# COMMUNITY COLLEGE SYSTEM

## STUDENT FEDERAL FINANCIAL AID PROGRAMS

## MANAGEMENT LETTER

## FISCAL YEAR 1993

JUNE 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-29

Centennial Office Building, Saint Paul, MN 55155 • 612/296-1727

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# COMMUNITY COLLEGE SYSTEM

## STUDENT FEDERAL FINANCIAL AID PROGRAMS MANAGEMENT LETTER FISCAL YEAR 1993

Public Release Date: June 24, 1994 94-29

## OBJECTIVES:

- Test compliance with certain finance-related legal provisions relating to selected federal student financial aid programs administered by the Community College System. We included the following federal programs: PELL grants, Stafford Loans, and Perkins Loans.

- Review significant internal control structure policies and procedures concerning federal student financial aid including: federal financial aid revenues and cash management and federal financial aid packaging and disbursements on selected community college campuses, as well as the federal Perkins loan management and repayment process at the system office.

## CONCLUSIONS:

**We found 29 areas where the Community College System or the individual colleges had not complied with federal regulations and 16 areas where internal controls need to be improved:**

We found that **Rochester Community College** did not resolve conflicting information in four student files, certified seven Stafford loans using incorrect information, did not comply with Federal Perkins Loan Program cash management requirements, and did not adequately account for federal awards and drawdowns. In addition, the college's Stafford and Perkins loan counseling procedures do not meet federal guidelines. The college also does not verify the completeness of Perkins loans recorded on the loan management system, has inadequate controls over incoming Federal Family Educational Loan checks, and is not appropriately managing funds within its federal account.

We found that **North Hennepin Community College** has not complied with three Federal Perkins loan requirements, did not resolve conflicting information in seven student files, improperly calculated expected family contributions for three students, and improperly waived one federal financial aid repayment. The college also does not manage its federal cash adequately, and has inadequate controls over incoming Federal Family Educational Loan checks. Finally, the college did not receive federal reimbursement for $14,865 in Pell Grants.

We found that the **Willmar Community College** satisfactory academic progress policy does not meet federal guidelines. We also found that the college has not defined exceptional need for awarding Federal Perkins loans, needs to improve controls over federal financial aid, and has inadequate control over its federal cash.

We found that the **Fergus Falls Community College** satisfactory academic progress policy does not meet federal guidelines, and that the college has not resolved a Federal Perkins loan discrepancy with the U.S. Department of Education. In addition, the college has inadequate controls over incoming Federal Family Educational Loan checks.

We found that **Northland Community College** does not comply with Federal Perkins Loan Program cash management requirements, and has inadequate controls over federal financial aid reporting. In addition, the college has inadequate controls over incoming Federal Family Educational Loan checks, and does not have an adequate process in place to comply with federal financial aid transcript requirements.

We found that **Inver Hills Community College** does not monitor academic progress during summer sessions, did not resolve conflicting information in four student files, and does not have an adequate process in place to comply with federal financial aid transcript requirements.

We found that **Minneapolis Community College** improperly certified a Stafford loan, maintains excessive cash balances in its Federal Perkins loan account, took an unallowable administrative cost allowance from the Perkins loan account in fiscal year 1993, and has inadequate controls over federal student financial aid packaging. In addition, the college's satisfactory academic progress policy does not meet federal guidelines in two areas.

We found that **Vermilion Community College** paid financial aid to an ineligible student and improperly certified a Supplemental Loan for Students (SLS) loan. **Anoka Ramsey Community College** paid financial aid to an ineligible student and does not have an adequate process in place to comply with federal financial aid transcript requirements. **Normandale Community College** did not resolve conflicting information in four student files.

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

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Members of the Legislative Audit Commission

Dr. Geraldine Evans, Chancellor
Community College System

Community College Presidents

## Audit Scope

We have audited selected programs of the Community College 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 Community College System as outlined below and as further discussed in the Introduction. Specifically, for the Community College 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 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 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 department 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 Community College 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 have been placed in operation, and we assessed control risk.

## Management Responsibilities

Management of the Community College 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

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. Since fiscal year 1990, we have reported that the community colleges' satisfactory academic progress policies did not meet minimum federal guidelines. For fiscal year 1993, we consider this to be a material instance of noncompliance for the Community College System. During fiscal year 1994, the community college system office issued a model academic progress policy which complied with the federal regulations. Most of the community colleges have now adopted this or similar policies. For fiscal year 1994, we continue to have concerns with satisfactory academic progress policies on four campuses, as discussed in findings 16, 21, 27, and 34.

In addition to the instance of noncompliance described above, 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, 11, 12, 14, 27, 28, 35, and 39 discuss noncompliance with general administrative and eligibility requirements. Findings 15 and 37 discuss noncompliance with Pell Grant program specific regulations. Findings 3, 22, and 33 discuss noncompliance with Perkins Loan specific requirements. Findings 2, 3, and 36 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, 8, 11, 13, 16, 18, 19, 21, 25, 27, 28, and 34 discuss noncompliance with general administrative and eligibility requirements. Findings 3, 7, 9, 17, 23, and 32 discuss noncompliance with Perkins Loan specific requirements. Findings 2, 3, and 30 discuss noncompliance with Federal Family Education Loan specific regulations.

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

Our audit also disclosed the conditions discussed in findings 4, 5, 6, 8, 9, 10, 13, 18, 19, 20, 24, 25,26, 29, 31, and 38 involving the internal control structure of the Community College 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 is a material weakness.

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

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

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: April 8, 1994

Report Signed On: June 10, 1994

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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 Primus, CPA | Senior Auditor |
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| Mark Mathison | Auditor |

# Introduction

The Community College System awards both federal and state financial aid to students to provide funds to meet students' educational costs. 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 Federal Perkins Loan Program, the Federal Stafford Loan Program, and the Federal Supplemental Loans for Students Program.

The Federal Pell Grant Program is generally considered the first source of assistance for students. Campuses disbursed funds to students based on a Pell Grant Index for the 1992-93 award year and an Expected Family Contribution for the 1993-94 award year. Both were calculated by the federal central processing system using information provided by students. The U.S. Department of Education does not limit Pell grant payments to the available funds at a particular college. Rather, the U.S. Department of Education provides funds to each campus based on eligible students enrolled at the campus.

The Federal Perkins Loan Program provides low-interest, long-term loans to students. The college acts as a lender, using both federal funds and an institutional match for capital contributions. The Community College System manages Perkins loans through a systemwide loan management system. Individual campuses are responsible for awarding, disbursing, and entering loan amounts into the systemwide loan management system. The system office performs all loan collection duties. These duties include corresponding with students in repayment status, receiving loan repayments, and pursuing delinquent loans.

The Federal Stafford Loan Program and Federal Supplemental Loans for Students (SLS) Program are both Federal Family Education Loan Programs (formerly Guaranteed Student Loan Programs). These programs make long-term loans available to students. Private lenders provide the loan principal. The loans are guaranteed because the federal government reimburses the lender in the event of default or cancellation. The college certifies that the student is eligible for a specific loan amount on a loan application, which the college sends to a guarantee agency for approval.

There are two types of loans associated with the Federal Stafford Loan Program, subsidized loans and unsubsidized loans. The federal government pays a special allowance to lenders 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. In addition, for subsidized Stafford loans, the federal government pays interest to the lender while the student is in school.

According to campus records, the Community College System disbursed $21,748,679 in Federal Pell Grants, $1,262,579 in new Federal Perkins Loans, $14,402,594 in new subsidized Federal Stafford loans, $674,437 in new unsubsidized Federal Stafford loans, and $2,465,808 in new SLS loans during fiscal year 1993. The system collected $1,082,276 in Federal Perkins loan repayments during fiscal year 1993.

# Current Findings and Recommendation

## Rochester Community College

### 1. Rochester Community College did not resolve conflicting information in four student files.

Rochester Community College did not resolve conflicting information in four students' files before disbursing financial aid. One student's original financial aid application reported a family size of two with one family member attending college. Based on this original application, the college certified a $1,380 Stafford loan. The student later filed a revised application changing the family size to three with two family members attending college. The college awarded the student a Pell grant using the revised application without resolving which of the applications contained the correct information. With a family size of two and one family member in college, the student was not eligible for a Pell grant. But, by using both the larger family size and increased number of family members attending college shown on the revised application, the college paid the student Pell grant disbursements of $1,300. In addition, the student received Minnesota Higher Educational Scholarship Grant disbursements totaling $872, based on both applications. The college cannot choose to use financial information from two different applications. Federal regulations require institutions to resolve discrepancies in financial aid information before disbursing aid. The college should have resolved the discrepancies and determined the correct information to use in determining financial aid eligibility.

In addition, we reviewed three other student files that contained conflicting information. The college processed these financial aid files without first resolving the conflicting information. The conflicting data in these files did not have an effect on the students' financial aid eligibility.

*Recommendations*

- *Rochester Community College should resolve this conflicting information and reimburse the Pell grant account $1,300 for the ineligible payment, if necessary.*
- *Rochester Community College should work with the U.S. Department of Education to remedy the $1,380 Stafford loan overpayment, if necessary.*
- *Rochester Community College should resolve conflicting information in student files before disbursing financial aid.*

### 2. Rochester Community College certified seven Stafford loans using incorrect information.

Rochester Community College did not use correct data when certifying seven Stafford loan applications. The college certified three loans using incorrect expected family contribution amounts. The college used unallowable calculations to determine dependent student family contribution amounts. Federal regulations require institutions to use the family contribution amounts determined by the federal processor when certifying Stafford loan applications. The college certified three Stafford loan applications using family contribution amounts that did not agree with the federal processor amounts. The inaccurate family contributions did not have an effect on these students' financial aid eligibility.

The college also certified three loans with incorrect estimated financial aid amounts. The college showed a higher estimated financial aid amount on the certifications than the college expected to disburse to the student for the loan period. Federal regulations require the college to certify estimated financial aid using the amount of aid expected at the time the college certifies the loan. These incorrect estimated financial aid amounts reduced the students' loan eligibility. Therefore, the students were eligible for larger loan amounts than those certified.

Finally, the college certified one loan using an incorrect cost of attendance budget for the loan period. The college erroneously increased the student's cost of attendance budget by $1,000 when certifying the loan application. The cost of attendance for the loan period determines a student's Stafford loan eligibility. The student received a $2,625 Stafford loan. The student's actual loan eligibility should have only been $2,430, resulting in an overaward of $195. This error fell within the Stafford $200 overaward tolerance.

*Recommendation*

- *Rochester Community College should properly certify all Stafford loan applications.*

**3. Rochester Community College's Stafford and Perkins loan counseling procedures do not meet federal regulations.**

Rochester Community College does not meet federal requirements for Stafford and Perkins loan counseling. Federal regulations cite specific information the college must provide to students at Perkins loan entrance and exit counseling. However, the college did not meet eight of seventeen required elements for Perkins loan entrance counseling. For example, the college does not provide students with information on principal amount borrowed, cumulative amount borrowed, and consequences of default. Also, the college did not meet one of sixteen elements for Perkins loan exit counseling.

In addition, the college does not conduct exit counseling for Stafford and Perkins loans timely. Federal regulations require institutions to conduct Stafford loan exit counseling shortly before the student falls below half-time status, or within 30 days after learning of the borrower's withdrawal. Federal regulations also require institutions to conduct exit interviews with Perkins borrowers before students leave the institution. Our review showed the college does not conduct Stafford and Perkins loan exit counseling in the required time frames. We found cases where the college did not perform exit counseling for over five months after students dropped below half-time status.

*Recommendations*

- *Rochester Community College should ensure Perkins entrance and exit counseling meet the requirements specified in the federal regulations.*
- *Rochester Community College should perform Stafford loan exit counseling within federal guidelines.*
- *Rochester Community College should perform Perkins loan exit counseling before the student leaves the institution.*

**4. Rochester Community College does not verify the completeness of Perkins loans recorded on the loan management system.**

Rochester Community College does not perform reconciliations of Perkins loan disbursements to the centralized loan management system. The Community College System office uses the loan management system for collecting Perkins loans. A reconciliation ensures the college enters all loan disbursements on the systemwide loan management system. If a college does not post borrowers onto the system, those borrowers may never repay their loans. Therefore, the college needs to ensure Perkins loan disbursement records agree with those recorded on the loan management system.

*Recommendation*

- *Rochester Community College should ensure that disbursements recorded on the loan management system agree with Perkins loan disbursement records.*

**5. PRIOR FINDING NOT RESOLVED: Rochester Community College has inadequate controls over incoming Federal Family Educational Loan checks.**

Rochester Community College is not adequately safeguarding incoming Federal Family Educational Loan (FFEL) checks. Internal controls over FFEL checks are weak because the financial aid office both authorizes loans and has first access to the loan checks. The financial aid office is responsible for determining and documenting the student's FFEL loan eligibility. In addition, the financial aid office receives incoming loan checks from the lenders. Both authorizing loans and having access to loan checks are a weakness in the college's internal control structure. To prevent misuse, the college needs to ensure that employees who are able to certify loans do not receive loan checks. The college could accomplish this by having the business office directly receive and distribute all loan checks.

*Recommendation*

- *Rochester Community College should separate duties over Federal Family Educational Loan checks.*

**6. Rochester Community College is not appropriately managing funds within its federal account.**

Rochester Community College is not adequately accounting for interest earnings and administrative cost allowance receipts within its federal bank account. The college maintains several subsidiary accounts in an interest-bearing bank account. The subsidiary accounts include all federal financial aid accounts and a miscellaneous account that includes an accumulated interest account.

The college is inadequately accounting for interest earnings in the federal bank account. As of June 30, 1993, the college had accumulated interest earnings over several years totaling $31,258. The college credits all interest earned on the bank account to the accumulated interest account. Interest earnings remain in the bank within the accumulated interest account. The college never distributes the earnings to subsidiary program accounts. By not posting interest earnings to appropriate accounts when earned, errors and irregularities could occur and remain undetected.

In addition, the college is not transferring its annual administrative cost allowance to the General Fund timely. At the end of fiscal year 1993, the college had accumulated $34,813 in unused administrative cost allowance in its federal account. This amount represents approximately a year's worth of the allowance. Institutions may take an administrative cost allowance from their Perkins loan, Supplemental Educational Opportunity Grant, and Federal Work Study funds to offset costs of administering those programs. Rochester Community College takes the full amount of administrative cost allowance allowable each year. However, the college is not transferring these funds to the General Fund to offset costs associated with administering federal financial aid timely. Our review showed the transfer occurred a year after the college takes the allowance.

Finally, the college inappropriately charged certain operating costs to the federal account. The college uses a portion of the federal account's interest earnings to pay for administrative expenses, such as check printing fees. Although federal regulations allow an institution to use interest to pay for administrative expenses, the institution must reduce its administrative cost allowance by the amount of interest used. However, the college did not reduce the administrative cost allowance for these amounts. The college should ensure it nets out administrative expenses from the allowance prior to transferring to the General Fund.

*Recommendations*

- *Rochester Community College should work with the U.S. Department of Education to determine what the college should do with the accumulated interest earnings.*
- *Rochester Community College should transfer the net administrative cost allowance taken each year to the General Fund promptly.*

**7. Rochester Community College does not comply with Federal Perkins Loan Program cash management requirements.**

Rochester Community College does not meet Federal Perkins Loan Program cash management requirements in two respects. First, the college does not deposit interest earned on Perkins loan funds to the Perkins loan account, as discussed in finding 6. Federal regulations require institutions to deposit Perkins loan funds in an interest bearing account. The regulations also require institutions to use interest earned for the Perkins Loan Program. By not posting interest earnings to the Perkins loan account, the college is losing additional funds that it could award to eligible students.

In addition, the college did not deposit the required Perkins loan institutional match according to federal guidelines. Federal regulations require each institution to deposit an institutional capital contribution in the Perkins loan account before or at the same time the college deposits federal capital contributions. In both the fiscal years 1993 and 1994, the college did not deposit the institutional match until three months after the deposit of federal funds.

*Recommendations*

- *Rochester Community College should post interest earned on Perkins loan funds to the Perkins loan account.*
- *Rochester Community College should deposit the required institutional match in accordance with federal regulations.*

### 8. Rochester Community College does not adequately account for federal awards and drawdowns.

Rochester Community College needs to improve controls over federal financial aid receipts in two areas. First, the college does not have an adequate system to determine federal cash drawdown amounts. Many of the federal subsidiary program accounts have significant negative balances. The college combines federal financial aid funds and a miscellaneous subsidiary account in one bank account. The college posts funds from the federal financial aid accounts to the miscellaneous account for student tuition and fees. However, the business office does not transfer the tuition and fees from the miscellaneous account to the college's tuition account timely. Instead, the college uses these funds and other funds from accounts with positive balances to supplement federal program accounts with negative balances. By delaying the transfer, the Community College System loses the use of the tuition revenue. As of September 30, 1993, the college had negative balances in many federal accounts totaling $185,255.

In addition, the college does not maintain sufficient accounting records to track federal program awards and drawdowns. As a result, the college cannot readily determine the available balance in the federal accounts. Without knowing the available balance, it is difficult for the college to determine the exact timing and amount of its federal draws. Adequate accounting records over federal receipts should contain, at a minimum, information on institutional awards, authorizations, obligations, unobligated balances, assets, expenditures, cash disbursements, and income. By not accounting for institutional awards, obligations and unobligated balances, the college spent $7,798 more than its fiscal year 1993 Federal Supplemental Educational Opportunity Grant award.

*Recommendations*

- *Rochester Community College should ensure requests for federal receipts are adequate to meet program expenditures. In addition, the college should transfer funds from the miscellaneous subsidiary account to the college tuition account in a timely manner.*

- *Rochester Community College needs to improve its accounting records for federal receipts. The college should consider following the recommended accounting procedures outlined in the U.S. Department of Education's Blue Book for accounting for federal receipts.*

- *Rochester Community College should repay the Supplemental Educational Opportunity Grant account $7,798 to cure the program deficit.*

## North Hennepin Community College

**9. PRIOR FINDING NOT RESOLVED: North Hennepin Community College has not complied with three Federal Perkins loan requirements.**

North Hennepin Community College does not meet Federal Perkins Loan Program requirements in three areas. First, the college did not deposit the required Perkins loan institutional capital contribution according to federal guidelines. Federal regulations require institutions to deposit the institutional match in the Perkins loan account before or at the same time it deposits federal capital contributions. The college did not deposit the fiscal year 1994 institutional match until a month after the deposit of federal funds. In addition, the college used the wrong calculation for determining the institutional match. Effective July 1, 1993, the match increased from one ninth to three seventeenths of the federal capital contribution. For fiscal year 1994, the college calculated the institutional match using one ninth of the federal contribution rather than the required three seventeenths. When we brought it to their attention, college staff corrected the error and deposited the additional $4,563 into the Perkins account.

In addition, the college does not perform reconciliations of Perkins loan disbursements to the systemwide loan management system. We first reported this issue in our September 1990 audit report. The loan management system is a centralized system used by the Community College System office for centralized collection of loans. During fiscal year 1993, the college had not recorded approximately $58,000 in loan disbursements on the systemwide loan management system. When examining another issue, the system office caught this omission and the college corrected the error. Because the system office uses the loan management system to determine loans to collect, borrowers may never repay loans not posted to the system. Therefore, the college needs to ensure they record Perkins loan disbursements on the loan management system. As of the end of our audit, the college had entered the unrecorded loans into the loan management system.

Finally, the college did not earn interest on most of its Perkins Loan funds. Federal regulations require institutions to deposit Perkins loan funds in either an interest-bearing account or investment in low-risk income producing securities. The college has a Perkins loan savings account. However, the college keeps most of the Perkins loan funds in a non interest-bearing federal checking account. Our review showed the college should have had over $100,000 in the saving account at June 30, 1993. However, the balance in the Perkins loan savings account was $648 on June 30, 1993. Since the federal government allows the college to retain Perkins loan interest earnings, the college lost additional funds that it could have awarded to eligible students.

*Recommendations*

- *North Hennepin Community College should deposit the required Perkins loan institutional match in accordance with federal regulations.*
- *North Hennepin Community College should ensure that disbursements recorded in the loan management system agree with Perkins loan disbursement records.*
- *North Hennepin Community College should maintain Perkins loan funds in an interest-bearing account.*

**10. North Hennepin Community College has inadequate controls over incoming Federal Family Educational Loan checks.**

North Hennepin Community College is not adequately safeguarding incoming Federal Family Educational Loan (FFEL) checks. Internal controls over FFEL checks are weak because the financial aid office both authorizes loans and has first access to the loan checks. The financial aid office is responsible for determining and documenting student FFEL eligibility. In addition, the financial aid office receives incoming loan checks from the lenders. Both authorizing loans and having access to loan checks are a weakness in the college's internal control structure. To prevent misuse, the college needs to ensure that employees who are able to certify loans do not receive loan checks. The college could accomplish this by having the business office directly receive and distribute all loan checks.

*Recommendation*

- *North Hennepin Community College should separate duties over Federal Family Educational Loan checks.*

**11. North Hennepin Community College did not resolve conflicting information in seven student files.**

North Hennepin Community College did not resolve conflicting information in seven student files before disbursing financial aid. Four students reported family sizes on their financial aid application that were different from the number of exemptions claimed on their federal tax returns. The college did not resolve and document whether the application or the tax return contained the correct information on family size. One of these students reported a family size of four on the financial aid application for the 1993-1994 award year. However, the student's federal tax return claimed three exemptions. The college paid the student a Pell grant for fall and winter quarters of $1,534 based on the information in the financial aid application. Using a family size of three, the student was only eligible for $1,300. In addition, the student received a Minnesota Higher Educational Scholarship Grant of $400. Another student reported a family size of six on the financial aid application for the 1993-1994 award year. However, the student's federal tax return only claimed four exemptions. The college paid the student a Pell grant for fall and winter quarters of $966. Using a family size of four, the student was only eligible for $500. In addition, the student received a $602 Minnesota Higher Educational Scholarship Grant and a $1,334 Federal Stafford Loan for the same period. We reviewed two other files that contained conflicting information on family size. The conflicting data in these files did not have an effect on the students' financial aid eligibility. Federal regulations require institutions to resolve discrepancies in financial aid information before disbursing aid.

Two additional student files contained conflicting information on work-study income. Both students submitted documentation showing their tax return included work-study income. Federal guidelines allow institutions to exclude work-study income from adjusted gross income when determining a student's expected family contribution. However, the college did not adjust the income amount reported on the financial aid application for the work-study earnings. Both students would have been eligible for additional financial aid by excluding work-study earnings from income.

Finally, we reviewed one other student file that contained conflicting information concerning business income. The college processed the financial aid file without first resolving the conflicting information. The conflicting data in this file did not have an effect on the student's financial aid eligibility.

*Recommendations*

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

- *North Hennepin Community College should resolve the conflicting information and reimburse the Pell grant account for the ineligible payments, if necessary.*

**12. North Hennepin Community College improperly calculated expected family contributions for three students.**

When calculating financial need, North Hennepin Community College did not use the official family contribution amounts determined by the federal processor for dependent students with enrollment periods other than nine months. Student Aid Reports (SAR) list students' family contributions, determined by the federal processor, for the standard enrollment period of nine months. When dependent students attend institutions for enrollment periods other than nine months, the federal processor places a grid on the bottom of the SAR with the official family contributions the college is to use. For example, for one student enrolled for six months, the college calculated an expected family contribution of $1,723, using two-thirds of the nine month contribution. However, the official family contribution calculated by the federal processor for the six month enrollment period was $2,585. The college certified a Stafford loan application for the student using the lower family contribution. This resulted in a Stafford overaward of $531, after excluding processing fees. The college incorrectly determined the family contributions for two other students. However, the incorrect calculation did not result in any overpayments to those students.

*Recommendations*

- *North Hennepin Community College should use the official expected family contributions listed on the SAR to determine student financial aid eligibility.*
- *North Hennepin Community College should work with the U.S. Department of Education to resolve the $531 Stafford overpayment.*

**13. PRIOR FINDING NOT RESOLVED: North Hennepin Community College does not manage its federal cash adequately.**

North Hennepin Community College does not manage federal student financial aid funds adequately. The college routinely borrows Federal Perkins loan funds to fund other federal programs' cash needs. We first noted this issue in our September 1990 audit report. In addition, the college does not have adequate controls over federal financial aid accounting records.

The college routinely borrows money from the Federal Perkins Loan Program to fund other federal financial aid programs. At June 30, 1993, the Perkins loan cash balance, according to the college accounting ledgers, was $103,025. However, the total cash balance of the federal checking account and the federal saving account was only $22,763. The college did not restore the Perkins loan funds to the appropriate balance for several months. Federal regulations prohibit institutions from using Perkins Loan proceeds for purposes other than the Perkins Loan program.

In addition, the college does not have adequate controls over federal financial aid accounting records. The college does not post activity to the accounting ledgers on a timely basis. During the audit period, the college only posted transactions to ledgers on a monthly or quarterly basis. By not posting transactions as they occur, the college is unable to determine balances in federal accounts and make timely drawdowns of federal cash.

Finally, the college does not complete reconciliations of bank records to accounting ledgers. Instead, the college only reconciles the check register to the bank statement. Without a reconciliation of accounting ledgers to the bank records, the college has no way to determine whether errors or irregularities are occurring. The college uses information from the accounting ledgers to prepare federal reports.

*Recommendations*

- *North Hennepin Community College should determine federal cash needs, by program, before requesting federal funds and ensure that requests cover only immediate disbursements.*
- *North Hennepin Community College should ensure it posts transactions to financial aid accounting records on a timely basis.*
- *North Hennepin Community College should ensure it reconciles accounting records to bank records.*

**14. North Hennepin Community College improperly waived one federal financial aid repayment.**

North Hennepin Community College improperly waived a student's federal financial aid repayment of $574. The college disbursed $1,057 in federal financial aid to the student on the first day of class. The student withdrew from college on the ninth day of class. Federal regulations require institutions to determine whether students owe repayments of aid received when students withdraw from college. The college calculated the student owed a repayment of $375 to the Supplemental Educational Opportunity Grant and $199 to the Pell Grant program for aid received for the quarter. However, the college waived the repayment due to the student's financial circumstances. We do not believe that the college had the authority to waive the repayment due to the student's financial circumstances. Federal financial aid programs provide funds to meet students' educational expenses. Since the student withdrew from college, the student no longer was eligible for federal financial aid funds for educational expenses.

*Recommendation*

- *North Hennepin Community College should reimburse its Supplemental Education Opportunity Grant account $375 and the Pell Grant account $199.*

**15. North Hennepin Community College did not receive federal reimbursement for $14,865 in Pell Grants.**

North Hennepin Community College did not receive federal reimbursement of $14,865 in Pell Grants for the 1992-93 award year. The college disbursed twelve Pell grants of $14,865 to eligible students during the year, but did not receive reimbursement. Federal regulations require institutions to submit payment information to the U.S. Department of Education to receive funding authorization for eligible Pell grant payments. The U.S. Department of Education rejected the reported disbursements after the September 30 reporting deadline. Therefore, the college was unable to take corrective action to resolve the rejected disbursements with the Department of Education.

The U.S Department of Education rejected the disbursements because of a difference in student Pell grant identification numbers between the college and the departments. We reviewed the twelve student files and determined the students were eligible for the Pell grant disbursements totaling $14,865.

*Recommendation*

- *North Hennepin Community College should work with the U.S. Department of Education to increase its 1992-93 Pell authorization by $14,865.*

## Willmar Community College

### 16. Willmar Community College's satisfactory academic progress policy does not meet federal guidelines.

Willmar Community College's satisfactory academic progress policy does not specify procedures for appealing satisfactory academic progress determinations. Federal regulations require institutions participating in federal financial aid programs to establish, publish, and apply reasonable standards for measuring academic progress. It requires specific procedures under which students may appeal determinations of unsatisfactory academic progress.

In addition, the college is not consistently applying its satisfactory academic progress policy, as the federal regulations require. According to the college's policy, the college should place students on probation if they fail to meet one or more satisfactory academic progress requirements. However, during the audit period, the dean of students did not place two students on probation, even though neither met the progress requirements. Instead, the dean granted exceptions to these students but did not document specific reasons for these exceptions. Students remain eligible for financial aid while on probation, but eligibility may be affected if unsatisfactory academic progress continues for successive quarters.

*Recommendations*

- *Willmar Community College should develop written procedures for appealing satisfactory academic progress policy determinations.*
- *Willmar Community College should consistently apply its satisfactory academic progress policy.*

### 17. Willmar Community College has not defined exceptional need for awarding Federal Perkins loans.

Willmar Community College does not award Perkins loans within the 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 intended to reach the neediest students. Therefore, it is a reasonable measure used to indicate exceptional need for Perkins loans.

We do not believe the Willmar Community College process for determining Perkins loan eligibility gives adequate priority to students with exceptional need. We reviewed one student without maximum Pell Grant eligibility that received a Perkins loan. At the same time, two other students with maximum Pell Grant eligibility did not receive Perkins loans. Both of these students received a Federal Stafford Loan, which showed a willingness to borrow.

In addition, federal regulations require institutions to set up Perkins loan awarding procedures in writing and to apply the procedures uniformly. The college has not defined exceptional financial need in its awarding policy. A written policy would help ensure the college awards Perkins loans uniformly.

*Recommendation*

- *Willmar Community College should define exceptional need in its policy for awarding Federal Perkins loans.*

**18. PRIOR FINDING NOT RESOLVED: Willmar Community College needs to improve controls over federal financial aid.**

Willmar Community College does not have an adequate separation of duties over federal financial aid in two areas. First, the college does not have an adequate separation of duties over federal financial aid disbursements. As reported in our June 1990 audit report, the business manager at the college is solely responsible for the federal checking account. Currently, the business manager's responsibilities over the federal account include: requesting federal funds, controlling access to checks and the check signing machine, and reconciling the account. To prevent and detect errors and irregularities, good internal controls require separate people perform these functions. At a minimum, someone independent of the check writing and check signing functions should perform the monthly bank reconciliation.

In addition, the college is not adequately safeguarding incoming Federal Family Educational Loan (FFEL) checks. Internal controls over FFEL checks are weak because the financial aid office both authorizes loans and has first access to the loan checks. The financial aid office is responsible for determining and documenting student FFEL eligibility. The financial aid office also receives incoming loan checks from the lenders. Both authorizing loans and having access to loan checks are a weakness in the college's internal control structure. To prevent misuse, the college needs to ensure that employees who are able to certify loans do not receive loan checks. The college could accomplish this by having the business office directly receive and distribute all loan checks.

*Recommendations*

- *Willmar Community College should reassign some of the duties related to the federal account. At a minimum, someone independent of the check writing and check signing functions should perform the bank reconciliation.*

- *Willmar Community College should separate duties over Federal Family Educational Loan checks.*

**19. PRIOR FINDING NOT RESOLVED: Willmar Community College has inadequate control over its federal cash.**

Willmar Community College does not adequately forecast immediate cash needs for federal student financial aid programs. The college does not monitor the federal bank balance adequately and does not request federal funds based on actual disbursements. As a result, the college often has either excess cash on hand or shortages in the federal bank account. For example, the college received $95,000 in federal funds on September 16, 1993. However, these funds remained in the bank account for two weeks before being spent. U.S. Treasury Circular 1075 requires institutions to limit federal cash advances to the actual, immediate cash requirements. Federal regulations consider cash on hand in excess of three days excessive. In other cases, the college borrowed Perkins loan money to fund other federal financial aid programs. At August 9, 1993, the accounting records showed the Perkins loan program had a balance of $14,739. However, the total cash balance of the federal checking account was only $10,411. The college did not restore the Perkins loan funds to the appropriate balance for a month. Federal regulations prohibit institutions from using Perkins loan proceeds for purposes other than the Perkins loan program.

*Recommendations*

- *Willmar Community College should develop cash forecasting procedures that will enable the college to comply with federal cash management regulations.*

- *Willmar Community College should ensure it uses Perkins loan funds for authorized program purposes.*

## Fergus Falls Community College

**20. Fergus Falls Community College has inadequate controls over incoming Federal Family Educational Loan checks.**

Fergus Falls Community College is not adequately safeguarding incoming Federal Family Educational Loan (FFEL) checks. Internal controls over FFEL checks are weak because the financial aid office both authorizes loans and has first access to the loan checks. The financial aid office is responsible for determining and documenting student FFEL eligibility. The financial aid office also receives incoming loan checks from the lenders. In addition, the financial aid director has the ability to post disbursements on the financial aid accounting system. Authorizing loans, having access to loan checks, and having the ability to post disbursements are a weakness in the college's internal control structure. To prevent misuse, the college needs to ensure that employees who are able to certify loans do not receive loan checks. The college could accomplish this by having the business office directly receive and distribute all loan checks.

*Recommendation*

- *Fergus Falls Community College should separate duties over Federal Family Educational Loan checks.*

**21. Fergus Falls Community College's satisfactory academic progress policy does not meet federal guidelines.**

Fergus Falls Community College's satisfactory academic progress policy does not specify procedures for appealing satisfactory academic progress determinations. Federal regulations require institutions participating in federal financial aid programs to 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. It requires specific procedures under which students may appeal determinations of unsatisfactory academic progress.

*Recommendation*

- *Fergus Falls Community College should develop written procedures for appealing satisfactory academic progress determinations.*

**22. Fergus Falls Community College has not resolved a Federal Perkins loan discrepancy with the U.S Department of Education.**

Fergus Falls Community College did not resolve a 1991 reporting discrepancy for the Perkins loan program. The U.S. Department of Education noted a $1,063 discrepancy in the amount the college reported on its 1991 Fiscal Operations Report (FISAP) for Perkins loan cancellations. The Department of Education requested that the college resolve the discrepancy in the fiscal year 1992 FISAP. However, the college did not resolve the discrepancy. Instead, the college increased the Perkins cash balance on the fiscal year 1992 and 1993 FISAP by $1,063, even though it did not deposit any additional cash into the Perkins loan account. In both years, the college's Perkins cash amount did not agree with the increased amount reported on the FISAP. Federal regulations require institutions to report accurate and timely information on the FISAP.

*Recommendation*

- *Fergus Falls Community College should resolve the reporting discrepancy with the U.S. Department of Education and reimburse the Perkins loan account $1,063, if necessary.*

## Northland Community College

**23. Northland Community College does not comply with Federal Perkins Loan Program cash management requirements.**

Northland Community College does not meet Federal Perkins loan cash management requirements in two areas. First, the college did not deposit the required Perkins loan institutional capital contribution according to federal guidelines. Federal regulations require institutions to deposit an institutional match in the Perkins loan account prior to or at the same time it deposits federal capital contributions.

The college did not deposit the fiscal year 1994 institutional capital match until ten days after the deposit of federal funds. In addition, the college used the wrong calculation for determining the institutional match. Effective July 1, 1993, the institutional match increased from 1/9 of the federal capital contribution to 3/17 of the federal capital contribution. For fiscal year 1994, the college calculated the institutional match using 1/9 of the federal contribution rather than the required 3/17. When we brought it to their attention, college staff corrected the error and deposited the additional $654 in institutional funds.

In addition, the college does not post interest earnings to the Perkins loan account. Federal regulations require institutions to deposit Perkins loan funds in either an interest-bearing account or investment in low-risk income producing securities. The college is to retain any interest earnings for use in the Perkins loan program. The college combines all federal funds, including Perkins loan funds, in an interest earning account. However, the bank retains all interest earnings to offset bank service charges and never credits any residual earnings to the account.

*Recommendations*

- *Northland Community College should deposit the required Perkins loan institutional match in accordance with federal regulations.*

- *Northland Community College should ensure Perkins loan funds are earning interest and that any interest earned is posted to the Perkins account.*

**24. PRIOR FINDING NOT RESOLVED: Northland Community College has inadequate controls over incoming Federal Family Educational Loan (FFEL) checks.**

Northland Community College is not adequately safeguarding incoming Federal Family Educational Loan (FFEL) checks. Internal controls over FFEL checks are weak because the financial aid office both authorizes loans and has first access to the loan checks. The financial aid office is responsible for determining and documenting student FFEL eligibility. The financial aid office also receives incoming loan checks from the lenders. Both authorizing loans and having access to loan checks are a weakness in the college's internal control structure. To prevent misuse, the college needs to ensure that employees who are able to certify loans do not receive loan checks. The college could accomplish this by having the business office directly receive and distribute all loan checks.

*Recommendation*

- *Northland Community College should separate duties over Federal Family Educational Loan checks.*

**25. Northland Community College has inadequate controls over federal financial aid reporting.**

Northland Community College does not have adequate controls in place to ensure that federal financial reports are accurate. For example, the college's fiscal year 1992 fiscal operations report (FISAP) contained inaccurate information on Perkins loan activity for the year. The FISAP requires the college to complete a trial balance on Perkins loan accounts. However, the trial balance did not balance and the college failed to resolve the difference. Part of the difference is because the college assumes the entire balance within its federal account is Perkins loan funds. However, due to timing differences, the federal account often contains small balances for other federal programs. The college should analyze the federal account and identify individual program balances before preparing federal reports.

In addition, we noted an error on the college's September 1993 federal cash transaction report. Federal regulations require campuses to complete the cash transaction report to document federal financial aid disbursements on a quarterly basis. The college erroneously reported Perkins loan disbursements of $10,000 on the cash transaction report. However, the college's actual Perkins loan disbursements for the quarter were $5,412. The U.S. Department of Education monitors financial activity by requiring specific reports from campuses. If campuses do not complete these reports accurately, the department is unable to determine how campuses are using federal funds.

Finally, the college has not maintained historic accounting data for the federal financial aid programs. The college uses a computerized application when accounting for federal financial aid transactions. The manner in which college employees enter transactions in the application does not provide an audit trail or historical accounting data. Therefore, the college is unable to reconstruct prior bank statement reconciliations or past information for federal reports.

*Recommendations*

- *Northland Community College should work with the U.S. Department of Education to correct the erroneous financial reports.*
- *Northland Community College should prepare accounting records that provide reliable historical data and a clear audit trail for individual federal programs.*

**26. Northland Community College did not comply with federal financial aid transcript requirements.**

Northland Community College does not have adequate controls in place to ensure it received financial aid transcripts for transfer students. We found one case where the college did not obtain a financial aid transcript for a student who transferred classes from another institution. The college has since requested and received the transcript for the student. However, the college does not have a process in place for the records office to notify the financial aid office when students transfer classes from other institutions.

When an institution is aware that a student attended other institutions, federal regulations require the institution to request a financial aid transcript from the previous institutions. Colleges need information from financial aid transcripts to monitor two aspects of student eligibility. First, transcripts disclose how much aid transfer students received from other institutions. This information is essential for preventing overawards. Second, 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.

*Recommendation*

- *Northland Community College should develop a process where the records office notifies the financial aid office when it accepts a transfer student, so that the financial aid office can request the required financial aid transcripts.*

## Inver Hills Community College

**27. Inver Hills Community College's does not monitor academic process during summer sessions.**

Inver Hills Community College does not measure academic progress for summer school sessions. Federal regulations require institutions to apply standards to ensure students are progressing towards their degree. When monitoring academic progress, the college does not consider summer sessions regular quarters. Federal regulations do not provide for periods of enrollment which a college would not measure academic progress. The college's current practice could allow ineligible students to continue to receive financial aid. For example, one student registered for 42 credits during winter, spring, and summer sessions of 1992-93. 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 nine credits the student attempted during the summer session as an academic quarter. As a result, the student remained eligible for financial aid. For fall quarter 1993, the college disbursed a financial aid package of $2,105 to the student: a $550 Pell grant, $93 Minnesota Higher Education Coordinating Board grant, $200 Supplemental Educational Opportunity Grant (SEOG), $300 Perkins Loan, and $875 Stafford Loan.

*Recommendations*

- *Inver Hills Community College should include all quarters when measuring a student's academic progress.*
- *Inver Hills Community College should repay the Pell grant, SEOG, and Perkins accounts $550, $200, and $300, respectively. In addition, the college should work with the U.S. Department of Education to resolve the $875 Stafford Loan overpayment.*

**28. Inver Hills Community College did not resolve conflicting information in four student files.**

Inver Hills Community College did not resolve conflicting information in four students' files before disbursing financial aid. One student reported $2,988 in child support payments on a financial aid application. On a subsequent verification form, however, the student reported receiving $3,768 in child support payments. The college did not resolve which child support figure was correct. Federal regulations require institutions to resolve discrepancies in financial aid information before disbursing financial aid. The college should have investigated the discrepancies because child support payments partially determine student eligibility for financial aid. The college awarded aid to the student based on the child support information on the financial aid application for the 1993-94 award year. During fall quarter 1993, the student received a $617 Pell grant, a $95 Minnesota Higher Education Scholarship grant, and a $2,326 Supplemental Loans to Students. In addition, the student received a $463 Pell grant, a $1,750 Stafford Loan, and a $221 Supplemental Loans to Students for winter quarter. Using the child support payment of $3,768, the student was only eligible for $550 and $413 Pell grants for fall and winter quarters. Depending on the resolution of the conflicting information, the student's eligibility for other financial aid may also be affected.

A second student did not report untaxed income on the financial aid application. The student's 1992 federal tax return showed a $515 earned income credit. The college did not resolve this conflicting data and disbursed financial aid to the student based on the information in the financial aid application. The college should have investigated the difference because untaxed income partially determines eligibility for financial aid. For the 1993-94 award year, the student received a $513 Pell grant for both fall and winter quarters. In addition, the student received a $151 Minnesota Higher Educational Scholarship grant. When including the $515 earned income credit, the student was only eligible for a $488 Pell grant for each quarter.

We reviewed two other student files that contained conflicting information. The college processed these financial aid files without first resolving the conflicting information. In both cases, the college resolved the conflicting information with no effect on the student's financial aid eligibility.

*Recommendations*

- *Inver Hills Community College should resolve conflicting information before disbursing aid to students.*
- *Inver Hills Community College should resolve the conflicting information and reimburse the Pell grant account $167 for ineligible payments, if necessary.*

**29. Inver Hills Community College does not comply with federal financial aid transcript requirements.**

Inver Hills Community College does not have adequate controls in place to ensure it received financial aid transcripts for transfer students. We found two cases where the college did not obtain financial aid transcripts for students who transferred classes from other institutions. The college has since requested and received transcripts for the students. However, the college does not have a process in place for the records office to notify the financial aid office when students transfer classes from other institutions.

When an institution is aware that a student attended another institution, federal regulations require the institution to request a financial aid transcript from the previous institution. Colleges need information from financial aid transcripts to monitor two aspects of student eligibility. First, transcripts disclose how much aid transfer students received from other institutions. This information is essential for preventing overawards. Second, 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.

*Recommendation*

- *Inver Hills Community College should develop a process where the records office notifies the financial aid office when it accepts a transfer student, so that the financial aid office can request.*

## Minneapolis Community College

### 30. Minneapolis Community College improperly certified a Stafford loan.

When calculating financial need, Minneapolis Community College did not use the official family contribution amount determined by the federal processor for dependent students with enrollment periods other than nine months. Student Aid Reports (SAR) list students' family contributions, determined by the federal processor, for the standard enrollment period of nine months. When dependent students attend institutions for enrollment periods other than nine months, the federal processor places a grid on the bottom of the SAR with the official family contributions the college is to use. For example, for one student enrolled for six months, the college calculated an expected family contribution of $2,070, using two-thirds of the nine-month contribution. However, the official family contribution calculated by the federal processor for the six-month enrollment period was $2,570. The college certified a Stafford loan application for the student using the lower family contribution. This resulted in a Stafford overaward of $442, after excluding processing fees.

*Recommendations*

- *Minneapolis Community College should properly certify all Stafford loan applications.*

- *Minneapolis Community College should work with the U.S. Department of Education to remedy the $442 Stafford loan overpayment.*

### 31. Minneapolis Community College has inadequate controls over federal student financial aid packaging.

Minneapolis Community college inappropriately packaged Federal Supplemental Educational Opportunity Grants (SEOG) and Federal College Work Study funds during the 1993-94 award year. The packaging resulted in overawarding in both programs during the year. The U.S. Department of Education authorized funding to the college for the 1993-94 award year of $190,514 in SEOG funds and $179,120 in work study funds. Institutions are responsible for developing packaging procedures for awarding federal funds to individual students.

Minneapolis Community College did not use available edits within its computerized financial aid system to prevent overawarding of available funds. As a result, the college overawarded SEOG and work study funds. The college caught the error and reduced awards to prevent overspending of federal authorizations. The college reduced 1994 SEOG disbursements for each student by $100 for winter quarter and eliminated spring quarter disbursements. In addition, the college restricted work study students to only ten hours per week. The reductions may cause inequities among students and hardships to those students who rely heavily on financial aid to pay for educational expenses.

*Recommendation*

- *Minneapolis Community College should ensure it packages financial aid to students consistent with actual funds available for disbursement.*

**32. Minneapolis Community College maintains excessive cash balances in its Federal Perkins loan account.**

Minneapolis Community College has excessive cash balances in its Federal Perkins loan account. The college intends to discontinue awarding and disbursing Perkins loans to students. Federal guidelines require institutions to return excess federal funds to the U.S. Department of Education. The balance in the December 31, 1993 Perkins loan savings account was $24,989.76. Since the college does not intend to use these funds for future Perkins loan awards, the college should return these funds to the U.S. Department of Education. In addition, the college is continuing to receive repayments from its outstanding Perkins loans. The college should also return any future incoming loan collections to the federal government.

*Recommendations*

- *Minneapolis Community College should return all funds maintained in the Perkins loan account to the U.S. Department of Education.*

- *Minneapolis Community College should return any additional loan collections received from borrowers to the U.S. Department of Education.*

**33. Minneapolis Community College took an unallowable administrative cost allowance from the Perkins loan account in fiscal year 1993.**

Minneapolis Community College inappropriately took a $483 administrative cost allowance from its Perkins loan account. The college's fiscal year 1993 Fiscal Operations Report showed that the college took $483 in administrative cost allowance from the Perkins loan account. Federal regulations state that institutions participating in the Perkins loan program for an award year are entitled to an administrative cost allowance only if it advances Perkins loan funds to student in that award year. However, the college did not advance any funds to students during fiscal year 1993. Therefore, the college was not entitled to the administrative cost allowance.

*Recommendation*

- *Minneapolis Community College should return $483 to its Perkins loan account.*

### 34. Minneapolis Community College's satisfactory academic progress policy does not meet federal guidelines in two areas.

Minneapolis Community College's academic progress policy does not include two elements required by federal guidelines. First, the policy does not have a cumulative quantitative measure of academic progress. Institutions must determine the minimum percentage of academic credits students must earn 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 does not indicate whether students are progressing towards their degree as scheduled. In addition, the college's policy does not address the effect of remedial courses on students' academic progress. Federal regulations require institutions participating in federal financial aid programs to 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.

*Recommendation*

- *Minneapolis Community College should ensure that its satisfactory academic progress policy complies with the minimum federal guidelines.*

## Vermilion Community College

### 35. Vermilion Community College paid financial aid to an ineligible student.

Vermilion Community College paid financial aid to a student who was not making satisfactory academic progress. Students must make satisfactory academic progress under the institution's policy to be eligible for financial aid. Federal regulations require institutions to establish a maximum time frame in which students must complete a degree or certificate. Students who exceed the maximum number of credits established in the institution's policy are ineligible for additional financial aid. The college's policy allows students to receive financial aid for a maximum of 110 cumulative credits. However, the college continued to disburse financial aid to one student after exceeding the 110 cumulative credit limit. The college disbursed the following aid after the student exceeded the 110 cumulative credits; $4,734 in Pell grants, a $200 Supplemental Educational Opportunity grant (SEOG), $4,375 in Stafford loans, $565 in Minnesota Higher Education Coordinating Board grants, and $4,591 in college work study.

*Recommendations*

- *Vermilion Community College should repay the Pell grant and federal college work study accounts $4,734 and $4,591, respectively, for the overpayments.*

- *Vermilion Community College should work with the U.S. Department of Education to remedy the $4,375 Stafford loan overpayment.*

### 36. Vermilion Community College improperly certified a Supplemental Loan for Students loan (SLS).

Vermilion Community College certified an incorrect amount of estimated financial resources on a Supplemental Loan for Students (SLS) loan application. Federal regulations require institutions to include all anticipated financial resources for a loan period on the loan application. In addition, federal regulations prohibit institutions from certifying SLS loans that exceed the student's cost of attendance. For one student, the financial aid application reported veterans benefits of $1,491. However, the college did not include these veterans benefits as an estimated financial resource when certifying the loan application. The college certified the student was eligible for a loan of $1,500. Using veterans benefits as a financial resource, the student's actual loan eligibility was only $420. This resulted in the student receiving a $1,080 overpayment.

*Recommendations*

- *Vermilion Community College should properly certify all SLS loan applications.*
- *Vermilion Community College should work with the U.S. Department of Education to remedy the $1,080 SLS loan overpayment.*

## Anoka Ramsey Community College

### 37. Anoka Ramsey Community College paid financial aid to an ineligible student.

Anoka Ramsey Community College paid Pell grant disbursements to an ineligible student. During the 1992-93 award year, undergraduate students in programs of study less than four years were only eligible to receive Pell grant disbursements for a maximum of five years. However, during that award year, the college disbursed a Pell grant to one student that exceeded the five year limit. The student received $1,600 in Pell grant disbursements after exceeding the five year limit. Effective July 1, 1993, the Higher Education Amendments eliminated the maximum amount of time a student could receive a Pell grant.

*Recommendation*

- *Anoka Ramsey Community College should repay the Pell grant account $1,600 for the ineligible disbursements.*

### 38. Anoka Ramsey Community College did not comply with federal financial aid transcript requirements.

Anoka Ramsey Community College does not have adequate controls in place to ensure it received financial aid transcripts for transfer students. We found one case where the college did not obtain a financial aid transcript for a student who transferred classes from another institution. The college has since requested and received the transcript for the student. However, the college does not have a process in place for the records office to notify the financial aid office when students transfer classes from other institutions.

When an institution is aware that a student attended other institutions, federal regulations require the institution to request a financial aid transcript from the previous institutions. Colleges need information from financial aid transcripts to monitor two aspects of student eligibility. First, transcripts disclose how much aid transfer students received from other institutions. This information is essential for preventing overawards. Second, 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.

*Recommendation*

- *Anoka Ramsey Community College should develop a process where the records office notifies the financial aid office when it accepts a transfer student, so that the financial aid office can request the required financial aid transcripts.*

## Normandale Community College

### 39. Normandale Community College did not resolve conflicting information in four student files.

Normandale Community College did not resolve conflicting information in four students' files before disbursing financial aid. One student originally reported receiving veterans benefits on the financial aid application. On a subsequent verification form, the student confirmed receiving veterans benefits of $3,500 during the academic year. However, the college revised the student's application and excluded the veterans benefits. The college should have documented the basis for the change because veterans benefits reduce financial aid eligibility. The college awarded the student financial aid using the information from the revised application. The college disbursed a combined total of $9,371 in financial aid disbursements to the student. When using the veterans benefits as an additional resource, the student was overawarded $1,698 in Stafford loans.

In another case, a student's financial aid file contained conflicting information on untaxed income. The student did not report any untaxed income on the financial aid application. However, the student's tax return reported untaxed income of $725. The college should have investigated the discrepancy because untaxed income determines student eligibility for financial aid. Based on the original financial aid application, the college paid the student a Pell grant of $325. Using the untaxed income of $725, the student was only eligible for $308.

We also reviewed a student file that contained conflicting information on work-study income. The student's financial aid application included work-study earnings in total income. Federal regulations allow students to exclude work-study earnings from income when determining financial aid eligibility. Based on the original application, the college disbursed $750 in Pell grants to the student. However, if the college would have excluded the student's work-study income the student would have been eligible for $1,350 in Pell grants.

Finally, we reviewed another student file that contained conflicting information on work-study income. The college processed this file without first resolving the conflicting information. However, the conflicting information in this file did not have an effect on the student's financial aid eligibility.

*Recommendations*

- *Normandale Community College should resolve this conflicting information and reimburse the Pell grant account $17, if necessary.*
- *Normandale Community College should work with the U.S. Department of Education to remedy the $1,698 in Stafford loan overpayments, if necessary.*
- *Normandale Community College should resolve conflicting information in student files before disbursing financial aid.*

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ROCHESTER
COMMUNITY
COLLEGE

June 16, 1994

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

Dear Jeanine:

Attached is our response to the draft audit report for items 1 through 8 of the systemwide federal financial aid audit for the year ended June 30, 1993.

Thank you.

Sincerely,

Karen E. Nagle

Karen E. Nagle, Ph.D.
President

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

**1. Resolution of Conflicting Information.**

The student in question, who had filed a corrected financial aid application, had filed the original application listing a family size of two. This was filed in October of 1992. When the applicant found out that she could include her unborn child as a dependent, she filed a corrected application on November 3, 1992. She listed a family size of three with two in college. Her original award was based on the prior application which had an FC of $950, and she was awarded a Stafford Loan by the college and a State Grant by the State of Minnesota. When the corrected application was filed, her FC dropped to $389 and she was eligible for a Pell Grant.

In total, this student budget was $8,052, and her highest FC was $950. She received a total of $1,300 Pell, $1,500 Stafford, and $872 State Grant. In reviewing her award, we can find no overaward. It is true that the college did not revise and print a new award when the corrected SAR was brought in.

In reference to the number of family members in college, the applicant indicated that both she and her husband would be in attendance the winter quarter. In fact, her husband did not enroll, and we did not catch this since it is almost impossible to monitor individual students. This was especially true during 1992-93 because the Director was on sabbatical and was not replaced. We essentially had one person running a six million dollar aid program.

In regard to other students, we use whatever valid information is available at the time awards are made. In some cases, minor corrections or changes were made by the student and we did not revise the award package if the change did not have an affect on the award already made.

We believe this issue has been resolved and in the future will resolve conflicting information in student files when ever it occurs.

Dr. Gordon Trisko June 1994

**2. Stafford Loans Certified Using Incorrect Information**

We don't know who these people are, so can not speak specifically to the problem. When making awards, we use the valid date on file at the time the award is made. In some cases, minor changes have been made, and as indicated, we do not revise and reprint the award letter unless the change changes the student's eligibility and original award. We are aware of one student cited who had been awarded a $3,500 Stafford Loan for the academic year. The student came in with her application, but only wanted the loan for the fall term. We certified the loan for fall term only, for $1,167. We were told that the way we did it was incorrect, and although the student attended the entire academic year, was eligible for a loan of $3,500, and received only $1,167; that we had overawarded the loan for the fall term. We are at a loss to understand this and have checked with the Regional Office in Chicago and Northstar Guarantee. We have been advised that in such future cases, we certify the loan for the entire year and tell the student to cancel the winter and spring disbursements. Seems like a lot of unnecessary paper work for students to have to do this.

As far as we know, no student loans were certified for more than the student was eligible to receive. We will watch changes and revise awards, even if the change makes no change in the student's award. We will make every attempt to continue to properly certify all stafford loan applications.

Dr. Gordon Trisko June 1994

**3. Stafford and Perkins Loan Counseling Procedures Do Not Meet Federal Regulations**

The college provides all Perkins Loan recipients information up front which we thought included all required loan information. Since this finding, we are including for each individual student a copy of the promissory note, along with our information sheet. We don't know what else we can do, and would seek advice from the Department of Education on this issue.

In reference to the lateness of the Stafford exit counseling, this was a problem for 1992-93 because of the fact that the Financial Aid Director was on sabbatical and not replaced. A person was hired temporarily off the street to help out. To compound the problem, that year saw two or three turnovers for the Financial Aid Secretary and for most of the year, the office operated without clerical help. Administering a program of over six million dollars with staff of one plus, makes it very difficult to keep up. The temporary person hired was responsible for the Stafford Exit interviews, but it was found later that many of them had not been done.

The college will make every effort to get the exit interview materials to students who drop out or drop below six credits on a timely basis.

Dr. Gordon Trisko June 1994

**4. Rochester Community College does not verify the completeness of Perkins loans recorded on the loan management system.**

RCC will ensure that disbursements recorded on the loan management system agrees with the Perkins loan disbursement records.

Ruth Smith - 6/9/94

**5. Inadequate Controls Over Incoming Federal Family Educational Loan Checks**

As perhaps 95% of colleges in the U.S., Stafford Loan checks are sent to the financial aid office to be logged in. Once logged in, all checks go immediately to the Business Office. The Financial Aid Office checks the student's eligibility to receive the loan and then prepares a voucher for the Business Office. This is in compliance with the federal regulations as listed in the federal Blue Book, dated May 6, 1991.

We will make an attempt to change the procedure, even though it will cause delays in getting loan checks to students and require duplication of effort on the part of the Financial Aid Office and the Business Office.

Dr. Gordon Trisko June 1994

**6. Rochester Community College is not appropriately managing funds within its federal account.**

We have gone back and updated the interest earned on the Perkins funds and that those funds have been transferred into the Perkins account. The balance of the interest on the Federal accounts has been determined and a check has been drawn and will be sent to the Department of Education.

The balance of the funds kept in administrative reimbursement account will be transferred to the College's M&O fund and in the future the administrative funds will be transferred to the M&O account as soon as it is determined.

Ruth Siefert June 1994

**7. Rochester Community College does not comply with Federal Perkins Loan Program cash management requirements.**

Rochester Community College will post interest earned on Perkins loan funds to the Perkins loan account on a monthly basis and use the interest for awards to eligible students.

Rochester Community College will deposit the required institutional match prior to awarding any Perkins money for the year.

Ruth Siefert July 1994

**8. Rochester Community College does not adequately account for Federal awards and draw downs.**

Rochester Community College will transfer funds on a timely basis with the new accounts receivable program our system has installed. With this system we will be depositing tuition from the financial awards on a daily basis as the students sign and pick up their awards. The Federal draws will be based on the estimated daily distribution of awards. This new procedure and software program should resolve this issue and will be implemented for fall quarter 1994.

We have established a procedure to record the initial awards and each draw down for the Federal programs as recommended. This procedure was implemented in January during the time auditors were here.

We have repaid the S. E. O. G. account the $7,798 from our administrative funds to resolve this issue.

Ruth Siefert June 1994

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NORTH HENNEPIN COMMUNITY COLLEGE

7411 Eighty-Fifth Avenue North, Brooklyn Park, Minnesota 55445 (612) 424-0702
TDD# (612) 493-0555

June 9, 1994

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 programs at the Community College System as part of the Statewide Audit of the State of Minnesota fiscal year 1993 financial statements and Single Audit of the federal programs which include Stafford Loans, Perkins Loans and Pell Grants.

Finding 9

Prior finding not resolved: North Hennepin Community College has not complied with three Federal Perkins Loan requirements.

Response

North Hennepin Community College acknowledges this finding. After twelve years of stable staffing, in the last three years we have had three different people responsible for the financial aid program accounting. Given the complexity of this program, we experienced some problems with the turnovers in staffing. The current staff member has been in the position for about a year and is familiar with the requirements regarding deposit of institutional matching funds. We do not anticipate this problem will occur in the future.

The college has reconciled the Loan Management Perkins Disbursement Report with the Perkins disbursements.

One of the problems we have had with the Perkins Loan funds is that, given the delay in receiving increased authorizations for the Pell Grants, we have used Perkins funds to make Pell awards to the students. We now understand that this is not acceptable and will no longer use Perkins funds for Pell awards. The Perkins funds will be maintained in the savings account.

Finding 10

North Hennepin Community College has inadequate controls over incoming Federal Family Educational Loan (FFEL) checks.

Response

North Hennepin Community College acknowledges this finding. Employees who certify student loan eligibility for FFEL programs no longer receive the FFEL checks. The Accounting & Fees Office now receives and disburses all FFEL checks.

Finding 11

North Hennepin Community College did not resolve conflicting information in seven student files. The finding states; 1.) the college did not resolve and document whether the applications or the tax returns for four students contained the correct information on family size; 2.) two student files contained conflicting information on work-study income which resulted in the students' eligibility being computed to be less than it would have been if the work-study earnings had been excluded from income; 3.) one student file contained conflicting information concerning business income.

Finding 11.1.a

One student reported a family size of four on the financial aid application for the 1993-94 award year whereas the student's federal tax return showed three exemptions. The college paid the student a $1,534 Pell Grant based on a family size of four whereas the Pell Grant should have been $1,300 based on a family size of three.

Finding 11.1.b

Another student reported a family size of six on the financial aid application for the 1993-94 award year whereas the student's federal tax return showed four exemptions. The college paid a Pell Grant of $966 based on a family size of six whereas the Pell Grant eligibility for a family size of four would have been $500.

Finding 11.1.c

Two students had family size conflicts that didn't effect eligibility.

Finding 11.2

Two student files contained information on work-study income. Both students submitted documentation showing their tax returns included work-study income, however, the college did not adjust the income amount reported on the financial aid application for the work-study earnings. Both students would have been eligible for additional financial aid by excluding work-study earnings from the income.

Finding 11.3

One student file contained conflicting information concerning business income. The college processed the file without first resolving the conflicting information. The conflicting data had no effect on the student's eligibility.

Response 11

The college disagrees with the finding regarding conflicts in family size. North Hennepin Community College did resolve and document correct family size for the four students by requiring them to list the names, ages and relationships of all members included in the family size and sign a certification statement that the information was true and complete. This documentation complies with the format and procedure outlined in Chapter 2, page 18, of the U.S. Department of Education "The Verification Guide, 1993-94" for student financial assistance (SFA) programs. Under the heading *Verifying Household Size*, the guide states, "If the applicant completed a verification worksheet, no further documentation of this item is required. However, in lieu of the worksheet, you may accept a statement signed by the applicant and spouse (for independent students), or by the applicant and applicant's parents (for dependent students), listing the names of the household members, their relationship to the applicant, and their ages." The college routinely requires all applicants to provide verification of family size. When the family size reported on the aid application differs from the documented listing for family size, the college changes the number on the application and recalculates the applicant's eligibility.

Response 11.1.a

The dependent student reported a family size of four on the aid application. His mother claimed three exemptions on the tax return but four family members on the verification form. The mother's tax return did not include her 22 year old daughter who lives with her. The applicant and mother certified the accuracy of the family size of four by signing the verification form. The Pell Grant of $1534 was based on the verified family size of four.

Response 11.1.b

Another dependent student reported a family size of six on the aid application. His mother and stepfather claimed four exemptions on the federal tax return but listed six family members on the verification form. The parent/stepparent joint tax return did not include the mother's 16 year old son or their 2 month old daughter as exemptions. The applicant, mother and stepfather signed the form certifying family size of six. The $966 Pell Grant, $602 Minnesota Higher Educational Grant and $1,334 Federal Stafford Loan were based on a family size of six.

Response 11.1.c

Two student files contained conflicts in family size. Both verified correct family size according to the above documentation procedure.

Response 11.2

The college disagrees with the work-study conflict finding. On the application and verification worksheet, the FY94 student listed an adjusted gross income of $3940 but crossed out the figure and entered a "0" and the letters "CWS" next to the figure. The instructions for entering the correct income read, "Subtract any financial aid or need-based college job earnings. Provide copy(s) of W-2 forms from the college job earnings you deduct and write the amount here." The student entered $0 but did not provide the requested W-2 documentation. Therefore, the college changed the student's entry of $0 to $3940, per his tax return, during the verification process. The college does not accept self-reported income adjustments without documentation.

The FY93 student indicated that the $535 reported on her 1991 federal tax return was from CWS earnings. She did not provide documentation to confirm this income adjustment so the deduction was disallowed.

Response 11.3

The college disagrees with the finding regarding a business income conflict. The student initially applied claiming a "separated" marital status. She reported, however, all income data from her joint 1991 federal tax return which included her estranged spouse's income. Using professional judgement, the financial aid office determined the amounts that realistically represented only the applicant's income/tax data and recalculated her eligibility accordingly. This included using fifty percent of a $1920 business income.

Finding 12

North Hennepin Community College improperly calculated expected family contributions for three students.

Response

The college disagrees with this finding. The finding assumes that only the parents' contribution (PC) of a dependent student's family contribution (FC) can be pro-rated for a period of enrollment that is less than 9 months. The method for determining dependent student contributions for periods other than 9 months is not contained in the law that drives Congressional Methodology (CM). There was no consistent approach to FC pro-ration by the Department of Education (ED) and the multiple data entry (MDE) vendors. For dependent students in CM, ED applies the full student contribution (SC) for all periods of enrollment. No minimum expectation is used. In contrast, American College Testing (ACT) adjusts the SC for periods less than 9 months and uses a $700/900 minimum expectation.

Congressional Methodology was first used for 1988-89 FC calculations. In April 1989, the federal processor began printing a grid on the 1989-90 Student Aid Report (SAR) showing FC figures for enrollments from 1 to 12 months long. The U.S. Department of Education published six basic principles and guidelines in an August 1989 "Dear Colleague" letter, GEN-89-43. The letter supplements the information on page 8 of "The Congressional Methodology, 1989-90" and on pages 5-15 of the Federal Student Aid Handbook.

The second principle states, ".... A financial aid administrator, in establishing institutional policies and procedures, has the authority to develop standards applicable to any phase of the need analysis process." The principle further states, "Because standards are based on the financial aid administrator's consideration of all financial aid applicants or categories of applicants with similar characteristics, determinations based on such standards are not subject to the requirements of professional judgement under Section 479A of the law. In other words, these determinations are not individual adjustments that must be documented in the student's file."

Principle number 5 states, "Because the need analysis, award packaging, and disbursement processes are usually related to divisions within the program (or period of enrollment) it is appropriate to consider that the cost of attendance and the FC as well as the awards, may be divided similarly. To reduce administrative burden, it is reasonable to pro-rate the awards, costs, or FC by academic terms, payment periods or other divisions of the period of enrollment."

Principle number 6 states, "In all cases involving a question on the appropriate FC to be used, including costs and the FC, the school must first determine the period of enrollment for its program(s) and perform a standard calculation for that period in accordance with Congressional Methodology. After the standard FC is calculated, the financial aid administrator may consider different circumstances affecting individual students or categories of students."

The "Dear Colleague" letter addresses a question regarding the pro-rating of SC for dependent students who attend less than 9 months. The U.S. Department of Education responded, "..., there are cases in which a school may adopt a standard calculation reflecting a dependent student contribution for other than nine months. ....Thus, it would be reasonable to pro-rate the dependent student's earnings based on the period of enrollment. Schools may develop policies that would treat all students in this situation equitably, rather than making an individual determination for each case."

The college, by consistently applying ACT's pro-ration methodology as its standard for pro-rating dependent students' SC for periods of enrollment that are less than 9 months, is in compliance with the law.

The student, cited in the finding, attended the first two quarters (6 months) of the 9 month period and then withdrew. It is unreasonable to suggest that the college should have paid the first two terms for a 6 month pro-ration when he acknowledged he would be attending 9 months.

Finding 13

Prior finding not resolved: North Hennepin Community College does not manage its federal cash adequately.

Response

The college concurs with this finding. Due to the previously mentioned staff turnover problem, the college did not resolve this prior audit finding. We will implement the recommendations to bring our procedures into compliance with federal requlations.

Finding 14

North Hennepin Community College improperly waived one federal financial aid repayment.

Response

The college concurs that it improperly waived one financial aid repayment. The college has reimbursed its Supplemental Educational Opportunity Grant account $375 and the Pell Grant account $199 for FY93.

Finding 15

North Hennepin Community College did not receive federal reimbursement for $14,865 in Pell Grants.

Response

The college concurs that it did not receive federal reimbursement for $14,865 in Pell Grants disbursed to twelve eligible students during the 1992-93 award year. A November 1993 "Dear Colleague" letter, P-93-5, describes procedures for 1992-93 Federal Pell Grant account adjustments after the September 30, 1993 submission deadline. According to the letter, ED will make upward adjustments to final Pell authorizations only when an auditor certifies the increase during the annual student financial aid audit. The audit report must be submitted by the auditor to the Regional Office Processing Center, from where it will be forwarded to the Audit Resolution Branch in Washington, D.C. for review. That department will eventually contact the college regarding steps to be taken to complete the reimbursement process.

Yours Truly,

Janis Weiss

Janis H. Weiss, Ph.D.
President

JHW/ds

**WILLMAR COMMUNITY COLLEGE**

June 8, 1994

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

Dear Ms. Leifeld:

This constitutes our formal written response to your comments and recommendations. Please bring to my attention any misunderstanding of your comments or recommendations that may be apparent in our responses or if our responses do not meet the intent of your recommendations.

FINDING 16

Willmar Community College's satisfactory academic progress policy does not meet federal guidelines.

RESPONSE

The Minnesota Community College System has changed the satisfactory academic progress and suspension regulations effective fall quarter 1994. The appeal procedures for Willmar Community College have been rewritten to comply with the new regulations. The appeal procedures will be made available to all students.

Willmar Community College will consistently apply the new Satisfactory Academic Progress Policy as required by federal regulations. Any student not meeting the regulations will be placed on probation. Mr. Eugene Phillippe, Dean of Students, will be responsible for the resolution of this issue.

FINDING 17

Willmar Community College has not defined exceptional need for awarding Federal Perkins loans.

RESPONSE

Willmar Community College has set up the SAFE systems to award Federal Perkins Loans to students only with exceptional need. Exceptional need will be defined as a student with a E.F.C. of lower than 500. Bert Phillips, Financial Aids Director will be responsible for resolution of this issue.

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

FINDING 18

Willmar Community College needs to improve controls over federal financial aid.

RESPONSE

18 a. Willmar Community College will assign the duty of bank reconcilement of the federal account to a staff person independent of the business office to provide additional separation of duties and internal control. Terrance Swenson, Business Office will be responsible for resolution of this issue.

18 b. Willmar Community College has implemented Internal controls over Federal Family Educational Loans (FFEL) checks, whereas the Financial Aid Office will document the students FFEL eligibility, the Business Office will receive and disburse (FFEL) checks. Bert Phillips, Financial Aids Director, will be responsible for resolution.

FINDING 19

Willmar Community College has inadequate control over its federal cash.

RESPONSE

Willmar Community College will draw cash for immediate needs based on requested disbursements to ensure that cash levels on hand do not exceed federal guidelines.

The proper management of federal cash requests will also correct and prevent the problem associated with borrowing or using funds belonging to the Perkins Loan Program. Terrance Swenson, Business Office will be responsible for resolution.

Sincerely,

Harold G. Conradi

Harold G. Conradi
President

HC/mac

Fergus Falls
Community
College

1414 College Way
Fergus Falls, Minnesota 56537
218/739-7500
TDD 218/739-7271 • FAX 218/739-7475

June 3, 1994

Ms. Jeanine Leifeld, Audit Manager
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, 1993. Findings #20, #21, and #22 are herein addressed.

The college will implement the auditor's recommendation regarding the separation of duties in handling Federal Family Educational Loan checks. Loan checks arriving by mail that have been heretofore received in the Financial Aid Office, will, beginning with the fall 1994/95 term, be directed firstly to the Business Office. The Financial Aid Director, Robert Anderson, will be responsible for implementing this procedural change.

The Financial Aid Director shall also be responsible for seeing that procedures for appealing satisfactory academic progress determinations -- procedures that to date have been outlined to students individually at the time of suspension -- be incorporated in the language of the college's academic progress policy.

Business Manager, Dennis Zilmer, has resolved the discrepancy between the college's Perkins loan account and the Department of Education by reimbursing the Perkins loan account in the amount of $1063.00. The discrepancy -- which arose from a 1992 letter from the Dept. of Ed. wherein it is confessed that they were attempting for the **first** time since program's inception (1965) to reconcile the Perkins cancellation data base and in which it is mandated that the resolution of the discrepancy be reflected in the June 1992 Fiscal Operations Report -- is, we have concluded, because of the probable antiquity of the error, factually unresolvable.

Sincerely,

Dan F. True

Dan F. True
President

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NORTHLAND
COMMUNITY COLLEGE

June 3, 1994

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

Dear Ms. Leifeld:

Enclosed is a response from Northland Community College relating to findings 23-26 of the Financial Aid Audit Report. Kelsy Blowers, Director of Financial Aid, has prepared responses to items 24 and 26. Bob Hansen, Business Manager, has responded to findings 23 and 25.

Please do not hesitate to contact me if you need any additional information.

Sincerely,

Jim Haviland

Jim Haviland
President

JH:bh
Enclosures



1101 HIGHWAY 1, EAST THIEF RIVER FALLS MINNESOTA 56701 (218) 681-2181 800-628-9918 FAX: (218) 681-6405

## LEGISLATIVE AUDIT RESPONSES - FINANCIAL AID OFFICE

24. Northland Community College has inadequate controls over incoming Federal Family Educational Loan (FFEL) checks.

    The current procedure for handling FFEL checks at Northland Community College is that the loan checks are mailed directly to the NCC business office from the lender. In order to record information and verify that the loan disbursements are correct, the financial aid office does receive access to the FFEL loan checks.

    In order to comply with the recommendation that NCC separate duties over FFEL loan checks, new procedures will be implemented immediately. As in the past, loan checks will continue to be mailed to the NCC business office from the lender. The NCC business office will then photocopy each check and provide the photocopy to the financial aid office. The necessary information will then be recorded from the photocopy of the loan check. In circumstances where loan checks must be returned to the lender, the financial aid office will complete the appropriate paper work and it will be the responsibility of the NCC business office to return the check to the lender.

26. Northland Community College did not comply with federal financial aid transcript requirements.

    During 1993/94 NCC began a process to annually review the receipt of financial aid transcripts for transfer students.

    In February of 1994 NCC revised this procedure to monitor receipt of financial aid transcripts for transfer students on a quarterly basis. On a quarterly basis, the financial aid office will run a list of all students who have received financial aid for the year. This list will then be used to compare the registrar's STCQ screen with the financial aid transcripts the financial aid office has received. The registrar's STCQ screen lists any colleges students have transferred academic credits to NCC from. The financial aid office will verify, on a quarterly basis, that for each school listed on STCQ, there is a financial aid transcript on file.

**LEGISLATIVE AUDIT RESPONSES-BUSINESS OFFICE**

23. Northland Community College does not comply with Federal Perkins Loan Program cash management requirements.

    The current procedure for depositing institutional capital contributions is that institutional capital contributions are to be deposited prior to Federal capital contributions.

    Recycled Perkins Loan funds are in an interest bearing savings account and will be transferred to the Financial Aid checking account as needed. New Perkins Loan funds are drawn down as they are needed into our Financial Aid Account.

25. Northland Community College has inadequate controls over Federal Financial Aid reporting.

    Northland Community College has resolved the error in the previous financial report.

    The current procedure for providing reliable historical data and a clear audit trail for individual Federal programs is to enter "voided MMDDYY" in the memo section of the register by the check number, enter the void as a deposit to the register as a new transaction with "check #________ voided" entered in memo section.

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# INVER HILLS Community College

8445 College Trail • Inver Grove Heights, MN 55076-3209

June 9, 1994

Jeanine Leifeld, CPA
Audit Manager
Office of Legislative Auditor

Jeanine,

The following three items (27, 28, 29) from the Legislative Audit are listed below along with Inver Hills Community College response to each item. Ronald Wiger is responsible to see that all resolutions are implemented properly.

**27. Inver Hills Community College does not monitor academic progress during the summer sessions.**

**RESPONSE:** **On May 25, 1994 Inver Hills Community College adopted a new academic progress policy which includes summer sessions. Because at the time we did not notify the student in question that she was not making academic progress, she was not given an opportunity to appeal her suspension. She has since appealed her suspension and her appeal was granted. Inver Hills is therefore not liable for her Fall 1993 disbursal of aid.**

**28. Inver Hills Community College did not resolve conflicting information in four student files.**

**RESPONSE:** **On April 20, 1994 all conflicting information the four student files was resolved and necessary adjustments were made. Inver Hills Financial Aid Office has rewritten its file review procedure to be more comprehensive in resolution of conflicting data. It should be noted that Inver Hills does 100% Verification and therefore increases the likelihood of conflicting data because we ask for more information than a school that does not do 100% Verification.**

**29. Inver Hills Community college does not comply with federal financial aid transcript requirements.**

**RESPONSE:** **On May 1, 1994, a new procedure was put in place so that the records office notifies financial aid whenever an academic transcript is received by records.**

Steve Wallace

**STEVE WALLACE**
PRESIDENT INVER HILLS COMMUNITY COLLEGE

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Minneapolis Community College

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

June 6, 1994

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

Dear Ms. Leifeld

This letter is Minneapolis Community College's response to the findings in the federal financial aid audit report for the year ended June 30, 1993.

**Finding 30: Minneapolis Community College improperly certified a Stafford Loan.**

MCC does not agree that it improperly certified a Federal Stafford Student Loan. MCC used the official family contribution as produced by American College Testing (ACT). ACT is a private company certified by the U.S. Department of Education to calculate official expected family contributions (efc) for use by post-secondary institutions to award financial aid. The method for determining dependent student contributions for periods other than nine months is not incorporated in the law that drives Federal Methodology.

Further, even if the efc from the SAR is used, there is no overaward as the loan proceeds have already been delivered to the student (1993/4 Federal Student Aid Handbook: Chapter 10, Page 75).

The Financial Aid Director has already implemented the use of the efc from the SAR for enrollment periods of other than nine months for dependent students.

**Finding 31: Minneapolis Community College has inadequate controls over federal student financial aid packaging.**

MCC believes that it does have adequate controls over packaging the Federal SEOG and Federal Work-Study programs. MCC does not, however, use the edits on the SAFE software as they have been found to be too imprecise to package appropriately. Instead, MCC utilizes past enrollment patterns and actual expenditures to monitor packaging. Award reductions were necessary for the two programs due to an unusually low student attrition rate and increased enrollment.

By comparison in the prior year, with similar funds available and packaging procedures, MCC was unable to spend our Federal SEOG authorization during the normal academic year and had to package some awards for summer.

Further, financial aid award revisions are simply not that uncommon; most institutions are faced with them every so often due to complexities in packaging.

In the future, MCC intends to package more conservatively and to use SAFE edits if possible. The Director of Financial Aid has already implemented the recommendation.

**Finding 32: Minneapolis Community College maintains excessive cash balances in its Federal perkins loan account.**

MCC has already returned $12,165 to the U.S. Department of Education. MCC will be returning the difference in the near future.

MCC is in the process of creating a procedure to have money collected by the Minnesota Community College System Office sent directly to the U.S. Department of Education.

**Finding 33: Minneapolis Community College took an unallowable administrative cost allowance from the Perkins loan account in fiscal year 1993.**

MCC did not take an administrative cost allowance from the Perkins loan account in fiscal year 1993 and is in the process of correcting the applicable FISAP.

**Finding 34: Minneapolis Community College's satisfactory academic progress policy does not meet federal guidelines in two areas.**

MCC's satisfactory academic progress policy does have a cumulative quantitative measure of academic progress. This measure, in the form of a completion rate, is viewed on a cumulative basis, however MCC's literature does not clearly state this.

Recently, the Minnesota Community College System has created a new satisfactory progress policy which complies with the minimum federal guidelines.

Sincerely Yours,

JmBelcher

Dr. Jacquelyn Belcher
President

V E R M I L I O N
C O M M U N I T Y C O L L E G E

June 8, 1994

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

Dear Mr. Nobles:

Enclosed is Vermilion Community College's response to the draft audit report you distributed on June 1, 1994.

In our enclosed response, we find no need to contribute to or to contest anything stated in other than the Current Findings and Recommendations section and have limited our responses to this area. Thank you in advance for any consideration you can give to our requests.

Sincerely,

Jon M. Harris

Jon M. Harris
President

Enclosure

[illegible]00 E. CAMP STREET ELY, MN 5573 218/365-7200 1/800-657 36

RESPONSE TO CURRENT FINDINGS AND RECOMMENDATIONS

35. Vermilion Community College paid financial aid to an ineligible student.

*Vermilion's response to the finding:*

The student had completed a degree program and re-enrolled at Vermilion in another program. In order to complete this new program this student received financial aid beyond the 110 credits. The student did complete this degree.

The student could have transferred to another college and taken another two year degree program and received the same financial aid, i.e. Range Technical College's carpentry program.

*Vermilion's response to the recommendations:*

We feel that as long as the student had changed programs he should have been eligible for the financial aid and therefore repayment should not be necessary.

*Person responsible for implementation:*

Dan Przybylski

We will work with Department of Education to resolve this issue.

36. Vermilion Community College improperly certified a supplemental loan for student's loan (SLS).

Vermilion agrees with the finding as stated.

*Vermilion's response to the recommendation:*

We had made an error in assessing the student's veterans benefits. We will make every effort to check all sources of financial aid and family contributions before certifying any student loan.

*Person responsible for implementation:*

Dan Przybylski

Implementation will begin with the next loan certified.

Anoka Ramsey Community College
Campuses in Coon Rapids and Cambridge

Office of the President
Coon Rapids Campus

June 7, 1994

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

Dear Ms. Leifeld:

REGARDING: Audit Findings 37 and 38; 1992-93 Audit

The following is our response to findings 37 and 38:

FINDING #37: Anoka-Ramsey Community College paid financial aid to an ineligible student

RESPONSE: Anoka-Ramsey Community College is in agreement with finding #37. Anoka-Ramsey Community College will repay to the PELL Grant account $1,600 for ineligible disbursements and will communicate with the student in question her obligation to repay Anoka-Ramsey Community College. Since the regulation prohibiting PELL awards beyond five years is no longer in effect, no procedures need be put in place to prevent another such occurrence of overpayment.

FINDING #38: Anoka-Ramsey Community College did not comply with federal financial aid transcript requirements.

RESPONSE: Anoka-Ramsey Community College currently has in place a procedure to collect financial aid transcripts for financial aid applicants prior to completion of the financial aid file. In addition, Anoka-Ramsey Community College will develop a procedure whereby the Records Office will communicate with the Financial Aid Office on all academic transcripts received. In this manner, financial aid applicants will be subject to a "second level" of review to ensure all appropriate documentation has been received.

Sincerely,

Patrick M. Johns
President

lb

c: Bonnie Anderson, Dean of Administration
Karen Bales, Director of Financial Aid

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

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NORMANDALE
Community College

9700 France Avenue South
Bloomington, Minnesota 55431

June 6, 1994

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

Dear Ms. Leifeld;

I am writing in response to the Legislative Audit for the year ending June 30, 1993 Finding No.39 regarding conflicting information not resolved in four student files.

The first recommendation states that Normandale Community College should resolve the conflicting information on the untaxed income and reimburse the Pell Grant account $17.00. The untaxed income conflict has been resolved and the funds will be returned to the Pell Grant account by June 30, 1994. The individual responsible for resolution is Catherine Breuer, Financial Aid Director.

The second recommendation states that Normandale Community College work with the U.S. Department of Education to remedy the $1698.00 in the Stafford loan overpayment. Per Bob Wanzek, U.S. Department of Education, the overpayment must be returned to the student's lender. This shall occur by June 30, 1994. The individual responsible for resolution is Catherine Breuer, Financial Aid Director.

The third recommendation states that Normandale Community College should resolve conflicting information in student files before disbursing financial aid. Effective April, 1994, when files that have been selected for verification by the U.S. Department of Education are reviewed, a Verification Review Checklist is completed to ensure resolution of conflicting information. For files not selected for verification, any conflicting information is resolved at the time of final file review. Additional staff training in the final file review process and resolving conflicting data has also occurred. The person responsible for resolution and implementation is Catherine Breuer, Financial Aid Director.

If there is any other information required, please contact either myself or Catherine Breuer, Financial Aid Director.

Sincerely,

Thomas J. Horak
President



Telephone 612/832-6000 ▲ Facsimile 612/832-6571 ▲ TDD 612/832-6552
Equal Opportunity Educator/Employer