COLLEGE ACTION: Effective for Spring Quarter 1991 and thereafter Perkins promissory notes will not be signed until the loan checks are disbursed to students. The individual responsible for implementation of this procedure is Brad Doss, Accounting Supervisor-Senior.

ARROWHEAD
COMMUNITY COLLEGE REGION

April 3, 1991

Office of the Legislative Auditor
ATTN: Jeanine Leifeld
1st Floor, Centennial Bldg.
658 Cedar
St. Paul, MN 55155

Dear Ms. Leifeld:

The following is Mesabi Community College's response to the Statewide Federal Financial Audit:

Finding No. 8: **Mesabi Community College paid financial aid to an ineligible student.**

RESPONSE:
Mesabi Community College agrees with the finding and will reimburse the Pell Grant account $750.00. Jon Smith, Mesabi Financial Aid Director, will see that this recommendation is implemented no later than April 15, 1991.

Finding No. 9: **Mesabi Community College did not document all cost of attendance adjustments.**

RESPONSE:
Federal regulations provide financial aid administrators with the authority to make cost of attendance adjustments. If a student commutes more than 15 miles to school (the mileage traveled by the student is indicated on the CFAR), we increase his/her cost of attendance based on the increased expenses incurred by such students. This adjustment is done on a case by case basis. Jon Smith will review our cost of attendance budgets and document the extra cost incurred by these students.

Please feel free to contact me if you should require additional information.

Sincerely,

Phil Anderson
WOu

Dr. Philip J. Anderson
President

cc: Glenn Wood
Dick Kohlhase
Clint Coombe
Jon Smith

1855 EAST HIGHWAY 169 □ GRAND RAPIDS, MINNESOTA 55744 □ (218) 327-4380 □ AN EQUAL OPPORTUNITY EMPLOYER

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Minneapolis Community College

1501 Hennepin Avenue
Minneapolis, MN 55403-1779
612/341-7000 FAX 612/341-7075

April 9, 1991

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

Dear Ms. Leifeld:

This letter constitutes our written response to the following finding of the federal financial aid audit for the year ended June 30, 1990.

<u>Minneapolis Community College paid financial aid to an ineligible student.</u>

Minneapolis Community College paid a $730 Pell Grant and a $686 Stafford Loan to a student who was not making satisfactory academic progress. Students must make satisfactory academic progress in accordance with the institution's policy to continue to be eligible for federal financial aid. Minneapolis Community College's policy requires students that have attempted more than 42 credits to complete 75 percent of their courses and with a grade point average of 2.0. The college places students on probation and disqualifies them from receiving aid if they do not meet the minimum standards for three consecutive quarters. One student received a $730 Pell Grant and a $686 Stafford Loan even though he did not meet the college's percentage of completion standards during the three preceding quarters. The college agreed that the student did not meet the college's academic progress standards.

RECOMMENDATIONS

* Minneapolis Community College should reimburse the Pell Grant account $730 for the ineligible payment.

* Minneapolis Community College should work with the U.S. Department of Education to remedy the $686 Stafford Loan disbursed to an ineligible student.

Minneapolis Community College

1501 Hennepin Avenue
Minneapolis, MN 55403-1779
612/341-7000 FAX 612/341-7075

RESPONSE

1. The student was not maintaining Satisfactory Academic Progress at the time the payments in question were made. The information available on the Community College System computer, however, indicated that the student was maintaining Satisfactory Academic Progress and was eligible to receive both the Pell and Stafford disbursements. The only way to monitor the student's academic status was to do a hand calculation which is not feasible given the number of students involved and the staff available. Steps are now underway to rewrite the software to monitor the Satisfactory Academic Progress policy electronically.

We have notified the student of the Pell overpayment and his responsibility for repayment. We will repay the Pell Grant Program and include the adjustment on our next report for the 1989-90 award year.

2. Inasmuch as the student was enrolled at the time of disbursement and the loan is now in repayment, no additional action is necessary on the part of the college. Robert Moeller, Financial Aid Director, will be responsible for resolution of this finding. Projected date of completion is June 30, 1991.

Sincerely,

Margaret A. Kircher

Margaret A. Kircher
Dean of Administrative Services

cc: Dr. Jacquelyn Belcher
Glenn C. Wood

North Hennepin Community College

7411 Eighty-Fifth Avenue North, Brooklyn Park, Minnesota 55445 612-424-0811

April 18, 1991

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

Dear Ms. Leifeld:

Please accept this letter as our college's response to the draft audit report of March 19, 1991, regarding the systemwide federal financial aid audit for the year ended June 30, 1990. Herein, we are specifically responding to findings 11 and 12 of the report.

College Response to Finding 11
North Hennepin's position is that the two students cited in the finding were eligible to receive payment. The college will review its disqualification and appeals policies and make necessary revisions.

College Response to Finding 12
In this case, the College had properly verified pertinent information as requested by federal regulations, and the college has now reviewed the conflicting information. The difference in the figures appears to result from a recording error and the students not catching this discrepancy. Any reimbursement should be the student's responsibility, and the college will so advise the student.

I hope that this response clarifies our College's stance with regard to the audit. Please feel free to contact me or our Director of Financial Aid, Dennis Stukenborg, if additional information is needed.

Yours truly,

Frederick W. Caphsaw, Ph.D.
President
FWC/mmt

An Equal Opportunity/Affirmative Action Employer

ROCHESTER
COMMUNITY
COLLEGE

April 1, 1991

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

Dear Ms. Leifeld:

Attached is our response to our portion of the systemwide federal financial aid audit for the year ended June 30, 1990. As you requested, I have indicated the person who will be responsible to implement the recommendation and the date it was or will be implemented.

Sincerely,

Geraldine A. Evans

Geraldine A. Evans
President

GAE:ms

c: Glenn Wood, MN CC System Office

851 30TH AVENUE SE * ROCHESTER, MINNESOTA 55904-4999 * TELEPHONE (507) 285-7210

Responses to federal financial aid audit findings 13 and 14.

13. **Rochester Community College improperly withdrew funds from the college Pell account.**

Rochester Community College will reimburse the Pell account for $250.00. This represents the amount for tuition and fees that were taken out of the Pell account for a student that dropped out of school prior to classes starting.

Person responsible - Gary A. Swenson
Projected date for completion - April 1, 1991

14. **Rochester Community College is making inappropriate adjustments to students' expected family contributions.**

Rochester Community College will comply with the audit finding and use the actual contribution for all independent students.

Person responsible - Gordon Trisko
Projected date for completion - February 1991

WILLMAR COMMUNITY COLLEGE

April 3, 1991

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

Dear Ms. Leifeld:

This constitutes our formal written response to your comments and recommendations regarding the federal financial aid audit for the year ended June 30, 1990. Please bring to my attention any misunderstanding of your comments or recommendations that may be apparent in our responses or if our responses do not meet the intent of your recommendations.

FINDING #15 WILLMAR COMMUNITY COLLEGE'S PROCEDURES FOR PACKAGING FINANCIAL AID NEED IMPROVEMENT.

RECOMMENDATION:
Willmar Community College should reimburse their Perkins Loan Fund $1,422 for loans that exceeded the financial need of students.

Willmar Community College Response
This finding is an oversight in placement of documentation material for the students budget. The financial aid office has since located the document and thus the sum of $1,338 was not overawarded. In the case of the $84 overpayment the college will refund $84 to the Perkins Loan Fund once we know which student account to credit.

RECOMMENDATION:
Willmar Community College should not package campus based aid in excess of students' financial need.

Willmar Community College Response
Willmar Community College does not make a practice of packaging students awards in excess of need. We will monitor this more closely in the future. The college will no longer use the $100 margin of error in funding of students.

RECOMMENDATION:
Willmar Community College should document the reasons for all adjustments made to students' expected family contributions.

Willmar Community College Response
Willmar Community College does and will continue to document the reasons for the students' expected family contributions and maintain this in the students' file.

P.O. Box 797 Willmar, Minnesota 56201 (612) 231-5102
Equal Opportunity/Affirmative Action Employer

FINDING #16 <u>WILLMAR COMMUNITY COLLEGE'S PERKINS LOAN DISBURSEMENT AND ACCOUNTING PROCEDURES ARE INADEQUATE.</u>

RECOMMENDATION:
Willmar Community College should separate the loan authorization and disbursement posting duties. Also, the college should not allow the financial aid offer to have access to the loan checks.

Willmar Community College Response
The business office will retain and disburse the Perkins Load checks after they are authorized by the financial aid office.

RECOMMENDATION:
Willmar Community College should promptly post all disbursements to the loan management system.

Willmar Community College Response
Willmar Community College will promptly post all disbursements to the loan management system.

RECOMMENDATION:
Willmar Community College should correct the student principal balance in the loan management system.

Willmar Community College Response
Willmar Community College will credit students' account so they are correctly stated in the loan management system in an orderly and timely fashion.

Thank you for your suggestions and helpful recommendations in our efforts to insure the safety and proper utilization of the public monies that have been placed in our trust.

Sincerely,

Harold G. Conradi

Harold G. Conradi
President

HGC/mac
AUDIT RESPONSE

worthington
community college

1450 COLLEGEWAY . WORTHINGTON, MN 56187 . 507-372-2107
MN TOLL FREE 1-800-652-9747 . FAX 507-372-5801

April 1, 1991

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

RE: Federal Financial Aid Audit

Dear Ms. Leifeld:

In response to your request, the following is our response to finding 17 of the audit:

> We have requested financial aid transcripts for the three students who transferred that were reviewed in the audit.
>
> All new applications for financial aid are now held until all paperwork (including financial aid transcripts) have been processed. Worthington Community College is abiding by federal regulations.

Sincerely,

C.W. "Connie" Burchill
President

CWB:dr