

STATE UNIVERSITY SYSTEM

STUDENT FEDERAL FINANCIAL AID PROGRAMS

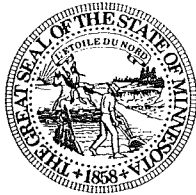
MANAGEMENT LETTER

FISCAL YEAR 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-36



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. 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 1992 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:

St. Cloud State University
Mankato State University
Bemidji State University
Metro State University

Southwest State University
Winona State University
Moorhead State University

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

Finally, we reviewed internal controls over federal financial aid at certain individual state university during fiscal year 1992. 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 1992:

Mankato State University	Rpt. #92-55
Bemidji State University	Rpt. #92-63

Conclusions:

Except for the effects of finding 6, we determined that the internal controls in effect at June 30, 1992 provided reasonable assurance that Moorhead State University managed its federal financial aid programs in compliance with applicable laws and regulations. Except for the effects of finding 2, we determined that the internal controls in effect at June 30, 1992 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 and 3 - 5 discuss noncompliance with general administrative requirements.

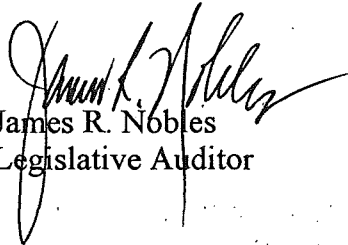
Except for the issues discussed in the preceding paragraph, with respect to the items tested, the State University System complied in all material respects, with the provisions referred to in the previous paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe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

The work conducted is part of our annual Statewide Financial and Federal Compliance Audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the State University System for fiscal year 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. 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.

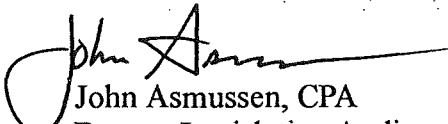
This report is intended for the information of the Legislative Audit Commission and the management of the State University System. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 25, 1993.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Dr. Terrence MacTaggart, Chancellor
Members of the State University Board
State University Presidents
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We 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 12, 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
Tom Donahue, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Mary Annala, CPA	Auditor
Mark Johnson	Auditor

State University System

Introduction

The State University 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 university.

The Perkins Loan Program is a campus-based program, which provides low-interest loans to students. The university acts as a lender, using both federal funds and a state match for capital contributions. Each university 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 university 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 university and the university 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 State University System disbursed approximately \$28,895,094 in Pell grants, \$4,418,224 in new Perkins loans issuances, and \$41,030,248 in new Stafford loans during fiscal year 1992. The university collected \$3,727,216 in Perkins loan repayments during fiscal year 1992.

Current Findings and Recommendations

St. Cloud, Mankato, and Bemidji State Universities

1. St. Cloud, Mankato, and Bemidji State Universities' academic progress policies do not meet federal guidelines.

The universities' academic progress policies for financial aid recipients do not meet federal guidelines. Federal regulations require an institution's satisfactory academic progress policy for students receiving federal financial aid be the same or stricter than the institution's standards for a student who is not receiving assistance. The universities' financial aid policies are not as strict as the general policies.

For example, at St. Cloud State, the financial aid policy does not require a minimum cumulative grade point average until the student has attended the university for three quarters. The general policy requires a minimum cumulative grade point average of 1.5 after the first quarter of attendance.

At Mankato State, a student not receiving financial aid must have a minimum grade point average of 2.0 to remain in good standing. Students receiving financial aid do not have to have a GPA of 2.0 until they have earned 91 credits.

Full-time students at Bemidji State who have completed three quarters and attempted 36 credits would have to have a GPA of 1.0 according to the financial aid policy. The general policy requires the same student to have a GPA of 1.5.

Mankato State University's satisfactory academic progress policy does not address the effects of withdrawals and noncredit remedial courses on satisfactory progress. Bemidji State's policy does not address the effects of noncredit remedial courses on satisfactory progress. Federal regulations require that satisfactory academic progress policies address the effects of incompletes, withdrawals, repetitions, and noncredit remedial courses on satisfactory progress.

Recommendations

- *St. Cloud, Mankato, and Bemidji State Universities should ensure that their satisfactory academic progress policies for financial aid recipients be the same or stricter than the policies for students not receiving aid.*

State University System

Recommendations (Continued)

- *Mankato State University should address the effects of withdrawals and noncredit remedial courses on satisfactory progress.*
- *Bemidji State should address the effect of noncredit remedial courses on satisfactory progress.*

2. St. Cloud State University needs to improve procedures for Perkins loans.

The university does not require all students to sign the promissory notes for Perkins loans before disbursing funds. The university stated that it sends the promissory note and the loan check to student teachers and interns at remote locations. The student signs the note and sends it back to the school. During testing, we found that three students signed the promissory notes after they had received funds. Two of the three students were attending classes on campus. Federal regulations require that all students sign the promissory notes before the institution disburses loan funds to the students. The university's present practice of disbursing funds before the promissory note is signed subjects the university to an unnecessary financial risk. The university is liable for any loan funds disbursed for which there is no promissory note.

Students receiving Perkins loans do not always date the promissory note when signing it. Students must date the promissory note when they sign them in order for the notes to be valid. Without a valid note, the school is liable for the funds disbursed.

Recommendation

- *St. Cloud State University should ensure that all students sign and date promissory notes for Perkins loans before disbursing funds.*

3. St. Cloud State University did not comply with federal requirements for Stafford loan exit counseling.

St. Cloud State University does not conduct exit counseling for students who fall below half-time status, withdraw, or do not return the following quarter. The university holds counseling sessions only with students who are graduating. Federal regulations require that each institution conduct exit counseling for students shortly before the student becomes less than half-time or within 30 days after the school learns that the student has withdrawn or did not attend a counseling session. The purpose of exit counseling is to remind the students that they are obligated to repay their student loans and to provide debt management strategies. The university does have the option to mail exit counseling materials to students who have left.

Recommendation

- *St. Cloud State University should conduct exit counseling sessions for all Stafford borrowers who fall below half-time status, withdraw, or do not return to school.*

State University System

Winona State University

4. PRIOR FINDING NOT RESOLVED. Winona State University incorrectly applied Perkins loan repayments to the borrowers' accounts .

Winona State University did not follow federal requirements when applying Perkins loan repayments to borrowers' accounts. Federal regulations require institutions to apply repayments to a borrower's account in the following order: (1) collection costs, (2) late fees, (3) interest, and (4) principal. The university did not apply repayments to collection costs. Not applying any of the repayment to collection costs prematurely decreases the principal and future interest amounts.

Recommendation

- *Winona State University should modify its Perkins repayment system to comply with the federal regulations regarding the application of repayments to borrowers' accounts.*

5. Winona State is not in compliance with federal regulations for Stafford loan counseling of transfer students.

Winona State University does not conduct entrance loan counseling interviews with transfer students if they received a Stafford loan at another institution. The university disburses the loans without holding the counseling sessions. Federal regulations require institutions to conduct an initial counseling session before releasing the first disbursement of a Stafford loan made for attendance at that institution.

Recommendation

- *Winona State University should conduct initial counseling of transfer students before releasing the first disbursement of a Stafford loan made for attendance at the university.*

State University System

Moorhead State University

6. Moorhead State University needs to improve cash management procedures.

Cash management over federal receipts needs improvement. Moorhead State University does not have an adequate cash forecasting system to limit federal cash on hand to immediate needs. The cash balances in the federal accounts vary from large positive balances to large negative balances. For example, the Pell account had a negative balance of over \$260,000 for 29 days. Later in the fiscal year, the Pell account had a positive cash balance of over \$900,000 for 25 days. Moorhead State University draws federal funds based on estimates of future expenditures. The university deposits both federal receipts (except Perkins funds) and nonfederal funds into a single bank account. At times the university uses nonfederal monies in the local account to fund federal expenditures until the bank receives federal funds. Federal cash management regulations require that institutions have an adequate cash forecasting process to keep federal cash disbursements limited to immediate needs.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding techniques agencies will use to negotiate a state/federal cash management agreement.

Recommendation

- *Moorhead State University needs to develop an adequate cash forecasting system that will eliminate large positive and negative swings in cash balances, and ensure that cash on hand is limited to immediate needs.*

State University System

Auditor Comment on University Responses

The attached response from St. Cloud State University indicates a disagreement with our draft report finding 1. We have reviewed the university's response and offer the following comment.

Federal regulation section 668.14(e) requires the university to establish, publish, and apply reasonable standards for measuring whether a student is maintaining satisfactory progress. And, that those standards of measure are the same as or stricter than the universities standards for a student enrolled in the same academic program who is not receiving assistance.

The table below compares the standard of measure regarding satisfactory progress as published on page 23 in the University's Undergraduate Bulletin with the University's Satisfactory Academic Progress Policy for Financial Aid Recipients:

<u>Quarter in Attendance:</u>	<u>Minimum Cumulative GPA</u>	
	<u>University Undergraduate Bulletin</u>	<u>Progress Policy for Financial Aid</u>
After 1 quarter	1.50	--
2 quarters	1.75	--
3 or more	2.00	1.50

It appears to us that the standard of measure as published in the university's Satisfactory Academic Progress Policy for Financial Aid Recipients is not as strict as the standards of measure published in the University's Undergraduate Bulletin.

The university makes reference to federal regulation section 668.75(a) and 668.75(2)(i) which we are not taking issue with.

ST. CLOUD STATE UNIVERSITY

OFFICE OF THE PRESIDENT

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

Phone (612) 255-2122

May 27, 1993

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

Dear Mr. Nobles:

The purpose of this letter is to respond to the preliminary audit findings contained in your letter of May 13, 1993, regarding the audit of the financial aid programs at St. Cloud State University.

Audit Finding #1 - St. Cloud State University's academic progress policies do not meet federal guidelines.

We wish to dispute this audit finding based on the following reasons: Since there was no discussion of any deficiency in our satisfactory academic progress policy at the time of our exit interview with the audit team, we are somewhat surprised by this comment.

First, you state that the satisfactory academic progress policy for students receiving financial aid should be the same as or stricter than the institutional standards for students who are not receiving assistance. At SCSU from an academic standpoint, students are defined to be in good standing academically if they have at least a 1.5 grade point average after 1 quarter of attendance, a 1.75 GPA after 2 quarters of attendance, and a 2.0 after 3 quarters of attendance. For example, if a student does not have a 1.5 after 1 quarter, the student is placed on probation. The student is not dismissed from the institution. If this student does not have at least a 1.75 GPA after 2 quarters, the student is then academically dismissed. Obviously, if the student is academically dismissed, the student would not receive any financial assistance since the individual would not be enrolled. We believe our satisfactory academic progress policy is in compliance with federal regulations since Section 668.75(a) stipulates that the institution must at a minimum provide a review of the student's academic progress at the end of each academic year. At SCSU, we do not and are not required to review the student's eligibility at the end of each quarter. Secondly, section 668.75(2)i stipulates that the institution is required to determine whether a student is making satisfactory academic progress at the end of the student's second academic year of study at the institution. To meet this requirement, the student must have a cumulative grade point average of at least a C (or its equivalent) or academic standards consistent with the institution's graduation standards (see Attachment I). Our policy specifically states that the student's cumulative grade point average must be at least 2.0 after the student has completed his/her second year of study. Third, SCSU's satisfactory academic progress policy was submitted to the U.S. Department of Education, Chicago, Illinois, for review and comment prior to implementation. Effie Barnett, Program Review Specialist with the Department indicated that our policy was in full compliance with federal regulations. (see Attachment II).

Audit Funding #2 - St. Cloud State University needs to improve procedures for Perkins Loans.

The University has allowed this process of mailing the check and promissory note to student teachers and interns for the last twenty years and has always received a signed promissory note from the student. The reason we receive compliance is because the students in question are close to the completion of their degree and have a vested interest in completing all financial aid requirements. To prevent these students from receiving their financial aid on a timely basis is a much greater concern.

The signatures of students on campus signing after the disbursement of a loan was caused by the incorrect completion of the promissory note at the time the loan was disbursed. We then contact the student to sign the promissory note properly. In the future, we will review the promissory note at the time the check is disbursed to insure that it is completed correctly.

We will monitor the completion of the date field at the time the Perkins loan is disbursed and will continue to monitor and review those Perkins loan promissory notes sent to student teachers and interns.

Audit Finding #3 - St. Cloud State University did not comply with federal requirements for Stafford Loan exit counseling?

You indicated that SCSU does not conduct exit counseling for students who fall below half-time status, withdraw, or do not return the following quarter. You also state that federal regulations require each institution conduct exit counseling for students shortly before the students become less than half-time or within 30 days after the school learns that the student has withdrawn or did not attend a counseling session. It is impossible to provide exit counseling prior to the time students drop below half-time, withdraw, or fail to enroll since students simply do not inform us of their intention to change their enrollment status prior to the actual changes. However, your suggestion that SCSU mail exit counseling to students who have left the institution is well taken. Procedures will be put in place to mail materials to these students.

Sincerely,



Robert O. Bess, Ph.D.
President

cc: Diana Burlison, Business Manager
Frank Loncorich, Director, Financial Aid

FEL:jah/sp
Enc.

Mankato

STATE UNIVERSITY

Office of the President

28 May 1993

Mr. James Nobles
Legislative Auditor
1st Floor, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

On 13 May 1993, Tom Donahue sent me a copy of the draft management letter for the State University System-wide federal financial aid audit for the year ended 30 June 1992. Mr. Donahue requested that I provide you with a formal written response to finding 1, as presented in the draft report. Mankato State University's response to the audit finding and recommendation is enclosed.

I would like to express appreciation for the fine work that your office does for us. The audits are extremely important and helpful to our staff and to me.

If you have any questions regarding our response to the audit finding, please contact me or H. Dean Trauger at (507) 389-5010.

Sincerely yours,



Richard R. Rush
President

RRR/jle

Enclosures



STATE UNIVERSITY SYSTEM
FINANCIAL AID AUDIT

CURRENT FINDINGS AND RECOMMENDATIONS

1. St. Cloud, Mankato, and Bemidji State Universities' academic progress policies do not meet federal guidelines.

Recommendations:

St. Cloud, Mankato, and Bemidji State Universities should ensure that their satisfactory academic progress policies for financial aid recipients be the same or stricter than the policies for students not receiving aid.

Mankato State University should address the effects of withdrawals and noncredit remedial courses on satisfactory progress.

Mankato State University Response:

The finding is relevant, but it was not an issue that the Financial Aid Office staff was not aware of. At the time of the audit review an updated Satisfactory Academic Progress process, procedure, and related materials were already implemented. The brochure, in particular, had already been revised and distributed to students as appropriate. (The most recent brochure now used is the purple-shaded one, and the one used for 1990-91 1991-92 is gray-colored. Please see attached copies.)

The revised brochure that was made available by the fall of 1992 now reflects the audit finding concern in that the academic requirements for financial aid eligibility are equal to or stricter than the institution's standards. Attached are copies of the specific institution standards for the academic year 1990-91 and 1991-92, reference #7 Scholastic Standards. These attachments are provided to show that the institution's standards changed from one year to the next. This change was reacted to as soon as possible by a revision to the Financial Aid system and documents.

As can be determined by the material presented, the intention and practice of the Financial Aid Office, previously and currently, has been to implement the Federal Satisfactory Academic Progress compliance regulation in a manner that such academic requirements are equal to or stricter than the institution's standards. Thus, the recommendation for change because of finding 1, has been implemented as required. This includes the concern expressed regarding withdrawals and noncredit remedial courses. The brochure, which is made available to all students, addresses the satisfactory progress criteria; the brochure with an accompanying letter of explanation is sent individually to student financial aid recipients who have not met specific sections of the overall compliance regulation and provides them with more specific detail.



BEMIDJI

STATE UNIVERSITY

BUSINESS AND ACCOUNTING SERVICES
218-755-2064

May 25, 1993

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

Dear Mr. Nobles:

Re: Financial Aid Audit for year ended June 30, 1992

Bemidji State University agrees with the Office of the Legislative Auditor and is currently in compliance with your recommendation. Our Satisfactory Academic Progress Policy is now the same for students not receiving aid and our financial aid recipients. The effect of non credit remedial course grades on calculating satisfactory academic progress is not an issue. Grades for non credit remedial and developmental courses are not considered when determining satisfactory academic progress for financial aid recipients.

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

Sincerely,

Gerald S. Amble
Business Manager

cc: Dr. Linda Baer, President
Mr. Thomas Faecke, Vice President For Administrative Affairs

Winona State University



Winona, Minnesota 55901

Telephone (507) 457-5000

May 20, 1993

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

Dear Mr. Nobles:

This letter is in response to Thomas Donahue's draft management letter of May 13, 1993, to Darrell Krueger. With regard to findings 4 and 5, we have the following responses:

4. Prior finding not resolved. Winona State incorrectly applied Perkins loan repayments to the borrowers' accounts.

Management's response: We concur. Implemented December, 1992.

5. Winona State is not in compliance with federal regulation for Stafford loan counseling.

Management's response: We agree with the findings and have been including transfer student borrowers in our entrance interview process since December, 1992.

Jerome Varner
Business Manager

cc: Dr. Darrell Krueger
Dr. John Kane
Mr. Fred Naas
Mr. Robert Lietzau

jsr

MOORHEAD STATE UNIVERSITY

Moorhead, Minnesota 56563

(218) 236-2243

May 20, 1993

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

Dear Mr. Nobles:

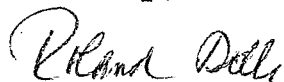
Thank you for the opportunity to review and respond to the May 13, 1993 audit report of federal financial aid for the fiscal year ended June 30, 1992. With respect to the recommendation in your report, we respond as follows:

1. Moorhead State University needs to develop an adequate cash forecasting system that will eliminate large positive and negative swings in cash balances, and ensure that cash on hand is limited to immediate needs.

We concur with this recommendation and because the State of MN has chosen the clearing pattern for determining federal cash requests, we will have to establish an average number of days for check clearing.

I want to thank you and your staff for the excellent work that was performed in completing this audit. If you should have any questions regarding our response, please feel free to call.

Sincerely,



Roland Dille
President

cc: John McCune, Vice President for Administrative Affairs
Mel Schmitz, Vice President for Student Affairs
Ed McMahon, Vice Chancellor for Finance
Verlee Thies