

**STATE UNIVERSITY SYSTEM
MANAGEMENT LETTER
FISCAL YEAR 1991**

APRIL 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-24

SUMMARY

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

STATE UNIVERSITY SYSTEM

STATEWIDE AUDIT FISCAL YEAR 1991

Public Release Date: April 16, 1992

No. 92-24

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:

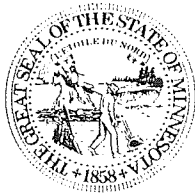
- Stafford Loans (formerly GSL),
- Perkins Loans (formerly NDSL), and
- PELL Grants.

CONCLUSIONS:

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

- Inadequate controls over refunds. (Metropolitan State University)
- Financial aid paid to an ineligible student. (Metropolitan State University)
- Academic progress policy did not meet minimum federal guidelines. (Metropolitan State University)
- Financial aid transcript requirements were not followed. (St. Cloud State University)
- Perkins Loan repayments incorrectly applied to borrower's accounts. (St. Cloud and Winona State Universities)

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL 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. Terrence MacTaggart, 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 part of our statewide audit of the State of Minnesota's fiscal year 1991 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 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:

Representative Ann Rest, Chair
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St. Cloud State University
Mankato State University
Bemidji State University
Metro State University

Southwest State University
Winona State University
Moorhead State University

We also reviewed the internal controls at St. Cloud and Winona State Universities over the federal financial aid programs listed above.

Finally, we reviewed internal controls over federal financial aid at certain individual state universities during fiscal year 1991. 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 1991:

| | |
|----------------------------|-------------|
| Metro State University | Rpt. #91-47 |
| Moorhead State University | Rpt. #91-66 |
| Southwest State University | Rpt. #91-77 |

Conclusions:

We determined that the internal controls in effect at June 30, 1991 provided reasonable assurance that Winona State University managed its federal financial aid programs in compliance with applicable laws and regulations. Except for the effect of finding 4, we determined that the internal controls in effect at June 30, 1991 provided reasonable assurance that St. Cloud State University managed its 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, and 5, discuss noncompliance with general administrative and eligibility requirements. A prior audit recommendation at St. Cloud State University contained within report #91-24, was not implemented during fiscal year 1991. The recommendation stated that St. Cloud State should establish a financial aid repayment policy which includes repayment of the noninstitutional portion of aid given. St. Cloud State University implemented a repayment policy in September 1991.

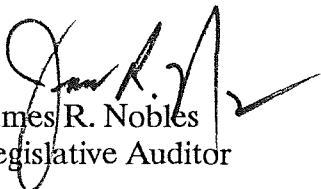
Except for the issues discussed in the preceding paragraph, with respect to the items tested, the State University System complied in all material respects, with the provisions referred to in the previous paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe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

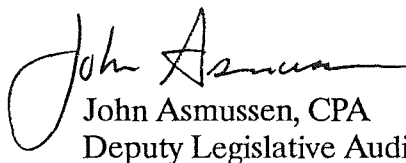
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The work conducted is part of our annual Statewide Financial and Federal Compliance Audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the State University System for fiscal year 1991. 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. For purposes of this report, we have not organized these issues by federal program. Rather, we arranged them according to the entity responsible for resolution. The findings are directed to the specific campuses.

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 16, 1992.

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 7, 1992

Report Signed On: April 9, 1992

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 |
| Mark Johnson | Auditor |
| Amy Jorgenson | Auditor |

Current Findings and Recommendations

Metro State University

1. Metro State University paid financial aid to an ineligible student.

Metro State University paid a \$1,000 Stafford Loan to a student without determining the student's financial need. To be eligible for federal aid, a student's financial need must be determined using the congressional methodology. The congressional methodology is the need analysis formula set by law. This formula calculates a student's family contribution for federal financial aid recipients. The family contribution is the amount a student and his or her family is expected to contribute toward the student's educational expenses during the academic year. Metro State did not have evidence of the student's 1990-1991 need analysis on file. Metro State used the student's prior year need analysis information when certifying the loan. Metro State should use current need analysis documentation when certifying Stafford loan applications.

Federal regulations also require Stafford loan applicants to receive a determination of Pell Grant eligibility or ineligibility before the loan can be certified or disbursed. Metro State did not have evidence that this student applied for a Pell grant.

Recommendation

- *Metro State should work with the U.S. Department of Education to remedy the \$1,000 Stafford Loan disbursed to a student without evidence of financial need.*

2. Metro State University's controls over refunds are inadequate and resulted in an overpayment to a student.

Metro State University's procedures for processing refunds are inadequate. As a result, Metro State refunded \$145.20 to a student. In fact, the student had received a Pell Grant and the refund should have been made to the Pell account. This error resulted because the university did not check the student's financial aid status prior to issuing the refund. There is a lack of coordination between the registrar, business office, and the financial aid office when processing loans.

During the review of the refund error, we noted that the financial aid office is billing and collecting financial aid repayments. Since the financial aid staff is responsible for awarding financial aid, they should not be involved in billing or collecting repayments. The business office should be processing and recording these transactions on the accounts receivable system.

State University System

Recommendations

- *Metro State should recover the \$145.20 refund from the student and reimburse the Pell grant account.*
- *Metro State should improve their procedures over refunds and repayments by coordinating information between the registrar, financial aid office, and the business office.*
- *The financial aid office should discontinue billing and collecting funds from financial aid recipients. The business office should perform these duties and record the transactions on its accounts receivable system.*

3. Metro State University's academic progress policy does not meet minimum federal guidelines.

The satisfactory academic progress policy at Metro State University does not include all elements required by federal regulation. 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 standards of satisfactory academic progress. Some of the major required elements missing from Metro State University's academic progress policy include:

- Metro State does not establish 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;
- Metro State does 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 whether students are progressing towards their degree as scheduled; and
- Metro State's policy does not completely define the effects of incompletes, withdrawals, repeats, and remedial courses on students' academic progress.

State University System

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.

Recommendations

- *Metro State University should ensure that their satisfactory academic progress policy complies with minimum federal requirements.*

St. Cloud State University

4. St. Cloud State University is not complying with financial aid transcript requirements.

St. Cloud State financial aid office did not obtain financial aid transcripts for 5 of the 56 students we tested. The university ultimately obtained the financial aid transcripts for these students. Subsequent review of the transcripts indicated that the students were eligible for financial aid at St. Cloud State. Federal regulations require schools to determine whether financial aid applicants have attended other eligible institutions. The school the student is currently attending may not disburse any funds to the student before the school requests each previously attended institution to provide a financial aid transcript. Universities need information from financial aid transcripts to monitor two aspects of student eligibility. First, transcripts tell administrators how much aid 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

- *St. Cloud State should request financial aid transcripts from schools which students previously attended, as required by federal regulations.*

St. Cloud and Winona State Universities

5. St. Cloud and Winona State Universities applied Perkins Loan repayments to the borrower's accounts incorrectly.

St. Cloud and Winona State Universities did not follow federal requirements when applying Perkins Loan repayments to the borrower's accounts. Federal regulations require repayments to be applied to a borrower's account in the following order: (1) collection costs,

State University System

(2) late fees, (3) interest and (4) principal. For loans in collection status, St. Cloud State applied repayments to the outstanding interest, late fees and then principal. For repayments received through revenue recapture, St. Cloud applied the entire amount toward the principal balance outstanding. Winona State applied repayments to a borrower's account first to late fees, interest, principal and then collection costs. By prematurely applying repayments to the outstanding principal, future interest calculations decline.

Recommendation

- *St. Cloud and Winona State Universities should modify their Perkins repayment systems to comply with the federal regulations regarding the application of repayments to a borrower's account.*



**Metropolitan
State University**

Suite 121, Metro Square
121 Seventh Place E.
St. Paul, Minnesota 55101-2189
612/296-3875

April 2, 1992

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

I would like to thank Mr. Donahue and the members of his staff for the manner in which the audit of our federal financial aid programs was handled. The findings and recommendations were most helpful to us and will act to assist us in enhancing our management of these programs.

Attached are the findings, recommendations, and our responses. If you require any additional information from us related to this audit, please let us know and we shall respond.

Sincerely,

Tobin G. Barrozo
President

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Attachment

1) Finding: Metropolitan State University paid financial aid to an ineligible student.

Recommendation: Metropolitan State University should work with the U.S. Department of Education to remedy the \$1000 Stafford Loan disbursed to a student without evidence of financial need.

Response: Metropolitan State University contacted the U.S. Department of Education Region V to determine the necessary action to be taken. Region V suggested that we contact the loan servicer to learn of current status on the loan. Eduserve was contacted and it was learned that the student is still currently at least half time at Concordia College and is scheduled to graduate August 11, 1992. At that time Metropolitan State will contact Eduserve to determine the amount of interest owed and make the necessary payment to the U.S. Department of Education.

2) Finding: Metropolitan State University's controls over refunds are inadequate and resulted in an overpayment to a student.

Recommendation: Metropolitan State University should recover the \$145.20 refund from the student and reimburse the Pell Grant account.
Metropolitan State University should improve their procedures over refunds and repayments by coordinating information between the registrar, financial aid office and the business office.
The financial aid office should discontinue billing and collecting funds from financial aid recipients. The business office should perform these duties and record the transactions on its accounts receivable system.

Response: Metropolitan State University shall bill the student to recover the \$145.20 refund amount that the student owes to the Pell Grant program.
Metropolitan State University's Business Manager has developed a system of procedures that coordinates refund and repayment practices between the registrar, financial aid office and the business office.
The business office now bills all financial aid recipients and appropriately tracks all transactions.

3) Finding: Metropolitan State University's satisfactory academic progress policy does not meet minimum federal guidelines.

Recommendation: Metropolitan State University should ensure that their satisfactory academic progress policy complies with minimum federal requirements.

Response: Metropolitan State University has rewritten the satisfactory academic progress policy as related to financial aid recipients in order to comply with all standards of the federal guidelines.

ST. CLOUD STATE UNIVERSITY



Office of the President

612/255-2122

720 Fourth Avenue South
St. Cloud, Minnesota 56301-4498

April 3, 1992

Thomas Donahue
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Donahue:

The purpose of this letter is to respond to your March 19, 1992 correspondence in which you request information concerning the implementation of the recommendations contained in the Federal Financial Aid Audit for the year ended June 30, 1991.

We will address the audit findings and recommendations in the order in which you have presented them in your report:

4. St. Cloud State University is not complying the financial aid transcript requirements.

The Office of Scholarships and Financial Aids obtains the names of the schools which students have previously attended from their application for admission. The University chose to obtain this information in the manner described for several reasons. First, it was believed students would be less inclined to falsify their admissions data than their application for financial aid. Additionally, the University believed that information obtained from application forms would be more accurate because students are asked to provide the name and location of all previous schools attended and not just the four digit code for those schools attended from an extensive list of four digit identifiers.

We will review our procedure with the Office of Records and Registration to insure that the institutions reported are properly coded and placed on the master file so that transcripts are obtained utilizing current procedures. In addition, we will examine our internal controls to insure that transcripts are requested and received from all institutions listed by the students. In three of the five cases cited in the audit finding, students had attended proprietary types of institutions for very short periods of time. These institutions include the Guitar Center in Minneapolis, Gem City College in Quincy, Illinois and John A. Logan School in Carterville, Illinois.

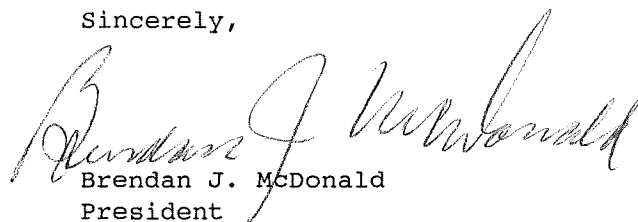
Thomas Donahue
March 3, 1992
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5. St. Cloud State has applied Perkins Loan repayments to the borrower's account incorrectly.

We concur with the recommendation and are implementing the correct distribution of Perkins Loan repayments as required by federal regulations. Implementation date is April 15, 1992.

If you have any questions concerning St. Cloud State's response to these audit findings, please do not hesitate to contact me.

Sincerely,

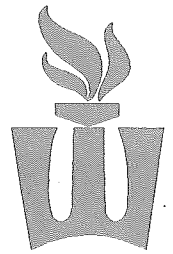


Brendan J. McDonald
President

BJM/bl

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William Radovich
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Winona State University



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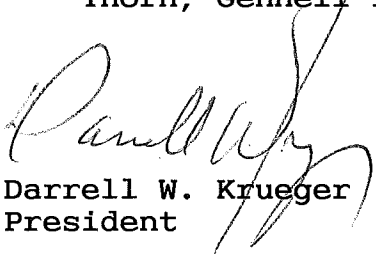
April 1, 1992

**James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155**

This letter is in response to Thomas Donahue's letter of March 19, 1992. With regard to finding 5, we have the following response:

5. Winona State University applied Perkins Loan repayments to the borrower's accounts incorrectly.

The Business Manager and Student Loan Officer have met with our Administrative Computer Director. The programming modifications needed will begin April 1992. Upon completion, Winona State University will comply with the federal regulations regarding the application of repayments to a borrower's account. Responsible for implementation: David Thorn, Gennell Iverson, Marty Passe.


**Darrell W. Krueger
President**