COMMUNITY COLLEGE SYSTEM

STUDENT FEDERAL FINANCIAL AID PROGRAMS

MANAGEMENT LETTER

FISCAL YEAR 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-35

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Geraldine Evans, Chancellor
Community College System

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 1992 financial statements and federal programs. The scope of our work has been limited to the federal programs cited in the Catalog of Federal Domestic Assistance (CFDA) which were included in the Single Audit scope. Specifically, for the Community College System those programs were:

CFDA Number	Program
84.032	Stafford Loans
84.038	Perkins Loans
84.063	Pell Grants

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

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

We also reviewed certain system-wide procedures and controls at the Community College System Office. These included a review of the general single audit requirements, an evaluation of central controls over Perkins Loan repayments, and a review of selected controls over the SAFE financial aid processing system.

Finally, we reviewed internal controls over federal financial aid on certain individual community colleges and offices during fiscal year 1992. We issued a separate report on each of these audits, and their results are not repeated in this management letter. We evaluated internal controls at the following components of the Community College System during fiscal year 1992:

Community College System Office	Rpt. #92-46
Arrowhead Community College Region Office	Rpt. #92-44
Hibbing Community College	Rpt. #92-79
Mesabi Community College	Rpt. #92-78
Itasca Community College	Rpt. #92-72
Rainy River Community College	Rpt. #92-71
Vermilion Community College	Rpt. #92-47
Lakewood Community College	Rpt. #92-86

Conclusions

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the material instances of noncompliance noted in finding 1.

In addition to the instances described above, the results of our tests indicated the following instances of noncompliance with legal requirements relating to federal financial aid. Findings 4, 5, 8, 10, 11, 13, 16, and 19 discuss noncompliance with general administrative and eligibility requirements. Finding 4 discusses noncompliance with Pell Grant program specific regulations. Findings 6, 9, and 17 discuss noncompliance with Perkins Loan specific requirements. Findings 2, 7, 11, 12, and 15 discuss noncompliance with Stafford Loan specific regulations. We have not organized these issues by federal program. Rather, we arranged them according to the entity responsible for resolution.

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 paragraph. With respect to items not tested, except for the issues discussed in findings 3 and 18, regarding conflicting information and findings 14 and 16 regarding the Supplemental Loan for Students Program, 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 5, 12, and 13.

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 1992. 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 June 25, 1993.

We 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 5, 1993

Report Signed On: June 18, 1993

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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
Beth Hammer, CPA	Auditor-in-Charge
Melissa Gamble	Senior Auditor
Amy Jorgenson	Senior Auditor
Janet Knox, CPA	Senior Auditor
Dave Poliseno, CPA	Senior Auditor

Introduction

The Community College System awards both federal and state financial aid to needy students. Our audit was limited to those federal financial aid programs considered major programs according to the Single Audit Act. Our audit included a review of the Pell Grant Program, the Perkins Loan Program, and the Stafford Loan Program.

The Pell Grant Program is generally considered the first source of assistance for students. It is a federally controlled program. Payment is based on the Pell Grant Index determined by a federal central processing system. Pell grant payments are not limited to the available funds at a particular college.

The Perkins Loan Program is a campus-based program. The Perkins Loan Program provides low-interest loans to students. The college acts as a lender, using both federal funds and a state match for capital contributions. In the Community College System, Perkins loans are managed through a systemwide loan management system. The system office performs all loan collection duties. These duties include corresponding with students going into loan repayment status, receiving all loan repayments, and pursuing delinquent loans.

The Stafford Loan Program is one of the federal guaranteed student loan programs. The principal for Stafford loans is provided by private lenders. The loans are guaranteed in the sense that the lender is reimbursed in the event of default or cancellation. The college certifies that the student is eligible for a loan amount on the loan application, which is then sent to the state guarantee agency for approval. If the loan is guaranteed by the agency and the lender approves the loan, the lender sends the loan amount to the college and the college releases the proceeds to the student.

For Stafford loans, the federal government pays interest to the lender while the student is in school. In addition, the federal government pays a special allowance to the lender to make up the difference between the interest rate charged to the student and the prevailing market rate. The special allowance payments continue for the life of the loan.

According to campus records, the Community College System disbursed approximately $20,618,477 in Pell grants, $1,219,907 in new Perkins loans issuances, and $13,531,543 in new Stafford loans during fiscal year 1992. The system collected $964,215 in Perkins loan repayments during fiscal year 1992.

Current Findings and Recommendations

Community College System Office

1. PRIOR FINDING NOT RESOLVED: College satisfactory academic progress policies 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 the major required elements missing from the 19 community colleges' academic progress policies:

- Three 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 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 whether students are progressing towards their degree as scheduled;

- Sixteen policies do not 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;

- Eight policies specify grading periods when institutions do not measure student's academic progress. 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. Federal regulations contain no provisions authorizing institutions to exclude certain periods from measurement; and

Community College System

- One policy is less strict than the college's academic policy for students not receiving financial aid. Federal regulations require institutions to maintain standards that are at least as strict as the institution's standards for a student not receiving financial aid in the same academic program.

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 it includes all elements specified in the federal regulations. Appropriate system office staff need 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. We first reported this finding in our fiscal year 1990 financial aid report. During fiscal year 1993, the system office has begun to develop a model academic progress policy which complies with the federal regulations.

Recommendation

- *The system office should ensure that all colleges' satisfactory academic progress policies comply with minimum federal requirements.*

Rochester Community College

2. Rochester Community College improperly certified a Stafford loan.

Rochester Community College certified a Stafford loan application using an incorrect expected family contribution amount. The college's financial aid director used an unallowable method to calculate family contribution. As a result, the college certified an expected family contribution of $225 rather than the proper amount of $1,260. Based on the lower expected family contribution, the student qualified for a $1,230 Stafford loan. The student's actual loan eligibility should only have been $195. The proceeds, when combined with all other financial aid received, exceeded the student's need by $992. Federal regulations prohibit institutions from certifying Stafford loans which exceed the financial need of students.

Recommendations

- *Rochester Community College should properly certify all Stafford loan applications.*
- *Rochester Community College should work with the U.S. Department of Education to remedy the $992 Stafford loan overpayment.*

Community College System

3. Rochester Community College did not resolve conflicting information in one student's file.

Rochester Community College did not resolve conflicting information in one student's file. A dependent student reported parental adjusted gross income of $37,865 on the financial aid application. However, a copy of the parent's tax return showed adjusted gross income of $70,987. Federal regulations require institutions to resolve discrepancies in financial aid information before disbursing aid. The college should have investigated this discrepancy because parental income determines dependent student eligibility for financial aid.

With parental adjusted gross income of $70,987, the student would have been ineligible for a Pell grant. However, by using the smaller amount, the student received Pell disbursements of $1,650. In addition, using the larger adjusted gross income amount, the student's family contribution would have changed from $3,212 to $6,320, decreasing the student's financial need to $1,480. Consequently, the student also would have been ineligible for the Stafford loan of $2,625 and the Minnesota Higher Educational Scholarship grant of $315 the student received.

Recommendations

- *Rochester Community College should resolve this conflicting information and reimburse the Pell grant account $1,650 for the ineligible payment, if necessary.*
- *Rochester Community College should work with the U.S. Department of Education to remedy the Stafford loan overpayment, if necessary.*

4. Rochester Community College improperly based a student's financial need on expected current year income.

Rochester Community College did not have evidence to support a special condition used to increase a student's financial need. Federal regulations allow institutions to base student Pell grant eligibility on expected current year income if a student has a special condition. When basing a Pell grant on expected year income, an institution must document one of six allowable special conditions. One of these conditions is loss of untaxed income benefits.

The college had no evidence to support a loss of untaxed income for the student. Instead, the financial aid office had the student sign a special condition form stating that the student, in fact, did receive untaxed income benefits during 1990 and 1991. The form the student signed did not document that the student lost untaxed income, one of the allowable conditions. The original application showed the student was not eligible for a Pell grant. In addition, the application showed the student had no financial need and, therefore, was not eligible for any financial aid. However, with the undocumented loss of untaxed income, the student received a $1,600 Pell grant and a $2,625 Stafford loan.

Recommendations

- *Rochester Community College should determine whether a valid special condition existed for the student and should repay the Pell grant account $1,600 for the ineligible payment, if necessary.*
- *Rochester Community College should work with the U.S. Department of Education to remedy the Stafford loan overpayment, if necessary.*

5. Rochester Community College does not consistently monitor academic progress during summer sessions.

Rochester Community College did not measure academic progress for summer school sessions in at least one case. Federal regulations require institutions to apply standards to ensure students are progressing towards their degree. One student registered for 32 credits during winter, spring, and summer sessions of 1991-92. The student did not meet academic progress for any of these quarters. According to the college's policy, students who do not make satisfactory academic progress for three consecutive quarters are no longer eligible for financial aid. However, the college did not count the seven credits the student attempted during the summer session as an academic quarter. As a result, the college considered the student still eligible for financial aid and disbursed the student an $800 Pell grant for fall quarter of 1992.

Recommendations

- *Rochester Community College should include all quarters when measuring a students academic progress standing.*
- *Rochester Community College should repay the Pell grant account for the $800 ineligible payment.*

6. Rochester Community College is not awarding Federal Perkins loans within federal guidelines.

Rochester Community College does not meet Federal Perkins Loan Program requirements for awarding loans. Federal regulations require institutions to give priority to students with exceptional financial need when awarding Perkins loans. The regulations allow individual institutions to define exceptional need. Many institutions use eligibility for a Pell grant as reasonable criteria for determining exceptional need. The Pell Grant Program is designed to reach the neediest students. Therefore, it is a reasonable measure used to indicate exceptional need.

We do not believe the Rochester Community College process for determining Perkins loan eligibility gives adequate priority to students with exceptional need. Several Rochester students who received Perkins loans were not eligible to receive Pell grants. Also, we were told that college officials award students with high financial need to apply for higher cost Stafford loans rather than awarding them Perkins loans.

In addition, federal regulations require institutions to establish Perkins awarding procedures in writing and uniformly apply the procedures. Rochester Community College has not established a written policy on awarding Perkins loans. We also noted inconsistencies in the way the college awards Perkins loans. For example, students with varying financial need levels receive Perkins loans at Rochester Community College, with no apparent reasons. A written policy would help to ensure that the college awards Perkins loans uniformly.

Recommendations

- *Rochester Community College needs to establish a written policy for awarding Perkins loans, giving priority to students with exceptional need.*
- *Rochester Community College should ensure that they uniformly apply their Perkins loan awarding policy.*

7. Rochester Community College's Stafford loan exit counseling does not meet federal regulations.

Rochester Community College does not meet federal requirements for Stafford loan exit counseling. Federal regulations require institutions to perform Stafford loan exit counseling shortly before the student falls below half-time status. However, Rochester routinely performs both Stafford loan entrance and exit counseling before the first loan disbursement. Performing exit counseling so early is not reasonable, since the first loan disbursement may be made two or more years before the student leaves the institution and is subject to repayment.

Recommendation

- *Rochester Community College should perform Stafford loan exit counseling shortly before the student falls below half-time status or within 30 days after learning of the borrower's withdrawal.*

Worthington Community College

8. Worthington Community College disbursed aid to students without verifying student eligibility.

Worthington Community College paid aid to students enrolled in a joint program without verifying registered credits or academic progress. Worthington and Willmar Community

College have a joint nursing program. Students take a combination of courses at both institutions. Worthington disburses aid to the students based on credits taken at both colleges.

Worthington and Willmar Community Colleges have not negotiated a consortium agreement. A consortium agreement is necessary to identify which institution is responsible for disbursing aid and for monitoring student eligibility. Federal regulations allow institutions to disburse financial aid to a student also attending another college if a written consortium agreement exists between the institutions.

In addition, Worthington Community College does not verify the number of credits taken by students at Willmar before disbursing financial aid. The number of credits taken by students determines their enrollment status. Financial aid awards vary based on student enrollment status.

Finally, Worthington has not reviewed student academic progress on courses taken at Willmar. Federal regulations require students meet academic progress to receive federal funds. Without verifying enrollment status and academic progress, students are not eligible for financial aid.

Recommendations

- *Worthington Community College and Willmar Community College should establish a consortium agreement for their joint nursing program.*
- *Worthington Community College should review student eligibility, disburse financial aid, and monitor academic progress.*

9. Worthington Community College is not complying with Perkins loan counseling requirements.

Worthington Community College is not providing counseling and repayment information to Perkins loan recipients in accordance with federal regulations. First, Worthington Community College does not provide students with repayment information before disbursing Perkins loans. Federal regulations require institutions to provide each Perkins loan recipient with repayment information before making the first disbursement to the student.

In addition, Worthington Community College does not offer Perkins loan exit counseling to students. Federal regulations require institutions to conduct an exit interview with each Perkins loan borrower before the student leaves the institution, either individually or in a group. Instead, the college sends memos and repayment information to students after they have left the college.

Finally, federal regulations require institutions to retain a signed copy of a student's Perkins repayment schedule. The students we reviewed did not have signed repayment schedules in their files.

Recommendations

- *Worthington Community College should provide Perkins loan repayment information before disbursing loan funds.*
- *Worthington Community College should offer Perkins loan exit counseling as required by federal regulations.*
- *Worthington Community College should retain a signed copy of Perkins loan repayment schedules in student files.*

10. PRIOR FINDING NOT RESOLVED: Worthington Community College is not complying with federal financial aid transcript requirements.

Worthington Community College did not obtain financial aid transcripts for two transfer students we reviewed. When a student transfers from one school to another, federal regulations require the new school to request 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 who are in default or owe repayments are ineligible for additional financial aid. We have noted similar cases in other students during prior audits.

Recommendation

- *Worthington Community College should ensure they request financial aid transcripts from schools transfer students previously attended.*

Hibbing Community College

11. Hibbing Community College paid financial aid to three ineligible students.

Hibbing Community College paid financial aid to three students who were not making satisfactory academic progress. Students must make satisfactory progress under the institution's policy to be eligible for financial aid. According to the Hibbing Community College policy, failure to meet the minimum criteria for two consecutive quarters disqualifies the student from receiving financial aid. In addition, the college's policy allows students to receive financial aid for a maximum of 15 quarters or 110 attempted credits. If the student does not meet the policy criteria, the college must suspend the student from receiving financial aid. Pursuant to the college policy, the student may appeal the suspension to a financial aid committee. However, the college paid the following students federal financial aid when they did not meet the academic policy requirements:

- One student received a $1,350 Pell grant, a $2,625 Stafford loan, and a $177 Minnesota Higher Education Coordinating Board grant, even though the student did not meet the school's minimum grade point average requirements for two quarters.

- One student received $4,000 in Pell grants, $4,375 in Stafford loans, $659 in Minnesota Higher Education Coordinating Board grants and $88 in federal college work study after failing to meet the minimum completion ratio for two quarters. The college policy requires students to complete 75 percent of the credits they attempt each quarter. We did see documentation in the student's file which may have lead the college to grant the student an appeal. However, no appeal was on file.

- One student received a $500 Pell grant, a $2,500 Stafford loan, a $1,000 Perkins loan, a $189 Minnesota Higher Education Coordinating Board grant and $389 in federal college work study after exceeding the 110 credit limit cited in the school's policy. The policy allows students to receive financial aid only up to 110 credits.

Hibbing Community College needs to consistently apply the provisions of its academic progress policy. In addition, the college should follow the established process when granting appeals.

Recommendations

- *Hibbing Community College should ensure that it consistently enforces provisions in its academic progress policy.*

- *Hibbing Community College should repay the Pell grant, Perkins loan, and federal college work study accounts $5,850, $1,000, and $477, respectively, for the overpayments.*

- *Hibbing Community College should work with the U.S. Department of Education to remedy the $9,500 in Stafford Loans paid to ineligible students.*

12. Hibbing Community College is not complying with the Stafford loan notification requirement.

Hibbing Community College is not promptly notifying Stafford loan lenders when borrowers drop below half-time status. We tested one student who withdrew from college after spring 1992. The college did not notify the lender directly of the student's enrollment change. Instead, it used the next Student Confirmation Report in December 1992 to notify the guarantee agency. The financial aid director told us that, as a policy, the college does not contact lenders directly to inform them of changes in student enrollment status.

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Federal regulations require colleges to inform lenders directly when borrowers drop below half-time status, unless a Student Confirmation Report is submitted within 60 days. The college completes Student Confirmation Reports and returns them to guarantee agencies twice during the year. These reports list the enrollment status of each Stafford loan borrower attending the school. Since the school completes the confirmation reports only twice per year, guarantee agencies may not obtain the names of students who fall below half-time status for a six-month period unless the school notifies lenders directly.

Recommendation

- *Hibbing Community College should communicate changes in student enrollment status to lenders if it will not submit a Student Confirmation Report within 60 days.*

Willmar Community College

13. Willmar Community College did not comply with federal financial aid transcript requirements for two students.

Willmar Community College did not obtain financial aid transcripts for two transfer students before disbursing aid. When an institution is aware that a student attended another school, federal regulations require the institution to request 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 who are in default or owe repayments are ineligible for additional financial aid.

Willmar Community College did not obtain financial aid transcripts for two students before disbursing aid. The college has since requested transcripts for both students and has received transcripts for one of the students. The remaining student received $1,500 in Perkins loans, and $1,833 in Minnesota Higher Education Coordinating Board grants. If a college fails to request financial aid transcripts, the federal government may disallow aid payments made to the student.

Recommendations

- *Willmar Community College must obtain financial aid transcripts for the remaining student, as required.*
- *The Willmar Community College records office should notify the financial aid office of transfer credits accepted for financial aid recipients, so that the financial aid office can request the required financial aid transcripts.*

North Hennepin Community College

14. North Hennepin Community College improperly certified a Supplemental Loan for Students (SLS) loan.

North Hennepin Community College improperly certified an SLS loan. Federal regulations require that eligible students apply for a Stafford student loan before an institution certifies an SLS loan. We noted at least one student who was eligible for a maximum Stafford loan. However, the college did not certify a Stafford loan for the student. It only certified a $4,000 SLS loan. As a result, the student was ineligible for the SLS loan. It is in the student's best interest to receive a Stafford loan before an SLS loan. The Stafford Loan Program offers the student the benefit of lower interest rates and subsidized interest payments while in school.

We were told that North Hennepin Community College does not encourage students to take out more than one type of loan. However, we do not believe that the college's policy complies with the intent of the federal regulations.

Recommendation

- *North Hennepin Community College should work with the U.S. Department of Education to remedy the $4,000 SLS loan paid to the student.*

15. North Hennepin Community College's Stafford loan exit counseling does not meet federal regulations.

North Hennepin Community College does not meet federal requirements for Stafford loan exit counseling. Federal regulations require institutions to perform Stafford loan exit counseling shortly before the student falls below half-time status. However, North Hennepin routinely performs both Stafford loan entrance and exit counseling before the first loan disbursement. Performing exit counseling so early is not reasonable, since the first loan disbursement may be made two or more years before the student leaves the institution and is subject to repayment.

Recommendation

- *North Hennepin Community College should perform Stafford loan exit counseling shortly before the student falls below half-time status or within 30 days after learning of the borrower's withdrawal.*

Community College System

Anoka Ramsey Community College

16. Anoka Ramsey Community College made an inappropriate adjustment to a student's cost of attendance.

Anoka Ramsey Community College inappropriately adjusted a student's cost of attendance from $7,495 to $14,136. Federal regulations provide financial aid administrators with the authority to make cost of attendance adjustments. However, institutions need to document and base the adjustments on individual circumstances. Anoka Ramsey did not provide support for the adjustment. Increasing a student's cost of attendance increases a student's eligibility for financial aid. The adjustment resulted in an overpayment of $2,994 in a Supplemental Loan for Students (SLS) loan.

Recommendation

- *Anoka Ramsey Community College should work with the U.S. Department of Education to remedy the $2,994 SLS overpayment.*

Normandale Community College

17. Normandale Community College is not awarding Federal Perkins loans within federal guidelines.

Normandale Community College does not award federal Perkins loans in accordance with federal guidelines. Federal regulations require institutions to give priority to students with exceptional financial need when awarding Perkins loans. The regulations allow individual institutions to define exceptional need. Many institutions use eligibility for a Pell grant as reasonable criteria for determining exceptional need. The Pell Grant Program is designed to reach the neediest students. Therefore, it is a reasonable measure used to indicate exceptional need.

We do not believe the Normandale Community College policy for determining Perkins loan eligibility gives adequate priority to students with exceptional need. Normandale defines exceptional need as any student with a remaining need of $400 or more, after the college has awarded grants to eligible students. According to this policy, students who receive Perkins loans may not even be eligible for a Pell grant, as we noted in at least one case.

Recommendation

- *Normandale Community College needs to establish a written policy for awarding Perkins loans, giving priority to students with exceptional need.*

Community College System

Fergus Falls Community College

18. Fergus Falls Community College did not resolve conflicting information in one student's file.

Fergus Falls Community College did not resolve conflicting information in one student's file. The student reported a family size of three on her financial aid application. However, on her Institutional Verification Form, she listed four family members. The college should have investigated this discrepancy because the number of family members partially determines a student's eligibility for financial aid. With a family size of four, the student was eligible for a $950 Pell grant. However, the college paid the student a $750 Pell grant based on a family size of three. Federal regulations require institutions to resolve discrepancies in financial aid information before disbursing aid.

In addition, the college was unable to locate the Student Aid Report (SAR) for this student. The SAR contains the required certifications and statements which document student eligibility for financial aid.

Recommendations

- *Fergus Falls Community College should resolve conflicting information in student files before disbursing financial aid.*
- *Fergus Falls Community College should ensure that they obtain required certifications and statements before disbursing financial aid.*

Mesabi Community College

19. Mesabi Community College incorrectly calculated its administrative cost allowance.

Mesabi Community College inaccurately calculates administrative costs for campus-based federal financial aid. Federal regulations allow institutions an annual administrative cost allowance. The allowance is equal to five percent of the institution's Perkins loan, federal college work study, and Supplemental Education Opportunity Grant expenditures in an award year. Award years are from June to July. However, the college calculates their allowance using calendar year expenditures for federal college work study. The college received an additional $1,800 in administrative costs for the 1991-1992 award year using its calculation method.

Community College System

Recommendations

- *Mesabi Community College should calculate their administrative costs using award year expenditures.*
- *Mesabi Community College should work with the U.S. Department of Education to remedy the incorrect calculation of administrative costs.*

Auditor Comments on Agency Responses

A few of the attached responses indicate some areas of disagreement with our draft report comments. We have reconsidered some of these items and offer the following comments.

Regarding findings 11 and 14, the responses indicate that the financial aid administrators used professional judgement when disbursing aid to the students referred to in the report comments. We acknowledge that financial aid administrators have the authority to use professional judgement. The Higher Education Amendments of 1986 (Public Law 99-498 section 479A) state that financial aid administrators are able to make adjustments to individual students with special circumstances. However, the law specifies that financial aid administrators must base the adjustments on adequate documentation. The financial aid files did not contain adequate documentation to support a professional judgement decision for the students discussed at these campuses.

Regarding finding 16, the response refers to the ACT Student Handbook as giving the financial aid administrator the authority to make the adjustment to the student's cost of attendance budget. We do not believe the federal government acknowledges the ACT Student Handbook as an authoritative source to make financial aid adjustments.

The response received from Hibbing Community College contained a number of attachments that were not included in this report.

Minnesota Community Colleges

Office of the Chancellor
203 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101-4798
(612) 296-3990

May 25, 1993

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

Dear Ms. Leifeld,

The following is the Minnesota Community College System Office response to your office's findings and recommendations as a result of the systemwide federal financial aid audit for the year ended June 30, 1992.

Finding 1

PRIOR FINDING NOT RESOLVED: College satisfactory academic progress policies do not meet minimum federal guidelines.

Recommendation: *The system office should ensure that all colleges' satisfactory academic progress policies comply with minimum federal requirements.*

Response

In the fall of 1992 Dr. Ron Willliams, Kitty Hennemann and Ann Sidoti, from the Minnesota Community College System Office, met with representatives of the Legislative Auditor's office to discuss the prior finding. Since that time they have developed a Board Policy and systemwide regulation on Financial Aid Satisfactory Academic Progress. The draft has been reviewed by representatives of the Legislative Auditor's office regarding the language and completeness of the draft of the regulation. Furthermore, elements of the proposed draft have been discussed with Dr. Robert Wanzek from the Region V Office of the U. S. Department of Education to confirm the proposed policy's compliance with the requirements of the federal regulations.

continued

The proposed policy and regulation will be presented to the Minnesota Board for Community Colleges at their June 17, 1993 meeting. I expect the policy and regulation will be fully implemented throughout the system effective fall 1993.

I am attaching a copy of the proposed board policy and the proposed Financial Aid Satisfactory Progress Regulation for your information.

Person responsible - Ann Sidoti, Director of Student Services.
Projected date for completion - July 1, 1993

Sincerely,

Geraldine A. Evans
Chancellor

FALEGAU2.as

ROCHESTER
COMMUNITY
COLLEGE

May 28, 1993

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

Dear Ms. Leifeld:

I would like to thank you for your cooperation in allowing Rochester Community College to research all of the financial aid findings from your most recent audit. I believe our telephone conversations have been very productive and I feel certain we will be able to resolve two of these issues in question.

Issue 2. **Stafford Loan Certification**
Rochester Community College will properly certify all Stafford Loan applications and will work with the U.S. Department of Education to resolve the 1992 Stafford Loan overpayment. Ms. Rosemary Hicks and Dr. Gordon Trisko will properly certify all Stafford Loan applications and in the event that the Stafford Loan overpayment is due to the U.S. Department of Education, Mr. Gary Swenson, Director of Business Services, will forward the appropriate amount of money no later than June 30, 1993. Ms. Hicks will also discuss this case with the U.S. Department of Education.

Issue 3. **Resolving Conflicting Information in One Student's File**
Rochester Community College is still investigating the conflicting information on this case with the Wabasha State Bank. Upon receipt of proper documentation, Ms. Rosemary Hicks will contact you to clarify the status on this finding. This will also be resolved by June 30, 1993.

Issue 4. **Student's Financial Aid Based on Expected Current Year Income**
Documents on this case have been forwarded to your office. Ms. Rosemary Hicks will resolve this case with you prior to June 15, 1993. In the event that this is an overpayment, Ms. Hicks and Mr. Gary Swenson will work with the Department of Education.

Issue 5. **Monitoring of Academic Progress During Summer Sessions**
Rochester Community College will continue to enforce the Academic Progress policy during the Summer Sessions. Ms. Nancy Shumaker, Registrar, will insure that this process is done and will work with Dr. Gordon Trisko and Ms. Rosemary Hicks each quarter. RCC will also repay the PELL Grant account for the $800 ineligible payment and Mr. Gary Swenson will make payment prior to June 30, 1993.

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

Issue 6. Federal Perkins Loan Awarded Within Federal Guidelines
Dr. Gordon Trisko and Ms. Rosemary Hicks will award Federal Perkins Loans within federal guidelines and will establish a written policy for awarding such loans giving priority to students with exceptional needs. Ms. Hicks and Dr. Trisko will insure this by uniformly applying the Perkins Loan policy. The written policy will be developed by the Financial Aid Office and approved by the Dean of Student and Community Services no later than June 30, 1993.

Issue 7. Stafford Loan Exit Counseling
Dr. Gordon Trisko and Ms. Rosemary Hicks will perform Stafford Loan Exit Counseling shortly before the student falls below one-half time status or within 30 days after learning of the borrower's withdrawal. This will be implemented effective July 1, 1993.

I hope the information listed above has been of assistance to you in regards to reviewing these issues. If additional information is required, please feel free to contact me at (507) 285-7272.

Sincerely,

Ronald E. Thomas

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

RET:jkk

Attachments

C: Dr. Karen Nagle
Dr. Gordon Trisko
Rosemary Hicks
Gary Swenson
Nancy Shumaker

worthington
community college

1450 COLLEGEWAY ▪ WORTHINGTON, MN 56187-3024 ▪ 507-372-2107
1-800-657-3966 ▪ FAX 507-372-5801 ▪ TDD 507-372-2107
Quality Educational Opportunity For Over a Half Century

May 27, 1993

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

Dear Ms.Leifeld:

Enclosed is Worthington Community College's formal written response to findings 8, 9, and 10 of the systemwide federal financial aid audit for the year ended June 30, 1992 which you requested.

If you have any questions, please contact me.

Sincerely,

C.W. "Connie" Burchill
President

CWB/cp

Enclosure

Responses to Audit Findings:

8. **Worthington Community College disbursed aid to students without verifying student eligibility.**

The ADN students at Worthington register for their classes at Worthington. On the day before classes start, the registrar removes them from Worthington and transfers them to Willmar. The registrar notifies the appropriate personnel in the business office and the ADN students' credits are reviewed before any disbursements are made.

An actual consortium agreement does not exist between Willmar and Worthington concerning the ADN students. A "gentleman's agreement" has been used to coordinate the aid and the transfer of credits. A letter dated May 19, 1987 from Cheryl Maplethorpe of M.H.E.C.B. to Ken Swift, former director of financial aid at Worthington, gives approval to Worthington to disburse aid. An official institutional consortium agreement will be completed between the schools.

Student academic progress for the ADN students is much stricter than regular students. Their progress is monitored by the instructors of the program. If a student so much as receives a "D" grade, they are removed from the program immediately. There are no probationary terms or "a chance to get back in" the program. This policy is much stricter than either schools' satisfactory progress policy. However, all ADN students' progress will now be monitored by the Worthington financial aid office.

9. **Worthington Community College is not complying with Perkins loan counseling requirements.**

Entrance and exit interviews for Perkins loan borrowers will be done. Recent legislation and requirements for the Perkins loan program will be practiced by Worthington Community College. (Note default rate?)

10. **PRIOR FINDING NOT RESOLVED: Worthington Community College is not complying with federal financial aid transcript requirements.**

The financial aid office attempts to request financial aid transcripts from all students who transfer to Worthington. If the students do not indicate on their financial aid application that they have attended another school, it becomes difficult to obtain a F.A.T. (Financial Aid Transcript). An effort is being made with the registrar's office to monitor students who transfer in. This becomes extremely important as the 1993-94 application for financial aid does not request information concerning previous institutions attended. But, with the efforts made by the financial aid office and the registrar's office, this will be monitored as close as possible.

Hibbing Community College
Arrowhead Region
1515 East 25th Street • Hibbing, MN 55746 • 218-262-6700

May 27, 1993

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

Dear Ms. Leifeld:

This is in response to your financial aid audit report dated May 12, 1993 which covers the year ending June 30, 1992.

Item #11

For the three students indicated, please consider our responses below in reference to the order listed in your report.

Student A: We believe that a big part of providing financial assistance to students is the counseling we provide as the student begins experiencing academic difficulties. We would call your attention to the following -- Out of the first fifty-one credits attempted, the student completed all but four credits even though the grade point average was slightly below the minimum required (1.767 instead of 1.85). The Financial Aid Office had several discussions with the student and under professional judgment decided to go along with the student's request for additional aid and placed him on probation for an additional quarter rather than suspension. (Please note that at the end of the Spring Quarter of 1992, the student had completed eighty-three percent of all courses attempted even though his grade point average was again slightly below standards. Enclosed please find exhibits A, B, and C which will document what we have said above.)

Student B: This is another student who the Financial Aid Office communicated with on several different occasions in relation to health problems and academic performance. Again, we feel it is our responsibility to counsel students who are experiencing such problems. Under professional judgment, we took the liberty of continuing the student on probation rather than suspending the student. (Please note the student's grade point average for some very difficult courses -- also, we call your attention to the enclosed exhibits D, E, and F). We also call your attention to exhibit G, a copy of the student's academic transcript, and exhibit H which shows the student had completed seventy-seven percent of credits attempted (minimum is seventy-five percent) and also had a cumulative grade point average of 3.34. Under professional judgment, we believe it is only fair to the student to make exceptions to the rules when the student has demonstrated academic potential and shows promise of being successful in the academic setting.

Student C: When the auditing team was on campus, we could not find a copy of the petition the student had completed requesting to exceed the maximum credits allowed (to complete the Nursing Program). We informed the auditing team we were behind on our filing. Shortly thereafter, we hired two additional student workers who have done nothing but filing. The petition was located and a copy is enclosed (exhibit J).

Item #12

Hibbing Community College has made arrangements with Northstar Guarantee Agency to send us Enrollment Verification Reports once every term, including the summer, which comes to four times per year. Previously, we received those reports twice per year. We are confident that this change will comply with regulations.

We would also call your attention to the attached 1992-93 Delivery System Training Workshop manual section on Satisfactory Academic Progress. The sentence underlined specifically states that professional judgment may be used by the Financial Aid Office in dealing with student academic performance.

Thank you for your consideration.

Sincerely,

Anthony E. Kuznik
Provost

AEK:ss

Enclosures

WILLMAR COMMUNITY COLLEGE

May 24, 1993

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

Dear Ms. Leifeld:

In response to your letter dated May 12, 1993 to Willmar Community College regarding Audit Finding #9 and #14.

#8 *Worthington Community College disbursed aid to students without verifying eligibility.*

In our conversation with Michael Fury, Director of Financial Aid at Worthington Community College on 5/20/93, he has agreed to establish an institutional consortium agreement for our joint nursing program for the disbursement of student financial aid.

#13 *Willmar Community College did not comply with Federal Financial Aid Transcript requirements for two students.*

Willmar Community College Records Office will provide to the Financial Aid Office a copy of all transcripts from other post secondary educational institutions and/or information that a student has attended so the Financial Aid Office can request financial aid transcripts. We believe this procedure will help prevent the Financial Aid Office of not knowing that a student has attended other college(s). The Director of Financial Aid, Bert Phillips, is the official responsible for the above resolution.

Sincerely,

Harold Conradi

Harold Conradi
President

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

North Hennepin Community College

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

June 3, 1993

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

Dear Ms. Leifeld:

Please accept this letter as our college's response to the draft audit report of Stafford loan, Perkins loan and Pell Grant programs at the Community College System as part of the statewide audit of the State of Minnesota fiscal year 1992 financial statements and federal programs.

Finding 14 (Previous Finding 15)

North Hennepin Community College improperly certified a Supplemental Loan for Students (SLS) loan.

Response

North Hennepin Community College is aware of the federal regulation requiring eligible students to apply for a Stafford loan before an application can be certified for an SLS loan. The college acknowledges the finding that one student, who was eligible for a maximum Stafford loan, was only certified for a SLS loan.

Federal financial aid regulations allow colleges to exercise professional judgement, in exceptional cases, in certifying student loans and adjusting aid packages. (Higher Education Act of 1965, Sec. 479A. (a) as amended). The Financial Aid Director, using professional judgement, approved a SLS loan for the student. Robert Wanzek, Training Officer, U.S. Department of Education, Region V, in a 5/28/93 conversation, reaffirmed the college's authority to use professional judgement, on a case by case basis, in the determination of which loan program can be built into a specific student's aid package.

Finding 15 (Previous Finding 16)

The college's Stafford loan exit counseling does not meet federal regulations.

Response

North Hennepin Community College acknowledges it did not perform Stafford loan exit counseling shortly before students fall below half-time status. The college routinely collects all skip trace and collection related data from students and performs loan counseling prior to first disbursements. We believe this procedure is a major component of a total default management program yielding a 8.1% cohort default rate.

During the 1992-93 fiscal year, the financial aid office modified its procedures to comply with current federal requirements for Stafford loan exit counseling. The new procedures include conducting Stafford loan exit counseling shortly before a student falls below halftime status or within a reasonable period after learning of a borrower's withdrawal.

Yours Truly,

Frederick W. Capshaw, Ph.D.
President

FWC/ds

AnokaRamsey
Community College
Campuses in Coon Rapids and Cambridge

Office of the President
Coon Rapids Campus

May 24, 1993

Ms. Jeanine Leifeld
CPA
Financial Audit Division
Centennial Building
St. Paul, MN 55155

Dear Ms. Leifeld:

Enclosed is the response from Don L. Johnson, Financial Aid Director, to audit questions requested by your office in regards to Anoka-Ramsey Community College.

I hope the response is satisfactory. If you have any follow-up questions or concerns, please contact us.

Thank you.

Sincerely,

Patrick M. Johns
President

lb

c: Bonnie Anderson
Don L. Johnson

Coon Rapids Campus
11200 Mississippi Blvd., NW
Coon Rapids, MN 55433–3470
Telephone 612 422-3436/Fax 612 422-3341

Cambridge Campus
151 SW County Road 70
Cambridge, MN 55008
Telephone 612 689-1536/Fax Ext. 319

STATE OF MINNESOTA

ANOKA-RAMSEY COMMUNITY COLLEGE

MEMORANDUM

TO: Jeanine Leifeld, CPA

FROM: Don Johnson, Financial Aid Director

DATE: May 27, 1993

SUBJ: Audit Finding 16; 1991-92 Audit

The enclosed information should verify that the adjustment to the student's cost of attendance was not inappropriate.

The enclosed reference comes from the 1991-92 and 1992-93 ACT Student Handbook. It references the Department of Education conclusion and Section 472 of the Higher Ed. Amendments of 1986 as supporting information to allow budget adjustments.

cg

Enc.

Implications for Student Expense Budgets

The structure of the Congressional Methodology for independent students with dependents determines how student expense budgets are to be constructed. With the previous Uniform Methodology, expenses for the student's family could be included in the student expense budget since no allowance was made in the UM for those expenses.

The Congressional Methodology for independent students with dependents subtracts a Standard Maintenance Allowance from income to protect that income for the expenses of the student's family. Therefore, the expenses of the family (other than the student) should not be included in the student expense budget.

This change represented a major shift in Federal financial aid policy in that it precludes Federal financial aid dollars from being used to support a student's family. If the student has sufficient personal financial resources to provide family support, this is fine. In fact, the Congressional Methodology is very generous to independent students with dependents who do have substantial financial resources. If a student does not have adequate personal resources to provide family support, the CM is very harsh.

During 1988-89, the U.S. Department of Education indicated that it would be appropriate (but not mandatory) to add to the student expense budget the portion of the Standard Maintenance Allowance that exceeds income (for independents with dependents). See ACT CFAR comment 136. Financial aid administrators are encouraged to review Section 472 of the Higher Education Amendments of 1986 (P.L. 99-498).

136 INCOME INSUFFICIENT TO SUPPORT DEPENDENTS (SEE NEG. CALC. AI).

This comment will appear if an independent student with dependents has a calculated available income that is less than zero (total income minus allowances is negative). This comment indicates that given the student's financial situation, the student's taxable and untaxed income will not be sufficient to cover the expenses of the family (neither will the student expense budget, since it will be for the student only). The financial aid administrator may wish, in accordance with guidance from the U.S. Department of Education, to add negative available incomes for independents with dependents to the student's expense budget.

COMMUNITY COLLEGE

NORMANDALE

CELEBRATING 25 YEARS: FROM THIS FOUNDATION FORWARD
1968-1993

May 28, 1993

Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Office Building
First Floor South
St. Paul, MN 55155-9902

Dear Ms. Leifeld:

I am writing in response to Legislative Audit Recommendation No. 17: Normandale Community College needs to establish a written policy for awarding Perkins loans, giving priority to students with exceptional need.

The audit report expresses concerns about Normandale's approach to addressing exceptional need and establishing priority in offering Perkins loans to eligible students. Reference is also made to Pell Grant eligibility as a measure of exceptional need.

Normandale utilizes a computerized aid awarding process — the SAFE System. Through the SAFE System, all aid applicants have their eligibility for gift aid, including Pell, SEOG and State Grants determined before loan or work assistance is offered. Loan or work assistance is awarded with consideration for student preference expressed in the aid application process. After taking into consideration aid eligibility, need and gift aid to be received, Perkins loans are offered on a prioritized, graduated basis. Selection procedures are written into the uniformly applied awarding process administered through SAFE. Perkins loans are offered in graduated amounts within pre-established parameters to students eligible to receive them with priority to those with greatest remaining need and consideration for funds available at the time of awarding. There is no requirement that Perkins loan recipients must be eligible to receive a Pell Grant. A student who is eligible for a Pell Grant, SEOG and/or State Grant may, in fact, have less need than a student eligible for a Perkins loan.

This practice will be stated in written policy form by the Director of Financial Aid effective July 1, 1993.

Sincerely,

Thomas J. Horak

Thomas J. Horak
President

9700 France Avenue South ▼ Bloomington, Minnesota ▼ 55431 ▼ 612/832-6000 ▼ Fax 612/832-6571
Equal Opportunity Educator/Employer

Fergus Falls
Community
College

1414 College Way
Fergus Falls, Minnesota 56537
(218) 739-7500

May 25, 1993

Ms. Jeanine Leifeld
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Ms. Leifeld,

Please accept this letter as Fergus Falls Community College's response to the draft audit report for the year ending June 30, 1992.

The college agrees with audit finding 18 regarding the resolution of conflicting information.

Subsequent to 1991/92 academic year the college incorporated the use of the SAFE financial aid management system. Among the features of this system include a verification function that requires the user to create a computer file checklist of documented items. We feel the use of this system will reduce chances of inadvertent error.

By policy and procedure FFCC does not award financial aid without a signed valid SAR. We feel strongly that the absence of SAR in a student file is result of a misfiling.

Director of Financial Aid, Robert Anderson, has made the necessary procedural changes to document, within SAFE, verification data. Mr. Anderson remains responsible for monitoring financial aid programs to assure compliance with federal regulation.

Sincerely,

Dan F. True

Dan F. True
Provost

MCC Mesabi Community College
To Be The Best!

May 28, 1993

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

Dear Ms. Leifeld:

This is the Mesabi Community College formal response to finding number 19, as per your May 12, 1993 audit report draft.

Statement of Finding: Mesabi Community College incorrectly calculated its administrative cost allowance.

Response to Finding: Mesabi Community College will calculate the FY 1993 administrative costs using award year expenditures. Also, the College has worked with the U.S. Department of Education, through the Arrowhead Community College Region, to correct the calculation of administrative costs.

Thank you for your interest and cooperation.

Sincerely yours,

Richard N. Kohlhase

Richard N. Kohlhase, Provost

cc: Clint Coombe
Director of College Services

Bill Maki
Director of Administrative Services

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