STATE UNIVERSITY SYSTEM

STUDENT FEDERAL FINANCIAL AID PROGRAMS

MANAGEMENT LETTER

FISCAL YEAR 1993

JUNE 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-26

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. Terrence MacTaggart, Chancellor
State University System

Members of the State University Board

State University Presidents

Audit Scope

We have audited selected programs of the State University System as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit of federal programs. Our audit was limited to only that portion of the State of Minnesota's financial activities attributable to the transactions of the State University System as outlined below and as further discussed in the Introduction. Specifically, for the State University System those programs were:

CFDA Number	Program
84.032	Federal Family Educational Loans
84.038	Federal Perkins Loans
84.063	Federal Pell Grants

As part of this audit, we tested samples of students who received federal financial aid through each of the federal programs listed above. Students from all universities within the State University System were included, as follows:

- St. Cloud State University
- Mankato State University
- Bemidji State University
- Metropolitan State University
- Southwest State University
- Winona State University
- Moorhead State University

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 selected financial activities of the universities are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the State University System. The work conducted in the department is part of our Statewide Audit and Single Audit federal compliance audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the system during fiscal year 1993.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Federal financial aid revenues and cash management
- Federal financial aid packaging and disbursements
- Federal Perkins loan management and repayment process

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they were in place during the fiscal year ended June 30, 1993, and we assessed control risk for Bemidji, Mankato, Moorhead, St. Cloud and Winona State Universities. In addition, for the internal control structure in place during fiscal year 1994 for the categories listed above, we also obtained an understanding of the design of relevant policies and procedures and we assessed control risk for Mankato, Moorhead and St. Cloud State Universities.

Management Responsibilities

Management of the State University System is responsible for establishing and maintaining the internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly in accordance with federal and systemwide policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions

The results of our tests indicated the following instances of noncompliance with legal requirements related to federal financial aid for fiscal year 1993. Findings 1, 3, 5, 9 and 11 discuss noncompliance with general administrative requirements. Findings 2, 8, 10 and 13 discuss noncompliance with Perkins Loan specific requirements. Findings 6 and 12 discuss noncompliance with Federal Family Education Loan specific regulations.

The results of our tests indicated the following instances of noncompliance with legal requirements related to federal financial aid for fiscal year 1994. Findings 1, 3, 5, 9 and 11 discuss noncompliance with general administrative requirements. Finding 10 discusses noncompliance with Perkins Loan specific requirements.

Except for the issues discussed in the two paragraphs above, with respect to the items tested, the State University System complied, in all material respects, with the provisions referred to in the audit scope 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.

Our audit disclosed the conditions discussed in findings 1, 3, 5, 7, 8, 9, 10, 11, and 13 involving the internal control structure of the State University System in place during fiscal year 1993. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

Our audit also disclosed the conditions discussed in findings 1, 3, 4, 5, 7, and 10 involving the internal control structure of the State University System in place during fiscal year 1994. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of selected state universities at various campus exit conferences.

This report is intended for the information of the Legislative Audit Commission and 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 24, 1994.

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: March 18, 1994

Report Signed On: June 10, 1994

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Marla Conroy, CPA	Auditor
Sonya Hill, CPA	Auditor
Mark Johnson	Auditor
Amy Jorgenson, CPA	Auditor
Janet Knox, CPA	Auditor
Carl Otto, CPA	Auditor
Rhonda Regnier, CPA	Auditor

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 Federal Pell Grant Program, the Perkins Loan Program, the Stafford Loan Program, and the Federal Supplemental Loans for Students (SLS) program.

The Federal 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 (PGI) for the 1992-93 year and the Expected Family Contribution (EFC) for the 1993-94 year. The PGI and EFC are determined by a federal central processing system. Federal Pell grant payments are not limited to the available funds at a particular university. The US Department of Education provides funds to each campus based on eligible students enrolled.

The Federal Perkins Loan Program 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 loan collection duties. These duties include corresponding with students going into loan repayment status, receiving all loan repayments, and pursuing delinquent loans.

The Federal Stafford Loan Program and Federal Supplemental Loans for Students are part of the Federal Family Education loan program. The principal for these loans is provided by private lenders. The loans are guaranteed because the federal government reimburses the lender 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 subsidized Federal Stafford loans, the federal government pays interest to the lender while the student is in school. For unsubsidized Stafford and SLS, the student pays all interest that accrues on the loan. The federal government pays a special allowance to the lender for both subsidized and unsubsidized Stafford loans 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 $27,629,633 in Federal Pell grants, $4,729,173 in new Federal Perkins loan issuances, and $46,877,388 in new Federal Stafford and SLS loans during fiscal year 1993. The universities collected $3,724,074 in Federal Perkins loan repayments during fiscal year 1993.

Current Findings and Recommendations

Moorhead State University

1. Moorhead State University's cash management procedures are inadequate.

Moorhead State University does not have an adequate cash forecasting system to limit cash on hand to immediate needs. The cash balances in the Federal Pell account vary from large positive balances to large negative balances. For example, in the beginning of fiscal year 1993, the account had a balance of over $400,000 for two weeks. Later in that year, the account had a negative balance of over $157,000 for six days. In December 1993, the university had a balance in the Pell account of approximately $51,000 for 12 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 local 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 in place to keep federal cash disbursements limited to immediate needs.

Federal cash management requirements are changing. Beginning in state fiscal year 1995, agencies must implement the federal Cash Management Act of 1990 for the Pell Program. Agencies will need to maintain stricter management of transferred federal funds under these new regulations.

Recommendation

- *Moorhead State University needs to develop adequate cash forecasting systems that will eliminate large positive and negative swings in cash balances and limit cash on hand to immediate needs.*

2. Moorhead State University exceeded its administrative cost allowance for campus-based aid.

During fiscal year 1993 Moorhead State University withdrew $43,010 from its Perkins fund for the 1991 administrative cost allowance. The university reported the administrative cost allowance claimed on its 1991 fiscal operations report. However, Federal regulations require that an institution must draw the administrative cost allowance from its Perkins Loan fund during the same award year in which it was earned.

Recommendation

- *Moorhead State University should repay $43,010 to the Perkins Loan fund for the 1991 administrative cost allowance drawn in 1993.*

State University System

3. Moorhead State University purposely overstates Federal Work-Study expenditures on its federal cash transaction reports.

Federal cash transaction reports are not accurate. Expenditures reported on the federal cash transaction reports do not always agree with expenditures recorded on the accounting system. At times, the accounting officer overstates Federal Work-Study expenditures in order to show a negative cash on hand balance on the federal cash transaction report at the end of the reporting period. The accounting officer feels that if there is a positive balance, the Department of Education may suspend the university's ability to draw funds. The June 1993 report shows $88,495 in Federal Work-study expenditures. The accounting system shows $19,862 in Federal Work-study expenditures. The November 1993 report shows Federal Work-study expenditures of $17,434 while the accounting system shows $36,954. By reporting inaccurate figures, the cumulative expenditures on the reports are also incorrect. The university should report actual expenditures on the cash transaction reports. It does have accurate cumulative information.

Recommendation

- *Moorhead State University should prepare the federal cash transactions reports using expenditures from the accounting system.*

4. Moorhead State University did not document the use of professional judgment.

The university did not document in a student's file the use of professional judgment. During the 1993-94 school year the university used professional judgment to decide that a dependent student was independent. There was no documentation of the reasons for the determination in the student's file. The documentation sheet in the student's file simply states that the financial aid office approved a dependency override for the 1993-94 school year. The financial aid office does not list any reasons for the override in the student's file. Federal regulations give financial aid administrators the authority to make exceptions for students who have individual circumstances that make them independent, even though they do not meet the definition of one in the law. However, the financial aid administrator must document the reasons for these decisions in the student's file. Determining whether to treat a student as a dependent or independent student is one of the most important decisions in calculating the student's need for financial aid. If the university determines that a student is dependent, the student will have to include parental information on the financial aid application, and a parental contribution will be added to the student's contribution. This will likely reduce the amount of financial aid the student will be able to receive.

Recommendation

- *The university should reconstruct the reasons for changing the students dependency status and document those reasons in the student's file.*

St. Cloud State University

5. St. Cloud State University's cash management procedures are inadequate.

St. Cloud State University does not request drawdowns on a timely basis to have sufficient federal cash on hand for immediate needs. St. Cloud State University draws federal funds based on the amounts already expended. Of the six draws for federal cash that we tested, five showed the amounts being requested were just enough funds to cover past expenditures. The university deposits both federal receipts and nonfederal funds into a single local bank account. At times the university uses nonfederal monies in the local account to fund federal expenditures until the bank receives federal funds. St. Cloud State University should accelerate the timing of its drawdown requests so that cash on hand is sufficient to meet immediate needs.

Federal cash management requirements are changing. Beginning in state fiscal year 1995, agencies must implement the federal Cash Management Act of 1990 for the Pell Program. Agencies will need to maintain stricter management of transferred federal funds under these new regulations.

Recommendation

- *St. Cloud State University needs to accelerate the timing of its drawdown requests so that cash on hand is sufficient to meet immediate needs.*

6. St. Cloud State released Federal Family Educational Loan proceeds to an ineligible student.

In March 1993, the university business office delivered two Federal Family Educational loan checks totaling $2,019 to an ineligible student. The university's financial aid office had previously suspended the student after winter quarter for not meeting academic requirements. The financial aid office prepared a loan distribution sheet for the spring quarter disbursement and sent the sheet to the business office. The loan sheet stated that the student was not enrolled for spring quarter. However, the business office erroneously released the loan checks to the student. Federal regulations require that a student be enrolled at least half-time to be eligible to receive a Guaranteed Student loan. In June 1993, the business office billed the student for the overpayment. As of February 1994, the student had not returned the loan.

Recommendation

- *The university should work with the U.S. Department of Education to remedy the Federal Family Educational Loan overpayment of $2,019.*

7. St. Cloud State University needs to improve access controls over its financial aid system.

The university's financial aid system access controls need improvement in several areas. Some university employees have access to transactions that are incompatible with their job responsibilities. Secondly, university departments do not always notify the computer center of changes in operators' employment status. In addition, employees and student workers inappropriately share access codes.

The university uses the financial aid system to verify, calculate and award financial aid. The university intends for employees outside the financial aid office to have inquiry only capabilities; however, some authorizations contain the ability to update the financial aid data. Several business office employees had access to three financial aid update transactions. Allowing these employees access to perform update transactions breaks down the university's controls over financial aid transactions. Department oversight of access to process financial aid transactions is essential to properly control the system.

The university's computer center maintains the security files which control access to the system. Departments must work with the computer center to update the security file for new operators and cancel employees who transfer or leave university employment. We found one instance where the university did not terminate an employee's access code after the employee left university employment. The computer center did not receive any information regarding the employee's change of employment status.

Controls are also weak because the university does not assign unique user codes to student workers who assist in the financial aid office. These students enter the majority of the data used in the verification process. The financial aid office has several access codes for student workers. However, the financial aid office does not specifically assign access codes to the students, making it difficult to identify who entered certain transactions. In addition, some employees are not keeping their user codes confidential. Some student workers use the employee's access codes. The employee access codes have expanded transaction authority. The financial aid office should not give these access codes to student workers. Sharing access codes is risky because it does not allow the university to identify which employee or student worker entered certain transactions.

Recommendations

- *St. Cloud State University should strengthen access controls over the financial aid system by:*
  - *limiting employee's access to only those functions necessary to perform their job responsibilities;*
  - *requiring the departments to promptly notify the computer center of changes in an operator's employment status which affect the operator's need for transaction authority;*
  - *requiring the computer center to periodically request the departments to certify authorized operators; and*
  - *prohibiting employees and student workers from sharing access codes.*

State University System

8. St. Cloud State University did not deposit the state match for the Perkins program timely.

St. Cloud State University did not deposit the state match for the Perkins Loan program before or at the same time the university deposited the federal capital contribution as required by federal regulations. The university should request the state match before it requests the federal funds so it can deposit the state match timely.

St. Cloud State University deposited its fiscal year 1993 federal contribution on December 14, 1992. However, the university did not deposit the state match until December 22, 1992.

Recommendation

- *St. Cloud State University should deposit the state match for Perkins before or at the same time they deposit the federal contribution.*

Mankato State University

9. Mankato State University's cash management procedures are inadequate.

During fiscal year 1993 Mankato State University awarded Perkins loans at 200 percent expecting that only half of the students would accept. Most of the students did accept, causing a negative balance in the Perkins Loan account. On April 12, 1993 the Perkins Loan account had a negative balance of $465,511. At the end of fiscal year 1993, the Perkins Loan account had a negative balance of $285,958. The university deposits both federal and nonfederal receipts into one local bank account. When the Perkins account is negative, the university borrows from its local account monies to fund the Perkins loan payments. However, for year end federal reporting requirements, Perkins cash on hand cannot be shown as a negative balance. To meet its federal year end reporting requirements, the university borrowed $285,958 from its local accounts. The University intends to repay the amount borrowed with fiscal year 1994 Perkins funds.

Federal cash management requirements are changing. Beginning in state fiscal year 1995, agencies must implement the federal Cash Management Act of 1990 for the Pell Program. Agencies will need to maintain stricter management of transferred federal funds under these new regulations.

Recommendation

- *Mankato State University needs to develop adequate cash forecasting systems for awarding Perkins Loan funds to prevent large negative cash balances.*

10. Mankato State University did not deposit the state match for the Perkins program timely.

Mankato State University did not deposit the state match for the Perkins Loan program before or at the same time the university deposited the federal capital contribution as required by federal regulations. The university should request the state match before it requests the federal funds so it can deposit the state match timely.

State University System

Mankato State University deposited the fiscal year 1994 Perkins state match one week after it deposited the Perkins federal capital contribution. During fiscal year 1993, the university received the federal funds in three installments and deposited the corresponding state match one day after it deposited the federal funds. However, the university matched the federal contribution at 10 percent instead of 15 percent. Subsequently, the university deposited an additional 5 percent state match in June 1993. This was approximately eight months after the university received the final federal monies.

Recommendation

- *Mankato State University should deposit the state match for Perkins before or at the same time they deposit the federal contribution.*

Bemidji State University

11. Bemidji State University's cash management procedures are inadequate.

Bemidji State University does not request federal financial aid funds on a timely basis. The university requests funds on a reimbursement basis, except at the beginning of each quarter when program expenditures are very large. The university averages two draws per month. The local bank account contains both federal and nonfederal funds. The university uses money in the local account to fund federal financial checks temporarily. The university has continual negative cash balances in its federal financial aid accounts, both before and after the draw down of funds. For example, the Pell account balance several days after the receipt of funds ranged from negative $8,072 to negative $212,442. The university should draw federal cash on a basis consistent with the payment frequency.

Federal cash management requirements are changing. Beginning in state fiscal year 1995, agencies must implement the federal Cash Management Act of 1990 for the Pell Program. Agencies will need to maintain stricter management of transferred federal funds under these new regulations.

Recommendation

- *Bemidji State University need to develop adequate cash forecasting systems that will eliminate large positive and negative swings in cash balances and limit cash on hand to immediate needs.*

12. Bemidji State University did not comply with federal requirements for Stafford loan exit counseling.

Bemidji State University does not have an adequate process in place to identify Stafford loan recipients who do not return the following quarter or who drop below half-time status. The university needs to identify these students on a timely basis in order to send the required exit counseling materials. The university does have a process to identify and hold counseling sessions for students who are graduating or formally withdraw. 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 of their obligation 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 the university.

Recommendation

- *Bemidji State University should conduct exit counseling sessions for all Stafford borrowers.*

Winona State University

13. Winona State University did not deposit the state match for the Perkins program timely.

Winona State University did not deposit the state match for the Perkins Loan program before or at the same time the university deposited the federal capital contribution as required by federal regulations. The university should request the state match before they request the federal funds so they can deposit the state match timely.

Winona State University deposited $8,705 of its 1993 federal capital contribution on September 30, 1992, and the remaining $4,353 on December 21, 1992. The university deposited one-third of the required state match before depositing the federal contribution. The university deposited the other two-thirds of the state match, $484 each, on December 22, 1992, and January 13, 1993.

Recommendation

- *Winona State University should deposit the state match for Perkins before or at the same time they deposit the federal contribution.*

MOORHEAD
STATE UNIVERSITY

Moorhead, Minnesota 56563

PRESIDENTS OFFICE
(218)236-2221

June 8, 1994

Mr. Thomas Donahue, CPA
Audit Manager
Office of the Legislsative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Donahue:

This letter is in response to the recommendations prepared by your office following the financial and compliance audit of Moorhead State University, completed May 27, 1994.

1. Moorhead State University's cash management procedures are inadequate.

   Recommendation: Moorhead State University needs to develop an adquate 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.

   Response: We concur with this recommendation and because the State of MN has chosen the clearing pattern for determining federal cash requests, we are in the process of establishing an average number of days for check clearing. This process will be implemented during FY 94 with Verlee Thies, Business Manager, the responsible university employee.

2. Moorhead State University exceeded its administrative cost allowance for campus-based aid.

   Recommendation: Moorhead State University should repay $43,010 to the Perkins Loan fund for the 1991 administrative cost allowance drawn in 1993.

Response: Moorhead State University does not concur with this finding. Administrative costs allowance for FY-91 was $89,652, the five (5) per-cent allowed by Federal Regulation and as reported on the FISAP, Part III, Section B, line 4. Of the total allowable amount, $30,000 was reimbursed to the University in FY 91, while $16,642 was paid in FY-92 and the remaining amount, $43,010, was paid in early FY-93. Routinely, Administrative Cost Allowance, (ACA), for the FPLP, FSEOG and FWS are partially, if not completely, reimbursed during the year in which they occur and any balances owing are paid early in the next year. This particular reimbursement was an exception, which resulted from overawarding for FY-92 and thus a shortage of cash on hand. The University advanced the loans committed to students first and reimbursed the University for ACA owed when funds were available. The total Federal allocation for FY 91 was drawn down and deposited into the Perkins loan fund at MSU during fiscal year 1991.

3. Moorhead State University purposely overstates Federal Work-Study expenditures on its federal cash transaction reports.

   Recommendation: Moorhead State University should prepare the federal cash transactions reports using expenditures from the accounting system.

   Response: The cash balance on the federal cash transactions report was wrong. The federal Dept. of Education Financing Office took corrective action on the 3/31/94 report. Federal Work-Study expenditures are now properly reported and Verlee Thies, Business manager, is the responsible university employee.

4. Moorhead State University did not document the use of professional judgment.

   Recommendation: The University should reconstruct the reasons for changing the students dependency status and document those reasons in the student's file.

Response: The Financial Aid Office has adjusted its processes to ensure professional judgement decisions are specifically documented in each student's file when dependency status is changed. Files will be reviewed to assure adequate documentation is noted in each file. While the Financial Aid Office felt the entire file could be used to document professional judgement issues, future decisions will specifically list the reason dependency was changed. This process will be implemented immediately with Karen Knighton, Acting Director of Financial Aid, the responsible university employee.

If you have any questions concerning the financial and compliance audit recommendations and our accompanying responses, please let us know.

Sincerely,

Roland Dille

Roland Dille
President

cc: Ed McMahon
cc: Al Finlayson
cc: John McCune, MSU
cc: Mel Schmitz, MSU
cc: Verlee Thies, MSU
cc: Karen Knighton, MSU

ST. CLOUD STATE
UNIVERSITY

OFFICE OF THE PRESIDENT
720 Fourth Avenue South
St. Cloud, MN 56301-4498

Phone (612) 255-2122

June 6, 1994

Mr. Thomas Donahue, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Donahue:

The purpose of this letter is to respond to the preliminary audit findings contained in your letter of May 27, 1994, regarding the audit of the financial aid programs at St. Cloud State University.

Audit Finding #5 - St. Cloud State University's cash management procedures are inadequate.

The University concurs with the finding. We have consistently tried to maintain positive cash balances, which is difficult in coordinating timing of drawing federal funds. We can be penalized if we have too much federal cash on hand at any given time. At the end of the year, depending on the timing of the increases for the Pell authorization, we can reflect a negative cash balance. We will closely manage the drawdowns for federal funds and process more timely requests.

Audit Finding #6 - St. Cloud State University released Federal Family Educational Loan proceeds to an ineligible student.

The checks were released in error. The student has an accounts receivable for the amount. The student has been contacted about repaying the amount on a number of occasions. The student is unable to receive grades, transcripts or enroll at the University until the obligation is resolved. We distribute approximately 12,000 bank loans in one year and will closely monitor enrollments before disbursements.

Audit Finding #7 - St. Cloud State University needs to improve access controls over its financial aid system.

We agree, by allowing Business Office employees the opportunity to perform update transactions in the financial aid file breaks down the University's controls over financial aid transactions. We have discussed this finding with Business Office personnel and have taken the appropriate steps to ensure that Business Office employees only have inquiry capabilities.

We have evaluated the assignment of user codes in the Office of Scholarships and Financial Aid. The appropriate steps have been taken to ensure that student workers will only be assigned access codes that will enable them to perform data entry functions. Only full time employees will be provided access codes that will allow them to enter awards and perform award maintenance functions. Full time office personnel will be instructed not to share their award/maintenance access code numbers with part time student assistants. In addition, student employees will not be allowed to use full time employee access codes.

Audit Finding #8 - St. Cloud State University did not deposit the state match for the Perkins program timely.

We concur with this finding. Both requisitions for checks were submitted for payment on the same day. One is a local check issued and deposited the next day. One is a state check and takes one week to arrive on campus. The situation has been corrected for Fiscal Year 94 and will be monitored in the future.

Sincerely,

Robert O. Bess, Ph.D.
President

cc: Eugene A. Gilchrist, Vice President
David Sprague, Vice President
Diana Burlison, Business Manager
Frank Loncorich, Director, Financial Aid

9. Mankato State University's cash management procedures are inadequate.

Mankato State University has participated in the Federal Perkins Loan Program since Fiscal Year 1957. Fiscal year 1993 is the first year that this program experienced a negative balance. This was caused by the over-acceptance of Federal Perkins Loans by students as mentioned in the audit report.

Mankato State University did not conceal that it borrowed $285,958 from the Activity Fund. Mankato State University transferred $285,958 from the Activity Fund to the Federal Perkins Loan program to comply with the reporting requirements of Section A of the Fiscal Report as of June 30, 1993 for Line 1, Cash on Hand and Depository. Per instructions of the report, "You may never report this figure as a negative; an excess expenditure must be charged to institutional capital contribution deposited into the Loan Fund as of June 30, 1993." Therefore, a transfer of funds was made from the Activity Fund to the Federal Perkins Loan program. An interfund receivable/payable was recorded as a receivable to the Activity Fund from the Federal Perkins Loan program. The Activity Fund was repaid in Fiscal Year 1994 by reducing the amount lent in that fiscal year. The cash balance of the Federal Perkins Loan Program on May 31, 1994 was $41,181.

Awarding funds to students requires the projection of the acceptance of offered dollars. The rate of acceptance varies from year to year depending on the timing of the awards, the enrollment demographics, and the interest rates of other comparable loan programs.

The overcommitment, i.e. negative balance, was identified prior to the end of the fiscal year, but the means to reduce this balance were limited and would have created an inconvenience to the students as the only viable solution would have been to switch the Perkins borrowers to the Stafford Student Loan program. Thus, the solution as shown in the accounting process was the best short-term solution for the institution and the students.

The Director of Financial Aid meets with representatives of the Business Office bi-weekly to review fund allocations, among other shared concerns and tasks. These regular meetings will allow for more immediate awareness of balances and allow for the time to correct any funding concerns. In addition, the forecasting of funds will be a shared decision.

10. Mankato State University did not deposit the state match for the Perkins program timely.

The additional five percent state match mentioned in the audit report that was deposited in June, 1993 was $2,628. This $2,628 was .16% of the $1,642,555 total expenditure.

Federal funds are received by ACH transfer and State funds are received by check. Mankato State University will, beginning in FY95, request the state match for the Federal Perkins Loans program prior to the request for the Federal Capital Contribution so that the state match is deposited into the bank prior to the ACH cash request for the Federal funds of the Perkins Loan Program.

BEMIDJI
STATE UNIVERSITY

BUSINESS AND ACCOUNTING SERVICES
218-755-2064

June 8, 1994

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, 1993

Thank you for the opportunity to respond to the findings and recommendations of the system-wide Federal Financial Aid Audit for the year ended June 30, 1993.

Regarding the specific findings, the following paragraphs constitute our response:

Finding 11.

The $212,442 negative PELL account balance was an isolated incident. We had written checks in excess of our PELL account balance; however, they were not released or cashed until we had received sufficient funds to cover this amount.

We are working with Alan Finlayson of our system office to implement the Cash Management Act of 1990 for the PELL program for Fiscal Year 1995.

I am the person responsible for this resolution.

Deputy Hall Box 13 1500 Birchmont Drive NE Bemidji, MN 56601-2699
A member of the Minnesota State University System,
Bemidji State University is an equal opportunity educator and employer

Finding 12.

Our exit interview procedure were revised during winter quarter, 1994 to specifically address this audit finding. A computer program was written and implemented during that term to identify all prior students in the Student Record System who were no longer enrolled and who were in need of an exit interview. The program is scheduled to run quarterly to assure compliance with the exit interview requirements of Title IV Federal aid programs.

Prior to the end of each quarter, students who are graduating or have indicated that they were not returning the next quarter are identified by the program. An exit interview packet is sent to these students prior to the end of the quarter notifying them that they are required to attend an exit counseling session on one of the scheduled dates. If the student is unable to attend the session, we inform them that they may complete the exit interview papers and return them to the Financial Aid Office.

John Schullo (218-755-2034) is the person responsible for this resolution.

Should you have any questions regarding this response, please contact me at 218-755-2743. Thank you.

Sincerely,

Gerald S. Amble

Gerald S. Amble
Business Manager

cc: Dr. Linda Baer, President
Mr. Thomas Faecke, Vice President for Administrative Affairs
Mr. John Schullo, Director of Financial Aid
Mr. Jerry Winans, Director of Accounting Services

Winona State University

P.O. Box 5838
Winona, Minnesota 55987-5838
Phone: 507-457-5000

June 7, 1994

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

Dear Mr. Donahue:

We would like to compliment you and your staff for the manner in which the TITLE IV audit was conducted at Winona State University.

Pursuant to Current Findings and Recommendations item #13, our records show that we deposited one-third of the state match on September 16, 1992 and one-third of the federal contribution ($4,353) on September 30. The balance of the federal funds ($8,705) was received on December 21. The internal requisitions for the remainder of the state match were initiated on December 9 ($484) and December 30 ($484). These matching funds were received on December 22, 1992 and January 13, 1993 respectively.

We concur with your recommendation regarding this matter.

For the 1994-95 academic year William Mullen, Winona State University Business Office, will order the state match for the federal programs one-third each academic quarter. The federal funds will NOT be ordered until the state match has been received.

A reminder has been added to the "DEPARTMENT OF EDUCATION CASH REPORT" form used to calculate the amount of federal funds to be ordered (copy attached). If the state match has not been received, the request for federal funds will not be processed.

Sincerely,

Jerome Varner

Jerome Varner
Business Manager
507-457-5061

Enc.