
**Minnesota State Colleges and Universities
Federal Student Financial Aid Programs**

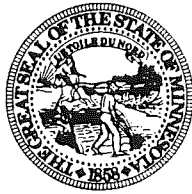
**Selected Scope Financial Audit
Fiscal Year 1995**

June 1996

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

96-24



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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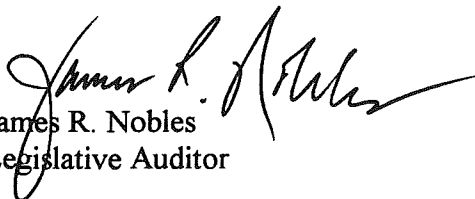
We have audited selected federal student financial aid programs of the state of Minnesota's now merged, community college and state university systems for the fiscal year ended June 30, 1995, as further explained in Chapter 1. Effective July 1, 1995, the state of Minnesota's state university system, the community college system, and the technical colleges merged to form the Minnesota State Colleges and Universities (MnSCU). Our audit did not include all financial activities of the state of Minnesota's community college and state university systems for the fiscal year ended June 30, 1995, and did not include any selected federal student financial aid programs of the state of Minnesota's technical colleges.

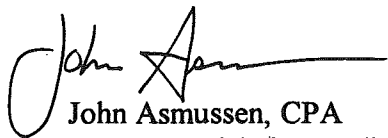
The work conducted at the community colleges and state universities was part of our Statewide Audit of the state of Minnesota's fiscal year 1995 financial statements and Single Audit of federal financial assistance programs. The Comprehensive Annual Financial Report for the year ended June 30, 1995, includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995, will include our reports on the supplementary information schedule of federal financial assistance, internal control structure, and compliance with laws and regulations. We anticipate issuing that report in June 1996. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the community colleges and state universities complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the community colleges and state universities are responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

Representative Ann H. Rest, Chair
Members of the Legislative Audit Commission
Ms. Judith Eaton, Chancellor
Members of the Minnesota State Colleges and Universities Board
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This report is intended for the information of the Legislative Audit Commission and management of the Minnesota State Colleges and Universities and the individual community colleges and state universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 28, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 1, 1996

Report Signed On: June 19, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Selected Scope Financial Audit Fiscal Year 1995

Public Release Date: June 28, 1996

No. 96-24

Audit Scope and Objectives

We audited selected federal student financial aid programs of the Minnesota state university and community college systems for the period July 1, 1994, to June 30, 1995. Our audit scope did not include the Minnesota technical colleges, which became state agencies effective July 1, 1995. Our audit was limited to the following federal student financial aid programs that are considered major programs according to the Single Audit Act:

<u>CFDA Number</u>	<u>Program</u>
84.032	Federal Family Educational Loans
84.038	Federal Perkins Loans
84.063	Federal Pell Grants

These programs accounted for approximately \$147 million in federal financial aid disbursements during the audit period.

In accordance with the Single Audit Act, our objectives included determining whether the state complied with federal rules and regulations in administering federal student financial aid. We also reviewed the internal control systems over federal student financial aid programs at select state universities and community colleges.

Conclusions

We noted two internal control weaknesses that affected several state universities or community colleges: (1) certain colleges and universities need to improve access controls over financial aid computer systems to prevent unauthorized or unnecessary access to the systems; and (2) several community colleges need to improve cash management procedures over federal programs.

We also noted that several state universities and community colleges overawarded financial aid to individual students from various federal financial aid programs. Collectively, these are not material findings because of the individual dollar amounts of the overawards. We also do not believe the number of overpayments is indicative of systemic problems because of the complexity of the federal regulations governing those programs.

Our audit report also includes a variety of other miscellaneous internal control and compliance findings and recommendations.

Contact the Financial Audit Division for additional information.

296-1235

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

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Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Chapter 1. Introduction

Audit Scope and Objectives

We audited selected federal student financial aid programs of the state of Minnesota's community college system and state university system for the period July 1, 1994, to June 30, 1995. Our audit was limited to those federal student financial aid programs considered to be major programs according to the Single Audit Act. Specifically, for Minnesota's community college system and state university system, those programs are shown in Table 1-1.

Table 1-1
Student Financial Aid Program Activity
Fiscal Year Ended June 30, 1995

<u>CFDA Number</u>	<u>Program</u>	<u>Community Colleges</u>	<u>State Universities</u>	<u>Total</u>
84.032	FFEL (new loans)	\$26,357,568	\$77,735,668	\$104,093,236
84.038	Federal Perkins Loans (new loans)	1,366,321	4,448,336	5,814,657
84.063	Federal Pell Grants	21,662,758	18,445,177	40,107,935

Source: Minnesota Financial and Compliance Report on Federally Assisted Programs- Statement of Expenditures, for the Year Ended June 30, 1995.

The primary objective of the Statewide Audit is to render an opinion on the state of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This includes determining whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. The Single Audit Act established two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program; and
- the state has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

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To address these objectives, we interviewed business office and student financial aid personnel at the community colleges and state universities, reviewed applicable federal policies, procedures and guidelines, tested representative samples of federal student financial aid transactions, and performed analytical procedures, as appropriate.

For the programs listed above, we obtained an understanding of the design of relevant policies and procedures, and whether they have been placed in operation during fiscal year ended June 30, 1995, and we assessed control risk for Bemidji, Mankato, Moorhead, St. Cloud, and Winona State Universities and Anoka Ramsey, Austin, Brainerd, Cambridge, Minneapolis, and Worthington Community Colleges. We reported the results of our fiscal year 1995 internal control review in separate reports titled, *State University System Student Federal Financial Aid Programs Management Letter Fiscal Year 1994* (Report Number 95-25) and *Community College System Student Federal Financial Aid Programs Management Letter Fiscal Year 1994* (Report Number 95-26). In addition, for the internal control structure in place during fiscal year 1996 for the programs listed above, we also obtained an understanding of the design of relevant policies and procedures, and we assessed control risk as of December 1995 at the following eight community colleges and four state universities:

Fond Du Lac Tribal Community College	Metropolitan State University
Hibbing Community College	Normandale Community College
Itasca Community College	Rainy River Community College
Lakewood Community College	St. Cloud State University
Mankato State University	Southwest State University
Mesabi Community College	Vermilion Community College

We also tested fiscal year 1995 federal student financial aid transactions for each of the federal student financial aid programs listed above at each of the 21 community colleges and 7 state universities.

Background

State universities and community colleges award both federal and state financial aid to eligible students. Each state university or community college develops an annual cost of attendance budget. The budgets normally include estimated tuition and fees, room and board, child care, and allowances for books, supplies, transportation, and miscellaneous expenses.

The U.S. Department of Education has developed federal regulations for each federal Title IV financial aid program. With the exception of the federal unsubsidized Stafford loan and federal PLUS programs, a student must demonstrate financial need to become eligible. Financial need is defined as the difference between the student's cost of education and the family's ability to pay those costs.

The Federal Pell Grant Program is generally considered the first source of assistance for students. It is a federally controlled program. Payment is based on each student's cost of attendance budget and the expected family contribution (EFC). The EFC is determined by a federal central processing system. Federal Pell grant payments are not limited to the available funds at a

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particular university. The U.S. Department of Education provides funds to each campus based on eligible students enrolled. The maximum Pell grant award was \$2,300 in fiscal year 1995 and is \$2,340 in fiscal year 1996.

The Federal Perkins Loan Program provides low-interest loans to students. Universities and colleges act as a lender, using both federal funds and a state match for capital contributions. Each university performs loan collection duties. Community colleges centrally collect Perkins loan repayments for all campuses. These duties include corresponding with students going into repayment status, receiving all loan repayments, and pursuing delinquent loans.

The Federal Family Education Loan (FFEL) Program includes subsidized and unsubsidized Federal Stafford Loans. The principal for these loans is provided by private lenders. The loans are guaranteed by the federal government, which reimburses the lender in the event of default or cancellation. The universities and colleges certify that the student is eligible for a loan amount on the loan application, which is then sent to the state guarantee agency for approval. If the loan is guaranteed by the agency, and the lender approves the loan, the lender sends the loan amount to the campus which releases the proceeds to the student.

For subsidized Federal Stafford Loans, the federal government pays interest to the lender while the student is in school. For unsubsidized Stafford loans, the student pays all interest that accrues on the loan. The federal government pays a special allowance to the lender for both subsidized and unsubsidized Stafford loans to make up the difference between the interest rate charged to the student and the prevailing market rate. The special allowance payments continue for the life of the loan.

In our past audits of the state university and community college system's federal student financial aid programs we have issued separate reports thereon. Since the individual state university and community college systems are now part of the new Minnesota State Colleges and Universities (MnSCU), we have issued a single report addressed to MnSCU. Separate chapters within this report address our findings and recommendations. Chapter 2 discusses our findings and recommendations relating to state universities. Chapter 3 discusses our findings and recommendations relating to the community colleges.

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Chapter 2. State Universities

Chapter Conclusions

The State University System administered a very complex blend of student financial aid programs during the fiscal year ended June 30, 1995. We noted the following internal control structure weaknesses in some universities over federal student financial aid programs:

- Several universities need to improve access controls over their student financial aid computer system to prevent unauthorized or unnecessary access to the system.*
- Some universities maintain an inadequate separation of duties over student financial aid and bank reconciliations are not performed timely.*

We also noted some compliance exceptions to the federal student financial aid regulations involving several universities that provided financial aid to ineligible students.

We discuss these and other findings further in Chapter 2.

Mankato State University

Mankato State University operates a highly automated financial aid system. This system receives eligibility data on the electronic student aid reports from the federal processor and identifies students requiring verification and other concerns. System edits check several eligibility features including enrollment status and satisfactory academic progress. The university also applies financial aid against institutional costs and generates a check to the student for the excess balance. Approximately half of FFEL loans are received by electronic funds transfer (EFT) and applied against institution costs of education.

- 1. Mankato State University awarded Perkins loans to one student in excess of the annual loan limit.**

The Mankato State University financial aid office provided Perkins loans to one student in excess of the annual loan limit. The student received two Perkins loan awards, one for the regular academic year and another for summer term, totaling \$4,500 for the 1994-1995 school year. The annual Perkins loan limit for undergraduate students is \$3,000. As a result, the student becomes ineligible for further student financial aid until the \$1,500 overaward can be recovered.

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The university financial aid office mistakenly overawarded the student a Perkins loan in the summer. The university typically awards students Perkins loans of \$2,250 during the school year, and the remainder of \$750, if a student attends summer session. The financial aid staff involved in approving this loan, however, awarded the student another \$2,250 for summer session.

Recommendations

- *Mankato State University should work with the U.S. Department of Education to resolve the \$1,500 overaward. Further federal financial assistance to the student should be discontinued until the overaward is resolved.*

2. PRIOR FINDING NOT RESOLVED: Mankato State University continues to award federal financial aid to an ineligible student.

In our 1993-1994 audit, we reported one student receiving \$7,000 of FFEL loans in excess of the annual loan limit. According to federal regulations, a student who borrows in excess of the annual loan limits under the Student Financial Aid Program loses his or her eligibility for further financial assistance until the excess funds have been repaid. However, Mankato State University continued to provide federal financial aid to this student for 1994-1995. The university has not required the student to repay the excess nor offset this against subsequent FFEL awards. During the 1994-1995 school year, the university awarded and paid the student \$16,850 in various types of federal financial aid. This student was enrolled in a university aviation program with high costs of attendance and continued to receive substantial federal financial aid during the 1994-1995 school year, as shown below:

<u>Federal Financial Aid Program:</u>	
Pell Grant	\$ 2,300
SEOG	490
Perkins Loan	2,100
Work Study	1,660
Subsidized Stafford Loan	5,500
Unsubsidized Stafford Loan	<u>4,800</u>
1994-1995 Total	<u>\$16,850</u>

The university needs to recover the 1993-1994 overaward of \$7,000 and determine its impact on financial aid eligibility for 1994-1995 academic year.

Recommendation

- *Mankato State University should work with the U.S. Department of Education to resolve the ineligibility of this student for 1994-1995.*

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3. Mankato State University does not monitor access to its financial aid computer system.

Mankato State University does not monitor access to its financial aid computer system. As a result, we noted two concerns which weakened the internal control structure:

- Certain employees have multiple unneeded log-on IDs which are intended for use by student workers.
- Several employees have the capability to update both financial aid award data in addition to FFEL disbursement and delivery data. This places conflicting responsibilities on one individual. Federal regulations indicate that an individual may perform either authorization or disbursement functions, but not both.

The university needs to periodically review log-on ID access to financial aid system screens. This review should ensure that system access is based on job responsibilities, especially for updating data. No employees should be provided with access privileges, which can update both award and disbursement data.

Recommendations

- *Mankato State University financial aid office should periodically request and review access reports identifying log-on IDs which have access to financial aid system screens.*
- *Mankato State University should limit an employee or student worker's ability to access financial aid records to inquiry only. Exceptions should be based on the employee or student worker's specific job responsibilities for updating student records.*

4. Mankato State University does not contact Perkins borrowers three times during the nine-month grace period.

Mankato State University does not comply with federal requirements regarding the number of grace period contacts for Perkins borrowers. In addition, the university does not record the grace period contacts in the system used to monitor repayments.

Currently, the university contacts the student twice instead of the three times required during the nine month grace period. The university conducts exit interviews with Perkins borrowers upon graduation, withdrawal, or dropping below half-time. However, it considers the exit interview to be the first contact during the grace period. Federal regulations require a 90-day contact, in addition to the exit interview.

Grace period notifications are initiated and mailed to the borrower, but the system does not log these notifications on the borrowers record. Without logging, there is no assurance that a specific student was notified the proper number of times during the grace period.

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Recommendations

- *To be in compliance with current federal regulations, Mankato State University needs to contact Perkins loan borrowers three times, in addition to the exit interview, during the nine-month grace period.*
- *Mankato State University should record grace period contact dates in the Perkins repayment system.*

St. Cloud State University

St. Cloud State University has developed a comprehensive computerized financial aid system. This system receives electronic student eligibility data from the federal processor and edits this data against verification material received from the students. Utilizing computer system edits, university staff perform verification steps on all students receiving federal Title IV financial aid. The system also edits satisfactory academic progress and other federal eligibility requirements. The university applies Pell and campus based financial aid against institutional costs on the third class day of each quarter, and generates a check to the students for the excess balance. Federal Family Education Loan (FFEL) checks are received from lenders and delivered to the students.

5. St. Cloud State University does not completely separate awarding and disbursing or delivery responsibilities.

Financial aid staff responsible for initiating and certifying Federal Family Education Loan (FFEL) awards also receive incoming FFEL checks from lenders. In addition, business office staff inappropriately have access to one financial aid system update screen. The situations weaken separation of duties between awarding and disbursing responsibilities.

University financial aid staff award and certify FFEL loans and also receive incoming FFEL checks from lenders. The financial aid staff log FFEL check information into the financial aid system, prior to delivery to the student by the business office. While we noted no instances of abuse, this does create an opportunity for financial aid staff to alter a loan award or cancellation, and misuse the respective check coming from the lender. Federal regulations require separation of financial aid awarding and the disbursing or delivery functions. Optimally, the business office should receive FFEL loan checks directly.

An effective option the university should consider is receiving FFEL loan proceeds via electronic funds transfer (EFT). Receiving loan funds EFT minimizes the need for lender check handling, eliminates logging the check data into the financial aid system, and loan funds are received directly by the business office. In addition, it would allow the business office to apply the loan funds directly against a student's institution costs.

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Currently, five business office staff have access to an update screen within the financial aid system. Although the business office staff may need to query student financial aid records, they should not be able to update or modify those records.

Recommendations

- *St. Cloud State University management should not allow financial aid staff access to incoming FFEL loan checks. Ideally, financial aid checks should be sent directly to the business office.*
- *The university should consider receiving Federal Family Education Loan proceeds by electronic funds transfer (EFT) to minimize lender check handling and allow loan funds to be applied against institution costs.*
- *The university should modify access to the financial aid system for business office staff to inquiry only.*

6. St. Cloud State University delays drawing federal financial aid funds until well after aid is applied.

The business office does not request federal financial aid funds until several weeks after the aid has been offset against tuition and fee costs. As a result, tuition deposits into the state treasury are delayed. In addition, as the campus increases the frequency of aid offset, it will become difficult to distinguish which specific aid applied transactions support a particular federal draw down.

St. Cloud State University offsets Pell and campus based aid against student tuition and fee costs on the third class day of each quarter and draws federal financial aid two to three weeks later. Federal regulations allow financial aid funds to be requested when applied against student institution costs. In fact, federal regulations only prohibit holding excess cash and restrict the earliest point at which financial aid disbursement (or aid applied credit) can occur to ten days prior to period of enrollment.

Although the university complies with federal regulations, we found no reason for delaying federal financial aid draws beyond the third class day of the quarter. The collection of federal revenue and transfer of tuition to the state treasury should occur reasonably close to the date that the aid applied in the student receivable system.

Recommendation

- *St. Cloud State University should draw down federal funds closer to the point aid is applied against institution tuition and fee costs. Once federal funds are received, the university should immediately transfer tuition moneys to the state treasury.*

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7. St. Cloud State University did not receive federal reimbursement of \$2,208 in Pell grants.

St. Cloud State University did not receive federal reimbursement of \$2,208 in Pell grants for the 1994-1995 award year. The university disbursed two Pell grants totaling \$2,999 to eligible students during the year, but received federal reimbursement for only \$791. 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 increased Pell funding authorization for one student because of an invalid verification code. The other student appears to have been rejected due to an incorrect social security number. The Department of Education rejected the reported disbursements after the September 30, 1995, reporting deadline. The university is now unable to take corrective action without an audit, or administrative relief approval, to resolve the rejected disbursements with the Department of Education. We reviewed the two student files and determined that the students were eligible for the Pell grant disbursements totaling \$2,999.

Recommendation

- *St. Cloud State University should work with the U.S. Department of Education to increase its 1994-1995 Pell authorization by \$2,208.*

8. St. Cloud State University student workers in the financial aid office have ability to clear edits.

St. Cloud State University has an effective computerized system which edits financial aid verification and eligibility information. However, the effectiveness of edit controls is weakened by allowing student workers to clear edits. Student worker user IDs are not restrictive and include access to the edit maintenance screen. User IDs used by students can clear an edit exception on any student financial aid record without detection. In addition, the system does not track which user ID cleared an edit nor report the occurrences of edit clears initiated by a user ID. Effective internal control over these high risk transactions would include a preventative control to restrict access to clear edits, or a detective control which reports edit clears initiated by each user ID.

Recommendation

- *The university should improve control over student worker access to the financial aid system edit screen by:*
 - *restricting student user IDs from ability to clear edits; or*
 - *programming the system to track user IDs clearing edits and developing a report which can track and monitor occurrences when edits have been cleared.*

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Southwest State University

The Southwest State University financial aid programs have experienced several changes in the past years. The university changed from a manual to an automated financial aid packaging and awarding system for the 1994-1995 school year. In July 1995, Southwest State University began using a new MnSCU computerized accounting system. The university continued to operate a disbursement subsystem but has had difficulty uploading this information into the new accounting system. The university's disbursement records are currently being accumulated in a file waiting for a conversion program to update the new accounting system.

Southwest State University verifies student financial aid information and student financial aid eligibility using a series of computer system reports. These reports are reviewed by financial aid and business office staff to verify such information as student enrollment, student satisfactory academic progress, and awards without disbursements. The university applies financial aid to student accounts and processes checks to students for any remaining aid. The university receives FFEL checks and attached documentation from lenders for distribution to students.

During the summer of 1995, the university underwent a federal program review. Although the final report is pending, university officials indicate that no concerns were brought to their attention.

9. Southwest State University has not reconciled accounting records to the local bank account since June 1995.

As of January 26, 1996, the university has not reconciled the accounting system to the bank statement balances for July through December, 1995. The university disburses federal financial aid through this local bank account. The university prepares a high volume of financial aid checks as well as other general expense disbursements. The university has not reconciled the local account due to the inability to convert and update all disbursement transactions into its new accounting system. Without a timely reconciliation, accounting system or banking errors can occur and go undetected by the university.

Recommendation

- *Southwest State University business office should reconcile accounting records to the bank statement on a timely basis.*

10. Southwest State University does not completely separate awarding and disbursement or delivery responsibilities.

Southwest State University financial aid office staff authorize FFEL awards and also have access to the FFEL loan checks from lenders. The financial aid staff receive incoming loan checks prior to the business office staff delivery to the students. The financial aid staff log incoming check information into the financial aid system and prepare the FFEL loan checks for delivery. These same financial aid staff handle unclaimed student loan checks which are later returned to the

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appropriate lender. We noted no instances of abuse, however, this weakness does create an opportunity for staff to alter a loan award or cancellation and misuse the FFEL loan check.

Federal regulations require separation of the authorizing and disbursing or delivery functions so that no office has responsibility for both functions. If Southwest State University obtained FFEL proceeds by electronic funds transfer (EFT), handling of loan checks would be minimized and the loan proceeds could be applied against institutional costs.

Recommendation

- *The university should improve its separation of duties between the awarding and disbursing responsibilities by:*
 - *separating duties for handling incoming and canceled Federal Family Education Loan checks from the authorizing of these loans; and*
 - *consider receiving Federal Family Education Loan proceeds from lenders by electronic funds transfer.*

11. Southwest State University student workers in the financial aid and business offices have the ability to change student financial aid data.

Student workers in the university's financial aid office have the ability to update financial aid data in the financial aid system. Similarly, business office student workers have the ability to update business office data. The university intended to restrict student workers to inquiry only capability. However, student workers were provided the ability to update the financial aid and business office system data. These student workers have no job responsibilities requiring them to have access to the system in order to update student records.

The university uses the financial aid system to verify, calculate, and award financial aid, while the business office accounting system has several menu options including updating student billing accounts. When employees and student workers have update capabilities beyond their job responsibilities, the potential exists for these individuals to make unauthorized changes.

Recommendation

- *Southwest State University should limit a student worker's ability to access financial aid and business office system data to inquiry only. Exceptions should be based on the student worker's specific job responsibilities for updating student records.*

Metropolitan State University

Metropolitan State University manually packaged and awarded financial aid for the 1994-1995 school year. Serious problems were encountered as explained in Findings 12 through 15. The university improved control in 1995-1996 by acquiring a computerized system to package and

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award financial aid. However, certain internal control improvements are needed, as discussed in Findings 16 through 18.

12. Metropolitan State University inappropriately certified Federal Family Education Loans (FFEL) causing overpayments of \$14,312 to four students.

Metropolitan State University inappropriately packaged aid to four students during the 1994-1995 school year. During this school year, Metropolitan State University manually packaged financial aid for approximately 1,500 students. The university failed to document the cost of attendance budget and the expected family contribution (EFC). These documents are used to determine each student's financial need. As a result, financial aid awards were packaged in excess of need and the cost of attendance budget. We determined that FFEL overpayments of \$14,312 were made to four students in the 1994-1995 school year.

Our tests of 1994-1995 financial aid transactions identified four students that were overpaid FFEL loans as described below:

- One student received additional vocational rehabilitation benefits. The university did not coordinate this aid when determining the FFEL subsidized Stafford loan award. As a result, this student received an additional \$892 in excess of financial need.
- Two graduate students received FFEL subsidized and unsubsidized Stafford loans for 1994-1995 of \$17,000 and \$16,000, respectively. Both students are only eligible for financial aid up to the cost of attendance budget in the amount of \$11,812. These two students were overpaid unsubsidized Stafford loans in excess of their cost of attendance budget of \$5,188 and \$4,188, respectively.
- One student became a graduate student at the start of winter quarter 1994-1995. The university used a six month cost of attendance budget for winter and spring and awarded the student additional subsidized Stafford loans. The student received total subsidized Stafford loans of \$12,544 during 1994-1995. However, federal regulations limit subsidized Stafford loans to graduate students to \$8,500 annually. The student already had received \$4,972 through fall quarter and was only eligible for an additional \$3,528 of subsidized Stafford loan eligibility. This student was overpaid subsidized Stafford loans in the amount of \$4,044 but could have been offered an unsubsidized Stafford loan of this amount. This allows the student to receive a greater interest subsidy from the federal government under the subsidized Stafford loan program that would be provided by the unsubsidized program.

Federal regulations indicate that FFEL overpayments need to be recovered while the student remains in school. However, since these students have left the university, the overpayment need not be recovered. No refund to the lender is required. Lenders will recover the excessive FFEL loans in additional repayments from the student. Current internal controls for 1995-1996 appear to be improved with the acquisition of a computer packaging program called SARA. This computer program will prevent a student from receiving financial aid in excess of financial need, provided all data is input correctly.

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Recommendation

- *Metropolitan State University should certify FFEL loans for the proper amount and within the respective subsidized and unsubsidized loan limits. Subsidized Stafford loans should not be awarded beyond a student's financial need and unsubsidized Stafford loans should not be awarded beyond a student's cost of attendance budget.*

13. Metropolitan State University paid financial aid to a student that did not meet satisfactory academic progress requirements.

Metropolitan State University does not effectively monitor students placed on academic probation. Students must make satisfactory academic progress under the institution's policy to maintain their eligibility for federal Title IV financial aid. The school continued to disburse financial aid to one student that failed to make satisfactory academic progress after the 1994-1995 school year and the student was placed on financial aid probation for one quarter. The student was given aid for fall quarter 1995-1996 but was required to successfully complete all credits during this quarter. However, the student did not satisfactorily complete all the courses and should not have been eligible for further financial aid in winter quarter 1995-1996. The university inappropriately disbursed a \$780 Pell grant, \$100 Supplemental Educational Opportunity Grant, and \$1,833 in Federal Family Education Loans (FFEL) for winter quarter.

We noted two problems which allowed students failing satisfactory academic progress requirements to continue to receive aid in subsequent quarters. First, the financial aid office does not use a specific programming code to prevent future financial aid payments when students are placed on probation. Probation codes are used in the student record system, but this does not prevent aid from being disbursed nor require additional review before a student can be processed for financial aid. Second, university departments do not post grades timely. This prevents timely measurements of satisfactory academic progress and allows students with low grades to continue to receive financial aid for the subsequent quarter.

Recommendations

- *Metropolitan State University should reimburse the federal Pell grant account \$780 and SEOG account \$100.*
- *Metropolitan State University should work with the U.S. Department of Education to resolve the \$1,833 Stafford overpayment.*
- *The university should improve monitoring of students on probation to determine eligibility for subsequent financial aid disbursements. This requires financial aid staff to utilize system program codes that prevent future disbursements and department faculty to post student grades timely.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

14. Metropolitan State University awarded Pell grants to three ineligible students.

Metropolitan State University did not comply with federal requirements when awarding Pell grants to incarcerated students. Section 204.11 of the federal Violent Crime Control and Law Enforcement Act of 1994 indicates students incarcerated in a federal or state penal institution are not eligible to receive a Pell grant for periods of enrollment beginning on or after September 13, 1994. The student's period of enrollment is defined as the first day of class, and thus, the student may be awarded a Pell grant for the entire academic year if classes started before the September 13, 1994, deadline. Three of nine incarcerated students receiving Pell grants totaling \$4,338 participated in Metropolitan State University classes, which began September 26, 1994. Since classes started after the September 13, 1994, deadline, these incarcerated students were ineligible for Pell grant funding. Six other incarcerated students started courses in summer and were eligible for Pell grants for the entire 1994-1995 school year.

Recommendation

- *Metropolitan State University should reimburse the Pell grant account \$4,338 for payments to three ineligible incarcerated students.*

15. Metropolitan State University awarded four students Pell grants in excess of the \$2,300 annual maximum.

Metropolitan State University did not comply with federal requirements when awarding Pell grants to four students. The four students received total Pell grants ranging from \$2,477 to \$2,558 in 1994-1995. Federal regulations limit the maximum annual Pell grant to \$2,300 and, as a result, the university was only reimbursed \$2,300 per student. The university has recorded the overpaid Pell grant amounts on the accounts receivable system and recovery from the students was pending as of March 1, 1996.

Recommendation

- *Metropolitan State University should not award Pell grants in excess of the \$2,300 annual maximum. The university should continue efforts to recover overpaid Pell grants from these students.*

16. Metropolitan State University disbursed financial aid prior to the drop/add deadline causing a need to recover funds from students who reduce enrollment below 12 credits.

Metropolitan State University prematurely disbursed financial aid to students. While federal regulations allow aid to be disbursed or credited to a student's account up to ten days prior to the first day of class, this creates additional administrative demands. The university must then recover financial aid funds from students that drop below 12 credits prior to the approved drop/add deadline. By disbursing aid early, the school increases the risk of not recovering financial aid overpayments from students. Students with overpayments are ineligible for future financial aid until the amounts are repaid.

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Financial aid is applied against institution costs prior to the start of the quarter. The school delivers financial aid loan checks to students one week prior to the start of the quarter. The school delivers grant aid to students on the first day of classes each quarter. If students drop classes during the drop/add period, the school has to determine if refunds are due to the federal programs.

One student tested for the 1994-95 school year dropped to half-time status during winter quarter. The school calculated a refund due to the Pell account of \$250.69 which is still an accounts receivable on the accounting system. The student never repaid the amount, which makes the student ineligible for further financial aid. However, the student did receive financial aid for subsequent spring quarter of \$717 for a Pell grant and \$1,167 for a Stafford loan.

Recommendations

- *Metropolitan State University should reimburse the Pell grant account by \$967.69 for one ineligible student that has not repaid the Pell grant overaward.*
- *Metropolitan State University should work with the U.S. Department of Education to resolve the \$1,167 Stafford overpayment.*
- *Metropolitan State University should consider disbursing financial aid after the drop/add deadline to reduce the risk of financial aid overpayments and minimize the administrative demands of recovering overpaid aid to students.*

17. Metropolitan State University has not reconciled its accounting records to the local bank account since June 1995.

As of February 16, 1996, the university business office had not reconciled the accounting system to the bank statement balances from July through December 1995. The university disbursed federal financial aid through this local bank account, as well as other general expense disbursements. To properly account for federal financial aid receipt and disbursement activities and to properly monitor federal cash balances, timely bank reconciliations are necessary. Without a timely reconciliation, accounting system or banking errors can occur and go undetected by the university.

Recommendation

- *Metropolitan State University business office should reconcile accounting records to the bank statement on a timely basis.*

18. Metropolitan State University did not comply with federal reporting requirements.

Metropolitan State University has encountered certain problems with federal reporting requirements. The federal Pell Institutional Payment Summary (IPS) report is not being submitted within the required reporting period. The university did not reconcile its Pell grant disbursements recorded on the accounting system to the amount authorized by the U.S. Department of Education. As a result, the university overawarded Pell grants to certain students and reported inaccurate Pell grant disbursements on the Fiscal Operations Report and Application (FISAP) submitted to the U.S. Department of Education.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Metropolitan State University submitted three of its six IPS reports late during 1994-1995. The university submitted these reports after the reporting period deadlines required by the U.S. Department of Education. So far in 1995-1996, one of three IPS reports was submitted after the required reporting period.

We found that the university did not reconcile its accounting system balances to the Pell grant disbursement amount authorized by the Department of Education. Differences between the two balances, totaling \$1,590, are the result of Pell overawards made by the university. The university has not identified which students received Pell overawards. As a result, it has been unable to establish receivables to recover these overawarded Pell grants. In addition, because it did not reconcile Pell grant disbursements to the amount authorized by the Department of Education, the university reported an incorrect amount of Pell grant disbursements on the FISAP. The amount reported on the FISAP was overstated by \$1,590, the amount of Pell overawards disallowed by the Department of Education. Similarly, Metropolitan State University incorrectly reported the federal work study state match on the FISAP. In that case, the person responsible for the FISAP preparation used an outdated report to calculate the state match causing it to be understated by a small amount on the FISAP.

Recommendations

- *Metropolitan State University should submit Institutional Payment Summary Reports during the U.S. Department of Education's required reporting periods.*
- *Metropolitan State University should reconcile the amount of Pell grant disbursements reported in the accounting records to the Pell grant amount authorized by the U.S. Department of Education. The reconciliation should be done in a timely manner, prior to the preparation of the FISAP. This will facilitate accurate balances when preparing the FISAP report.*

Bemidji State University

19. Bemidji State University does not contact Perkins borrowers three times during the nine month grace period.

Bemidji State University does not comply with federal requirements regarding the number of grace period contacts for Perkins loan borrowers. The university only contacts the student two of the three times required during the nine-month grace period. The university conducts exit interviews with Perkins loan borrowers upon graduation, withdrawal, or dropping below half-time. However, federal regulations require three contacts, in addition to the exit interview.

Recommendation

- *To be in compliance with current federal regulations, Bemidji State University needs to contact Perkins loan borrowers three times, in addition to the exit interview, during the nine month grace period.*

**Minnesota State Colleges and Universities
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Chapter 3. Community College System

Chapter Conclusions

We noted the following weaknesses in the community college system's internal control structure over federal student financial aid programs.

- *Several community colleges need to improve cash management procedures over federal funds to prevent having excess or deficient cash balances in federal accounts and to ensure adequate separation of duties and internal controls exist over the awarding, receipt, and disbursement of federal financial aid.*
- *Three community colleges need to improve access controls over the SAFE financial aid computer system to prevent unauthorized or unnecessary access to the system.*

We also noted compliance exceptions to the federal student financial aid regulations in that several community colleges overawarded financial aid to individual students from various financial aid programs.

We discuss these issues and other findings by individual campus in the following sections of our report.

Lakewood Community College

20. Lakewood Community College did not have adequate control over federal cash.

Lakewood Community College needs to improve controls and accountability for its federal financial aid funds. We found several weaknesses in the college's cash management practices:

- the college did not maintain adequate detail in its accounting records to track federal aid awards, cash receipts, disbursements, and transfers of funds;
- the college had not reconciled its change fund account since February 1995;
- the college did not adequately separate duties over the disbursement and accounting for federal funds; and
- the college retained \$313 of Federal Perkins Loan funds even though it has not participated in that program for over ten years.

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Lakewood Community College did not establish sufficient accounting records to adequately manage its federal cash and financial activities. The college issues financial aid to students through a change fund. This fund is separate from the main federal aid account into which the college deposits its federal receipts. The college reimburses the change fund from the main account when it receives federal funds. The college did not keep accounting journals or ledgers to monitor the cash balance in the change fund account. The business office made no journal entries to account for the reimbursements from the main federal account.

Similarly, the college did not adequately account for the financial activity in its main federal account. The college did not record sufficient information when it posted transactions to its journals. The college needs to record specific information such as transaction dates to provide a sufficient audit trail. The school also did not post activity to the accounting ledgers on a timely basis. During the audit period, the college posted transactions to its ledger on a monthly basis. More frequent postings would provide the college with current account balances which are necessary in determining the timing and amount of federal cash requests.

As of January 1996, Lakewood Community College had not reconciled its change fund account since February 1995. The college also had not reconciled the main federal account timely. Without timely and complete reconciliations, the college is at a greater risk of not detecting errors or irregularities that may occur.

There is also a lack of separation of duties in the financial aid process. One person is responsible for the distribution and authorization of checks, the accounting for transactions, and the reconciliation of the accounts. To prevent and detect errors and irregularities, the college should assign some key cash management duties to other individuals.

Finally, Lakewood Community College had not returned excess Federal Perkins Loan funds timely. As of January 1996, the college retained \$313 of Federal Perkins Loan funds in its federal aid account. However, the college has not participated in the Federal Perkins Loan program for over ten years. The school is responsible for returning unused federal funds to the U.S. Department of Education in a timely manner.

Recommendations

- *Lakewood Community College should maintain accounting records that provide sufficient detail to promote effective cash management and provide efficient and accurate reporting.*
- *Lakewood Community College should determine the current balance of the federal aid change account. The college should independently reconcile all accounts on a monthly basis.*
- *Lakewood Community College should reassign some of the responsibilities related to managing its federal accounts to ensure an adequate separation of duties.*
- *Lakewood Community College should return the \$313 of unused Federal Perkins funds to the U.S. Department of Education.*

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Normandale Community College

21. PRIOR FINDING NOT RESOLVED: Normandale Community College did not have adequate controls over federal cash.

Normandale Community College needs to improve controls over its federal financial aid receipts and ensure compliance with federal cash management regulations. We found several weaknesses in the college's management of federal cash. We previously reported each of the following issues to the college in an audit report dated August 1990:

- the college had not established adequate accounting records to track federal awards and cash receipts by individual programs;
- the college had not reconciled the federal student financial aid checking account since prior to July 1994; and
- the college had not limited federal cash to immediate needs.

The college had not established sufficient accounting records to track federal awards, cash receipts, disbursements, and cash balances on an individual program basis. Rather, the college deposited all federal funds into its Federally Supported Student Aid (FSSA) checking account and monitored federal receipts and disbursements in the account in total. Federal regulations require colleges to track institutional awards, obligations, unobligated balances, assets, expenditures, cash disbursements, and income on an individual program basis. Without sufficient program information, the college could not readily determine the amount, timing, and need for additional federal cash requests or provide the necessary support for federal reports. Instead, the college based federal cash requests on disbursements in prior quarters.

Another control weakness is that the college had not reconciled its federal student financial aid checking account to its accounting records since prior to July 1994. By not reconciling the bank statement each month, the college cannot find and correct errors on a timely basis. Furthermore, reconciliations ensure the accuracy of accounting records, which the college uses to determine cash available to meet future needs.

Lack of supporting accounting records and timely bank reconciliations resulted in Normandale Community College having excess cash in its federal student financial aid checking account. During the period October 10, 1995, through January 3, 1996, the college's federal aid checking account daily balances ranged from a low of \$73,198 to a high of \$136,230. Federal regulations require institutions to limit federal cash advances to actual, immediate needs. Federal regulations define excess cash as funds not disbursed within three days. The college also experienced negative balances in the federal checking account. This occurred most recently on January 10 - 12, 1996, when the bank recorded negative balances of \$104,864, \$298,150, and \$67,488, respectively. Negative balances indicate the need to improve the timeliness of requesting federal funds.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendations

- *Normandale Community College should maintain complete accounting records to track federal financial aid at the individual program level.*
- *Normandale Community College should immediately reconcile the federal student financial aid account. In the future, the college should reconcile the federal student financial aid account each month.*
- *Normandale Community College should manage its cash drawdowns to ensure that it limit requests for federal funds to immediate cash needs and avoids negative cash balances in its federal account.*

22. Normandale Community College had not properly managed its Federal Perkins Loan program.

Normandale Community College did not comply with certain provisions of the Federal Perkins Loan program. First, federal regulations require that institutions maintain Federal Perkins funds in an interest-bearing account. Normandale Community College maintains Federal Perkins funds, along with all of its other federal funds, in its federal student financial aid checking account. This account does not earn interest.

Second, federal regulations require that institutions participating in the Federal Perkins Loan program make a matching contribution with state funds. The state match should equal one-third of the federal contribution and should be deposited prior to or at the same time the college receives the federal share. The college failed to make the required state match of \$21,562 even though it reported that it had done so on its annual Federal Fiscal Operations Report and Application (FISAP) for fiscal year 1995. In addition, the college incorrectly calculated the amount of the required match. It calculated its Federal Perkins state match after deducting an amount transferred to another federal program. Federal regulations require the state match to be calculated using the total federal capital contribution. Therefore, the college understated the amount it reported as institutional match by \$5,390.

Third, the college used Federal Perkins Loan program funds to subsidize federal aid disbursements from other financial aid programs. Federal regulations prohibit the use of Federal Perkins Loan funds for other programs. The college used Federal Perkins Loan funds for unauthorized purposes.

Recommendations

- *Normandale Community College should determine the current balance of its Federal Perkins Loan program and transfer the balance to an interest-bearing account.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendations (Continued)

- *Normandale Community College should calculate and deposit its Federal Perkins institutional capital contribution in accordance with federal regulations and should revise its FISAP report for the period ending June 30, 1995, to account for the proper amount of institutional match. The college should ensure that all federal reports contain actual financial information.*
- *Normandale Community College should discontinue using Federal Perkins Loan funds for unauthorized purposes.*

23. Normandale Community College overpaid a student federal financial aid.

Normandale Community College overpaid a student \$2,090 in a Federal Unsubsidized Stafford Loan. The student received a loan of \$7,500. The overpayment occurred because the college did not deduct veteran's benefits from this student's cost of attendance budget when determining the amount of financial assistance to be provided. Federal regulations require veteran's benefits to be included as a financial resource in determining financial aid awards.

Recommendation

- *Normandale Community College should work with the U.S. Department of Education to remedy the Federal Unsubsidized Stafford Loan overaward of \$2,090.*

Arrowhead Community College Region

The Arrowhead Community College Region (ACCR) serves as the administrative oversight organization for community colleges located in the northeast part of the state. The colleges included in the region are Hibbing, Itasca, Vermilion, Mesabi, Rainy River, and Fond du Lac. Duluth was also included prior to the MnSCU merger.

Campus-Based Programs

For the administration of federal financial aid, the region received one award authorization for the campus-based programs (Federal SEOG, Federal Work-study, and Federal Perkins Loan) for all the campuses in the region. The financial aid officers from the Arrowhead colleges distributed these funds to the individual colleges based on original funding requests and the total authorized amount.

The regional office requested the campus-based funds from the federal government for each college within the Arrowhead region based on cash requests from the individual colleges. The colleges reported expenditures to the regional office, which combined this information for federal reporting purposes.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Federal Pell Grant Program

All Arrowhead schools except Fond du Lac Tribal and Community College and Hibbing Community College drew their own Federal Pell Grant funds and reported their own Federal Pell Grant expenditures. Fond du Lac Tribal and Community College and Hibbing Community College were combined for Federal Pell Grant drawing and reporting purposes. The regional office drew Federal Pell Grant funds for Fond du Lac and Hibbing based requests from each school. The region combined Federal Pell Grant expenditures for these two schools on the monthly federal reports.

Fond du Lac Tribal and Community College

24. Fond du Lac Tribal and Community College did not adequately safeguard all incoming Federal Family Education Loan checks.

The financial aid office periodically receives incoming loan checks directly from the lenders. The financial aid office is responsible for determining and documenting student loan eligibility. In addition, the financial aid director has had access to the safe in the business office.

To improve internal controls and prevent potential misuse of loan funds, the college needs to ensure that employees who are able to certify loans do not receive loan checks. This would ensure that there is a proper separation of duties between the awarding and disbursing of financial aid. In addition, the college should restrict financial aid office employees from having access to the safe in the business office where student loan checks are kept.

Recommendation

- *Fond du Lac Tribal and Community College should ensure that employees of the financial aid office do not have access to Federal Family Education Loan checks and do not have access to the business office safe.*

Hibbing Community College

25. Hibbing Community College did not maintain an adequate separation of duties over the processing of tuition receipts.

One person at Hibbing Community College is responsible for the daily deposit of tuition and fee receipts, including federal financial aid. The employee counts the days receipts, reconciles the receipts to the accounts receivable system, posts the receipts to accounting records, prepares the bank deposit, and reconciles the bank account at the end of the month. To prevent and detect errors and irregularities, the college should assign some key cash management duties to other individuals.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendation

- *Hibbing Community College should reassign some of the responsibilities related to the daily collection, processing, and reconciliation of tuition and fee receipts.*

Itasca Community College

26. Itasca Community College did not maintain an adequate separation of duties over federal receipts and disbursements.

Itasca Community College relies on one individual to write financial aid checks, maintain the general ledger, and reconcile the general ledger to the bank statements. This reconciliation verifies that the college authorized all federal financial aid payments and properly recorded all federal financial aid activity in the college's general ledger. Federal regulations require schools to have an adequate system of internal checks and balances over federal financial activities. To prevent and detect errors and irregularities, the college should assign some key cash management duties to other individuals.

Recommendation

- *Itasca Community College should reassign some of the responsibilities related to the federal student financial aid account to ensure an adequate separation of duties.*

27. Itasca Community College had not properly managed its Federal Perkins Loan funds.

Itasca Community College used its Federal Perkins Loan funds to subsidize the disbursement of federal aid from other financial aid programs. The college routinely borrowed Federal Perkins Loan funds for other federal programs. For example, in 10 of 11 days between November 7 and 22, 1994, the Federal Perkins Loan daily ledger balance exceeded the daily cash balance per the bank. The amount of the differences ranged from \$258 to \$7,226. Again, during March 27 - 30, 1995, the Federal Perkins daily ledger balance was \$25,027, while the cash balance per the bank was below \$20,246 which indicates the college used Federal Perkins funds for other programs. Federal regulations prohibit institutions from using Federal Perkins Loan proceeds for purposes other than the Federal Perkins Loan program.

Recommendation

- *Itasca Community College should discontinue using Federal Perkins Loan funds for unauthorized purposes.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Mesabi Community College

28. PRIOR FINDING NOT RESOLVED: Mesabi Community College did not make its Federal Perkins institutional capital contribution in compliance with federal timelines.

Mesabi Community College did not deposit the required Federal Perkins Loan institutional capital contribution according to federal guidelines in both fiscal years 1995 and 1996. Federal regulations require the college to deposit its institutional match into the Federal Perkins Loan account before or at the same time it deposits the federal capital contribution. For fiscal year 1995, the college drew the federal capital contribution in October and November 1994, but did not deposit the institutional match until March 1995. For fiscal year 1996, the college drew the federal capital contribution in September and November 1995, but did not deposit the institutional match until January 1996. The state match amounted to \$946 in each fiscal year.

Recommendation

- *Mesabi Community College should deposit the required Federal Perkins Loan institutional match in accordance with federal regulations.*

29. PRIOR FINDING NOT RESOLVED: Mesabi Community College did not adequately forecast its federal cash needs.

Mesabi Community College's procedures for estimating federal cash needs are inadequate. This resulted in excess cash and cash shortages during fiscal years 1995 and 1996. For example, the college received \$90,000 on December 12, 1994, the first day of disbursement for winter quarter. On December 19, 1994, the college was borrowing from the Federal Perkins Loan program. The college received \$65,000 in Federal Pell Grant funds on December 21, 1994. The balance in the federal checking account never went below \$14,000 until May 1995, nearly five months later. U.S. Treasury Circular 1075 requires institutions to limit federal cash advances to actual, immediate cash needs. Federal regulations define excess cash as funds not disbursed within three days of receipt. In addition, federal regulations prohibit institutions from using Federal Perkins funds for purposes other than Federal Perkins Loans and a program administrative cost allowance.

Recommendations

- *Mesabi Community College should develop cash forecasting procedures to provide sufficient, but not excessive, federal cash.*
- *Mesabi Community College should discontinue using Federal Perkins Loan funds for unauthorized purposes.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

30. Mesabi Community College had inadequate controls over the federal student financial aid account.

Mesabi Community College needs to improve controls over the federal student financial aid account in two areas. First, the college needs to provide a sufficient separation of duties over the accounting for federal student aid. One person is responsible for performing all significant duties relating to the federal account, including requesting federal funds, posting cash receipts, signing checks, disbursing funds, and reconciling the bank account. To prevent and detect errors and irregularities, the college should assign some key financial management duties to other individuals.

Second, the college did not perform the necessary reconciliations between the federal and local bank accounts, accounting records, and check registers. Currently, the college reconciles the federal bank account and the federal account check register. However, the college had not reconciled its local bank account since June 1995. The college disburses federal aid through the local bank account, and then subsequently reimburses the local account from the federal student financial aid account. The college did not reconcile its accounting records with the federal or local bank account, or the check register. Without regular and complete reconciliations, the college is unable to detect and correct errors in a timely manner.

Recommendations

- *Mesabi Community College should reassign some of the responsibilities related to the federal student financial aid account to ensure an adequate separation of duties.*
- *Mesabi Community College should perform complete reconciliations of its federal and local bank accounts with the federal aid accounting records and check registers on a regular basis.*

31. Mesabi Community College did not adequately safeguard incoming Federal Family Education Loan (FFEL) checks.

The financial aid office is responsible for determining and documenting student FFEL loan eligibility. The financial aid office also receives incoming loan checks directly from the lenders. To improve internal controls and prevent potential misuse of FFEL funds, the college needs to ensure that employees who are able to certify loans do not receive loan checks. Since it is not possible to adequately separate duties for receiving loan checks within the financial aid office, the college should have the business office directly receive and distribute all loan checks.

Recommendation

- *Mesabi Community College should ensure that employees of the financial aid office do not have access to Federal Family Education Loan checks.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Rainy River Community College

32. Rainy River Community College did not adequately manage its federal cash.

Rainy River Community College needs to improve its federal cash management procedures in three areas. First, the college did not have a sufficient method to determine the amount of federal cash to draw to meet its immediate cash needs. The college routinely borrows state and college auxiliary funds to supplement negative federal cash balances. Furthermore, the college did not reimburse the state or auxiliary accounts immediately upon receipt of the federal funds. By not requesting federal funds in a timely manner, the college loses both the use of its own funds and interest earnings on those funds.

In fiscal year 1995, the college only requested federal work-study funds four times during the year. The college processes federal work-study payroll every two weeks. The college used state and local funds totaling as much as \$35,600 to pay its work-study obligations prior to receiving federal funds. The college also borrowed an average of \$13,000 per day from college auxiliary funds between July 1, 1995, and December 31, 1995, to cover Federal Pell Grant and Federal SEOG obligations.

Second, the college has not resolved a negative cash balance in the SEOG program. The college apparently overspent its SEOG authorization by \$10,130 during fiscal year ending June 30, 1992. The college has continually carried forward the negative balance. The college should determine the appropriate program balance and make any necessary adjustments to its accounting records.

Third, the college did not efficiently account for its Federal Perkins Loan program funds. The college accounted for Federal Perkins Loan disbursements from two separate bank accounts. The college established a separate Federal Perkins bank account in fiscal year 1993. However, the college never transferred all of its Federal Perkins Loan funds from one bank account to the other. The college has not consistently used one account; instead, it has recorded transactions in both accounts. As a result, the college did not properly record its institutional capital contribution of \$2,056 for fiscal year 1994. Accounting for Federal Perkins loan activity in two accounts increases the risk of errors.

Recommendations

- *Rainy River Community College should draw federal funds more frequently so that the funds are sufficient to meet its immediate cash needs.*
- *Rainy River Community College should resolve the negative balance in its SEOG account and deposit additional funds into the account if necessary.*
- *Rainy River Community College should consolidate the Federal Perkins Loan funds and activities into one account.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

33. Rainy River Community College did not comply with Federal Perkins Loan institutional capital contribution guidelines.

Rainy River Community College did not deposit the required Federal Perkins Loan institutional capital contribution in both fiscal years 1995 and 1996. Federal regulations require the college to deposit an institutional match in the Federal Perkins Loan account before or at the same time it deposits the federal capital contribution. The college requested and received the 1995 and 1996 federal capital contributions in May 1995 and October 1995, respectively. However, as of January 1996, the college had not deposited the fiscal year 1995 or 1996 institutional capital contributions of \$4,099 for each fiscal year.

Recommendation

- *Rainy River Community College should deposit \$8,198 of institutional capital contributions into its Federal Perkins Loan account. The college should deposit future institutional contributions before or at the same time it receives federal capital contributions.*

34. Rainy River Community College did not adequately safeguard incoming Federal Family Education Loan (FFEL) checks.

Rainy River Community College did not adequately safeguard Federal Family Education Loan checks. The financial aid office is responsible for determining and documenting student FFEL eligibility. The financial aid office also receives incoming loan checks directly from the lenders. To improve internal controls and prevent potential misuse of FFEL funds, the college needs to ensure that employees who are able to certify loans do not receive loan checks. Since it is not possible to adequately separate duties within the financial aid office for receiving loan checks, the college should have the business office directly receive and distribute all loan checks.

Recommendation

- *Rainy River Community College should ensure that employees of the financial aid office do not have access to Federal Family Education Loan checks.*

Vermilion Community College

35. Vermilion Community College did not have adequate controls over federal cash.

Vermilion Community College (VCC) needs to improve controls and better forecast immediate cash needs for its federal financial aid funds. We found the following weaknesses in the college's cash management procedures:

- the college did not maintain adequate accounting records to track federal aid awards, cash receipts, disbursements, and account balances on an individual program basis;

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- the college maintained excess federal cash in the Federally Supported Student Aids (FSSA) checking account;
- the college did not request federal work-study funds in a timely manner; and
- the college lacks an adequate separation of duties over its Federal Perkins Loan program savings account.

Vermilion Community College needs to improve its managing of federal cash to maintain appropriate federal cash balances. The college did not maintain accounting records that summarize federal cash balances by program. Rather, the college deposited all federal funds into its Federally Supported Student Aid (FSSA) checking account and monitored federal receipts and disbursements in the account in total. Federal regulations require colleges to be able to track institutional awards, obligations, unobligated balances, assets, expenditures, cash disbursements, and income on an individual program basis. Without sufficient program information, the college cannot readily determine the amount, timing, and need for additional federal cash or provide the necessary support for federal reports.

We observed both excessive and negative federal cash balances in the student aid bank account. During September 1994, December 1994, and September 1995, the college had excess federal cash balances that ranged from \$13,000 to \$52,000. Federal regulations require institutions to limit federal cash advances to actual, immediate needs. Federal regulations define excess cash as funds not disbursed within three days.

In contrast, from October 1995 through December 1995, the college had routinely borrowed state and college auxiliary funds to supplement negative federal cash balances. The college retained \$15,000 of food service funds in the FSSA checking account to compensate for these negative balances. The college also did not request federal funds on a timely basis to reimburse the state for federal college work-study obligations. In ten of sixteen months, the college requested work-study funds only once per month. The college should request federal work-study funds every two weeks to coincide with work-study disbursements. By not requesting federal funds in a timely manner, the college lost the use of its own funds and any potential interest earnings.

We also noted that Vermilion Community College has an inadequate separation of duties over the accounting for the Federal Perkins Loan savings account. One person is responsible for posting transactions to the ledger, reconciling the bank statement to supporting records, and completing bank transfers. To prevent and detect errors and irregularities, the college should assign some of the key cash management duties to other individuals.

Recommendations

- *Vermilion Community College should maintain complete accounting records to track federal financial aid at the individual program level.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendations (Continued)

- *Vermilion Community College should limit its requests for federal funds to immediate cash needs and should improve its cash forecasting procedures to ensure that sufficient funds are available to meet expected disbursements.*
- *Vermilion Community College should reassign some of the responsibilities related to managing and accounting for the Federal Perkins Loan savings account to ensure that an adequate separation of duties exists.*

Inver Hills Community College

36. Inver Hills Community College needs to improve security access controls to the SAFE financial aid computer system.

Inver Hills Community College did not adequately control access to the SAFE financial aid computer system. Some business office employees at the college have SAFE security clearance that allows them to change data in SAFE, including scheduling awards and disbursements. A good system of internal control requires a separation of duties between the awarding and disbursing of financial aid. The financial aid office is primarily responsible for awarding aid, and the business office is in charge of disbursing aid. By allowing business office employees to have a high level of clearance in SAFE, there is an increased risk of undetected errors or irregularities.

Recommendation

- *Business office employees should have clearance in SAFE to make inquiries only.*

37. Inver Hills Community College overawarded a student \$547 in Unsubsidized Stafford Loans.

Inver Hills Community College overawarded a student \$547 in Unsubsidized Stafford Loans. The student received total financial aid for the year of \$8,892. The college made an adjustment to the cost of attendance budget to provide additional funds for a student with child care costs. Due to a transposition error in this adjustment, the student received an inaccurate cost of attendance budget which resulted in the award exceeding the cost of attendance by \$547.

Recommendation

- *Inver Hills Community College should work with the U.S. Department of Education to remedy the \$547 Federal Unsubsidized Stafford Loan overpayment.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

North Hennepin Community College

38. North Hennepin Community College did not provide sufficient access controls over the SAFE financial aid computer system.

Several employees at North Hennepin Community College, including student employees, had access to a user name and password that would allow them access to the SAFE financial aid computer system to award, schedule, and disburse financial aid. Employees and students with this user name and password could also establish security profiles on SAFE. The college should ensure the integrity of system access by requiring users to have individual log-in identification codes and passwords. The college should also establish parameters within SAFE so that it automatically requires users to change passwords at regularly scheduled intervals. The college and its employees should keep user names and passwords confidential. The college's financial aid director is responsible for establishing security clearance to the financial aid system.

Student workers also had access to their own financial aid files on SAFE. The college did not have procedures to review the access or update work of the student employees. We noted one student worker, with the responsibility to reconcile the federal work-study awards, accessed and made changes to the student's own file for the work-study program. This student worker also received a Perkins Loan overaward as discussed in finding number 20. We could not determine who was responsible for processing the overaward because financial aid office employees shared user IDs and passwords as discussed previously. (This student worker also benefited from professional judgment adjustments to the student's cost of attendance budget that we question in finding number 21.) If possible, the college should limit the ability to award, schedule, and disburse financial aid to permanent employees. If student workers are required to have this level of access, the college should establish additional review procedures to ensure the propriety of the work.

Recommendations

- *The financial aid director should establish individual user names and passwords for each employee. System access should be limited to only those functions necessary for employees to do their respective jobs. The college should not use generic user names and passwords, and users should not share passwords with others.*
- *The financial aid director should establish parameters within SAFE to require all users to periodically change their passwords.*
- *If student workers need system access to their own financial aid records, control procedures should be established to verify the propriety of that work.*

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

39. North Hennepin Community College overawarded a student \$1,500 in Federal Perkins Loans.

North Hennepin Community College exceeded the Federal Perkins annual loan limit for one undergraduate student. This student received a \$4,500 Federal Perkins Loan in 1994-95, which exceeded the annual loan limit by \$1,500. Federal regulations limit the annual Federal Perkins Loan to \$3,000 for undergraduate students.

Recommendation

- *North Hennepin Community College should reimburse the Federal Perkins Loan account \$1,500. The college should initiate procedures to collect the loan from the student.*

40. North Hennepin Community College made questionable adjustments to the cost of attendance budgets used to award financial aid to four students.

North Hennepin Community College made several questionable adjustments to the cost of attendance (COA) budgets used to award financial aid to four students. The college employed two of these students in the financial aid office. These adjustments follow:

- the college increased two students' COA budgets for estimated car expenses even though COA budgets include an amount for general transportation. The college did not confirm the estimates with actual expenses paid or repairs completed;
- the college increased one student's COA budget for attorney fees not related to education;
- the college increased one student's COA budget for minor medical expenses not related to education;
- the college increased one student's COA budget for unreasonable mileage; and
- the college increased two students' COA budgets for the gross amount of federal work-study wages rather than the net deductions from taxes and work-related expenses.

The net result of these adjustments is that the college paid aid to these four students that exceeded their initial cost of attendance by \$6,314, \$460, \$2,480, and \$716, respectively.

Federal regulations allow financial aid directors to use professional judgment to adjust COA budgets on a case-by-case basis. However, these adjustments must be related to education. In addition, federal regulations allow financial aid directors to adjust COA budgets for net deductions from federal work-study earnings as well as job-related expenses. We do not believe the college complied with the federal regulations for these adjustments. Furthermore, the college did not provide sufficient documentation for these adjustments.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendations

- *North Hennepin Community College should ensure that when it uses professional judgment to adjust cost of attendance budgets, all adjustments are directly related to an educational purpose and comply with the intent of the federal financial aid programs. In addition, the college should maintain complete and actual documentation to support any changes to standard attendance budgets.*
- *North Hennepin Community College should work with the U. S. Department of Education to remedy the \$9,970 in questionable payments.*

Rochester Community College

- 41. Rochester Community College provided five students with Federal Stafford Loans which exceeded the annual loan limits.**

Rochester Community College exceeded the annual loan limits for Federal Subsidized Stafford Loans paid to three students. The college certified loans to three students in the amount of \$3,834 each. Federal regulations provide that a second year student is eligible for \$3,500 in Federal Subsidized Stafford Loans during the 1994-95 academic year. Therefore, the college overpaid each student \$334.

Recommendation

- *Rochester Community College should work with the U. S. Department of Education to remedy all three of the \$334 Federal Subsidized Stafford Loan overpayments.*

- 42. Rochester Community College did not resolve conflicting information in one student's file.**

Rochester Community College did not resolve conflicting information in one student's file prior to disbursing financial aid. Federal regulations require institutions to verify information they have reason to believe may be false before disbursing aid. The college had received information about the student that questioned the legitimacy of the dependency deduction claimed by the student. The dependency deduction may have lowered the student's expected family contribution (EFC). A lower EFC would increase the student's need, resulting in additional financial aid eligibility. The college should have resolved the discrepancy and determined the correct information to use in determining financial aid eligibility before distributing aid.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendation

- *Rochester Community College should resolve conflicting information in student files, including the student in question, before disbursing financial aid in the future.*

Willmar Community College

43. Willmar Community College overpaid a student federal financial aid.

Willmar Community College overpaid a student \$258 in a Federal Unsubsidized Stafford Loan. The student received total financial aid of \$7,547. The college revised the student's income used in the initial awarding of financial aid. Based on the revised income, the college awarded and disbursed a larger Minnesota State Grant to the student. However, the college did not reduce the student's Federal Unsubsidized Stafford Loan, resulting in financial aid payments that exceeded the student's need.

Recommendation

- *Willmar Community College should work with the U.S. Department of Education to remedy the Federal Unsubsidized Stafford Loan overaward of \$258.*

Worthington Community College

44. Worthington Community College needs to improve security access controls to the SAFE financial aid computer system.

Worthington Community College did not adequately control access to the SAFE financial aid computer system. To maintain the integrity of the SAFE system, colleges should limit access to only those users with job responsibilities directly relate to the processing of financial aid. Some business office employees at the college have SAFE security clearance that allows them to change data in SAFE, including scheduling awards and disbursements. A good system of internal control requires a separation of duties between the awarding and disbursing of financial aid. The financial aid office is primarily responsible for awarding aid, and the business office is in charge of disbursing aid. By allowing business office employees to have a high level of clearance in SAFE, there is an increased risk of undetected errors or irregularities.

Another security weakness with the SAFE system is that the financial aid director at Worthington Community College did not assign work-study students their own SAFE user ID. Instead, the director logged into the system and then allowed the student workers to work on the system using the director's user ID and password. The financial aid director has the highest level of clearance allowable on SAFE. Allowing work-study students to have access to a high level of clearance

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

increases the risk that errors or irregularities may occur that could not be traced back to the individual who processed the transaction.

Recommendations

- *Worthington Community College should assign all users of the SAFE system their own individual user ID and password. The college should provide users with the minimal clearance necessary to perform their required job duties.*
- *Business office employees should have clearance in SAFE to make inquiries only.*

45. PRIOR FINDING NOT RESOLVED: Worthington Community College paid financial aid to two ineligible students.

In our 1994 financial aid audit report, we noted that Worthington Community College paid \$13,532 in financial aid to an ineligible student from Spring quarter 1994 through Winter quarter 1995. The student was not in compliance with the school's academic progress policy which allows students to receive financial aid for a maximum of 145 cumulative credits. The school's policy is based on federal regulations that 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. At the end of Winter quarter 1995, the student had attempted 185 credits. The college did not consider credits attempted at another institution under a consortium agreement when analyzing the student's academic progress for financial aid.

The student continued to attend Worthington Community College during Spring quarter 1995 and received additional financial aid of \$4,101. We question the total aid of \$17,633 paid to this student from Spring quarter 1994 through Spring quarter 1995. The total amount consisted of \$2,684 in Federal Pell Grants; \$1,002 in Minnesota Higher Educational Scholarship Grants; \$800 in Federal Supplemental Educational Opportunity Grants (FSEOG); \$1,430 in Federal Perkins Loans; \$6,125 in Federal Subsidized Stafford Loans; \$1,592 in Federal Unsubsidized Stafford Loans; and \$4,000 in Supplemental Loans to Students (SLS).

This year we found that the college paid financial aid to another student who was not making satisfactory academic progress. The college continued to disburse financial aid after the student exceeded the 145 cumulative credit limit. The student earned a total of 163 credits. The college disbursed the following aid after the student exceeded the 145 cumulative credits: \$412 in Federal Pell Grants; \$200 in Federal Supplemental Educational Opportunity Grant (FSEOG); \$60 in Minnesota Higher Educational Scholarship Grants; and \$1,166 in Federal Subsidized Stafford Loans.

Minnesota State Colleges and Universities Federal Student Financial Aid Programs

Recommendations

- *Worthington Community College should repay the overpayments of the Federal Pell, FSEOG, and Federal Perkins accounts and should work with the U.S. Department of Education to remedy the Federal Subsidized Stafford and SLS Loan overpayments. The college should also work with the Higher Education Services Office (HESO) to determine if the state grants must be repaid.*
- *Worthington Community College should include courses taken under consortium agreements when monitoring satisfactory academic progress.*

46. PRIOR FINDING NOT RESOLVED: Worthington Community College used inaccurate cost of attendance budgets for awarding financial aid, resulting in an overaward of \$417.

In our 1994 financial aid audit report, we reported that Worthington Community College used the wrong cost of attendance when certifying Federal Stafford Loans. Federal regulations require schools to use federal financial aid cost of attendance budgets when certifying Federal Stafford Loans. The college erroneously used the budget for the Minnesota Higher Education Scholarship Grant instead. The larger state budget provided a greater unmet need and the potential for higher federal financial aid. The result of using the higher state budget was that the college paid one student \$417 more than the student's need. The student had received total financial aid awards for the year of \$2,697.

Recommendation

- *Worthington Community College should work with the U.S. Department of Education to remedy the overpayment of \$417 in Federal Stafford Loans.*

**Minnesota State Colleges and Universities
Federal Student Financial Aid Programs**

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OFFICE OF THE PRESIDENT

5 June 1996

Mr. Thomas Donahue, CPA
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Donahue:

On 21 May 1996, you sent me a copy of the draft audit report section that summarizes the results of the systemwide federal financial aid audit for the year ended 30 June 1995, applicable to Mankato State University. You requested that I provide you with a formal written response to findings 1 through 4 as presented in the draft report. Mankato State University's responses to the audit findings and recommendations are enclosed.

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

If you have any questions regarding our response to the audit finding, please contact me or H. Dean Trauger at (507) 389-6622.

Sincerely yours,

Richard R. Rush
President

Enclosures

1. **Mankato State University awarded Perkins loans to one student in excess of the annual loan limit.**

Recommendation

Mankato State University should work with the U.S. Department of Education to resolve the \$1,500 overaward. Further federal financial assistance to the student should be discontinued until the overaward is resolved.

Response

We concur with the finding and the recommendation. One student was given a Perkins Loan that exceeded the \$3,000 annual limit. This error was a human error and was the only such case in the awarding of summer Perkins funds for FY95. Communication to the U.S. Department of Education will be made to resolve the overaward situation. Further federal financial assistance to the student will be discontinued as of this audit response until guidance from D.O.E. is received.

Person Responsible: Sandra Loerts, Director of Financial Aid
Communication to D.O.E. by July 1, 1996

2. **PRIOR FINDING NOT RESOLVED: Mankato State University continues to award federal financial aid to an ineligible student.**

Recommendation

Mankato State University should work with the U.S. Department of Education to resolve the ineligibility of this student for 1994-1995.

Response

This finding is correct. Unfortunately, the response to this finding last year indicated that we would resolve the issue no later than July 15, 1996 which resulted in no follow-up during the past year. A letter to the U.S. Department of Education regarding this issues has been drafted and will mailed immediately. We will handle this student's aid as soon as D.O.E. rules on the regulations change and the student's eligible loan limit.

Person Responsible: Sandra Loerts
Communication Date: July 15, 1996

3. **Mankato State University does not monitor access to its financial aid computer system.**

Recommendations

Mankato State University financial aid office should periodically request and review access reports identifying log-on IDs which have access to financial aid system screens.

Mankato State University should limit an employee or student worker's ability to access financial aid records to inquiry only. Exceptions should be based on the employee or student worker's specific job responsibilities for updating student records.

Response

We concur that stricter security should be put in place to better ensure confidentiality and data integrity. The recommendations as provided by the auditors will be pursued. A review of log-on IDs which may have access to the financial aid system screens will be requested at least once a year. In addition, all employees with access to the financial aid system screen will be reviewed to determine who needs both inquiry and update capabilities. All others will only have inquiry access.

Persons Responsible: Sandra Loerts/Gene Sellner
Completion Date: August 1, 1996

- 4. Mankato State University does not contact Perkins borrowers three times during the nine-month grace period.**

Recommendations

To be in compliance with current federal regulations, Mankato State University needs to contact Perkins loan borrowers three times, in addition to the exit interview, during the nine-month period.

Mankato State University should record grace period contact dates in the Perkins repayment system.

Response

We concur with the finding and the recommendations. Perkins Loan recipients at Mankato State University will now be contacted three times during their loan grace period. During a nine-month grace period notices will be sent at 90 days, 150 days, and 240 days. During a six-month grace period, notices will be sent at 90 days, 150 days, and 180 days. Grace period notice dates will also be coded in the recipient's history file.

Person Responsible: Garnet Cafourek, Bursar
Effective Date: July 1, 1996.



FINANCIAL AID OFFICE

DATE: June 5, 1996

TO: U.S. Department of Education
Office of Student Financial Assistance
Region V
401 South State Street
Room 700D, MS 05-4080
Chicago, IL 60605

FROM: Sandra K. Loerts
Financial Aid Director
Mankato State University

RE: Finding and Recommendation of Single Audit for Fiscal Year 1994

Attached is a copy of a finding that resulted from the Single Audit process of Fiscal 1994. It was recommended, as a result of this finding process, that the Department of Education be consulted for resolution to the stated Federal Family Education Loan (FFEL) program overaward for the one student in question.

The finding identifies, a student with exceptional costs and the amount of loans awarded for a summer term. It was our attempt to help meet this cost with loans that has created the situation in question. It was not our intention to circumvent a new ruling as stated in the audit report.

To begin with, professional judgment was used to allow additional expenses to the cost of education for this student. Through this process, the need for \$10,500 for the summer term was clearly documented. The loan amount was determined based on these exceptional cost and resultant financial need.

The questionable overaward is whether the student should have received loan funds for the Fall term following this Summer period. It was during this time period that regulations governing annual loan limits was in transition. If the 7-month progression regulation remained effective, the student would not have received FFEL funds for Fall Quarter (September through December) and the next period of eligibility would have started January of Winter Quarter 1995, i.e. end of 7 month progression. However, the change in FFEL annual loan limits from 7-month progression to scheduled academic year or borrowed-based year occurred at this awarding time. The interpretation of the regulation was not clearly defined. It was our understanding and our best intention for this student at the time that we awarded funds for the Fall Quarter of 1994 to use the scheduled academic year process. Thus, we awarded the student the loan funds as outlined in the attachment.



Mankato
STATE UNIVERSITY

FINANCIAL AID OFFICE

This student continues to be enrolled at our institution in the Aviation program, which has the exceptional education cost. He has a 2.9 GPA for the credits earned at Mankato State University and intends to graduate this Spring Quarter 1996. He has been counseled about his loan indebtedness. He has not exceeded the aggregate limits.

Because the summer loan was determined by the auditor to be an overaward, please advise as to what action should be taken to satisfy the recommendation of the Single Audit finding beyond this letter. I would like to propose that as long as the aggregate loan limits are not exceeded and that the student make satisfactory repayments upon graduation that he remain eligible for funding and that the institution not be liable for the overaward. I further want to restate that the overaward determination is being questioned, given the change in regulations at the time.

Thank you for your consideration of this. I will await your direction.

Enclosures

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ST. CLOUD STATE UNIVERSITY

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

Phone (612) 255-2122

June 6, 1996

Thomas Donahue, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Donahue:

The purpose of this letter is to respond to your findings related to the federal financial aid audit at St. Cloud State University for the year ending June 30, 1995.

Audit Finding #5 - St. Cloud State University does not completely separate awarding and disbursing or delivery responsibilities.

Recommendation:

- St. Cloud State University management should not allow financial aid staff access to incoming FFEL loan checks. Ideally, financial aid checks should be sent directly to the Business Office.
- The University should consider receiving Federal Family Education Loan proceeds by electronic funds transfer (EFT) to minimize lender check handling and allow loan funds to be applied against institution costs.
- The University should modify access to the financial aid system for Business Office staff to inquiry only.

Institutional Response: SCSU currently is in the process of implementing electronic funds transfer (EFT) for Federal Family Educational Loan Program proceeds. It is our goal to have the EFT in place prior to the beginning of fall quarter 1996. By implementing EFT, this will practically eliminate any financial aid staff involvement related to FFEL loan check activity.

Prior to July 1, 1996, the University will limit Business Office update capabilities to the financial aid system. The University Business Office will only have inquiry capabilities.

Audit Finding #6 - St. Cloud State University delays drawing federal financial aid funds until well after the aid is applied.

Recommendation: St. Cloud State University should draw down federal funds closer to the point aid is applied against institution tuition and fee costs. Once federal funds are received, the university should immediately transfer tuition moneys to the state treasury.

Institutional Response: Although SCSU is in compliance with the federal regulations regarding cash requests, we will make every effort to request federal funds and transfer the tuition to the state treasury on a more timely basis.

Audit Finding #7 - St. Cloud State University did not receive federal reimbursement of \$2,208 in Pell Grants.

Recommendation: St. Cloud State University should work with the U.S. Department of Education to increase its 1994-95 Pell authorization by \$2,208.

Institutional Response: The 1994-95 Pell Grant payment discrepancy has been resolved with the U.S. Department of Education. SCSU has received an increase in its authorization to accommodate the two Pell Grant awards.

Audit Finding #8 - St. Cloud State University student workers in the Financial Aid Office have the ability to clear edits.

Recommendation: The university should improve control over student worker access to the financial aid system edit screen by: 1) restricting student user IDs from ability to clear edits, OR 2) program the system to track user IDs clearing edits and developing a report which can track and monitor occurrences when edits have been cleared.

Institutional Response: St. Cloud State will improve our quality control measurements and eliminate the ability of students to clear verification edits. The current procedure will be modified prior to July 1, 1996.

If you have any questions regarding this letter or our responses to your recommendations, please feel free to contact me.

Sincerely,



Bruce F. Grube
President

BFG/sp

cc: Eugene Gilchrist
David Sprague
Diana Burlison
Frank Loncorich
Al Finlayson, MnSCU

June 11, 1996

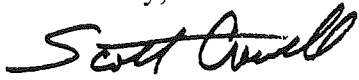
Tom Donahue
State Auditors Office
658 Cedar Street
Centennial Building
1st Floor, S. Wing
St. Paul, MN 55155

Dear Mr. Donahue:

Enclosed please find the original letter that is in response to the 1995 Legislative Audit. I apologize for the confusion, it will not happen in the future.

If you have any questions, please feel free to contact me at 507-537-6281.

Sincerely,



Scott Crowell, Director
Student Financial Aid

June 3, 1996

Mr. Alan Finlayson
MnSCU System Director for Internal Audit
Capitol Square Building Rm 300
550 Cedar St.
St. Paul, MN 55101

Dear Mr. Finlayson:

The following is Southwest State University's response to the draft Legislative Audit report on federal financial aid for the year ended June 30, 1995.

Item #9 "Southwest State University business office should reconcile accounting records to the bank statement on a timely basis."

--Response: Agree. We are in the process of beginning to reconcile the MnScu Accounting system to the bank statement.

Item #10 "The university should improve its separation of duties between the awarding and disbursing responsibilities by:

- separating duties for handling incoming and canceled FFEL checks from the authorizing of these loans; and
- consider receiving FFEL proceeds from lenders by electronic funds transfer."

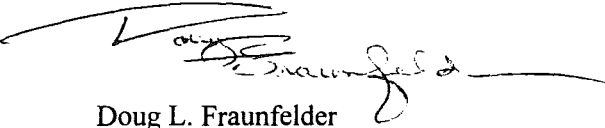
Response: Agree. We are preparing to make the changes needed to accept FFEL proceeds by electronic funds transfer, with planned implementation fall quarter, 1996. This should eliminate the need for handling incoming loan checks.

Item #11 "Southwest State University should limit a student worker's ability to access financial aid and business office system data to inquiry only. Exceptions should be based on the student worker's specific job responsibilities for updating student records".

Response: Agree. The financial aid and business offices will limit student workers' access to financial aid and business office system data to inquiry only.

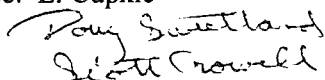
Thank you for the opportunity to respond.

Sincerely,



Doug L. Fraunfelder
Associate Vice President for Finance

cc: L. Cupkie



Metropolitan State University

700 E. Seventh St.
St. Paul, Minnesota 55106-5000
612/772-7777

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

June 5, 1996

Dear Mr. Donahue:

Enclosed are the Metropolitan State University responses to recommendations 12 through 18 of the Federal Financial Aid Programs Audit.

Thank you for the assistance of your staff in improving the administration of these programs.

Sincerely,



W. Gordon Scott
Vice President of Administration and Finance



METROPOLITAN STATE UNIVERSITY
FEDERAL FINANCIAL AID PROGRAMS AUDIT
FISCAL YEAR ENDING JUNE 30, 1995

12. Recommendation: Metropolitan State University should certify FFEL loans for the proper amount and within the respective subsidized and unsubsidized loan limits. Subsidized Stafford loans should not be awarded beyond a student's financial need and unsubsidized Stafford loans should not be awarded beyond a student's cost of attendance budget.

Response: Metropolitan State University will certify FFEL loans for the proper amount and within the respective subsidized and unsubsidized loan limits. The responsible person to address this finding is the Director of the Financial Aids Office.

13. Recommendations: Metropolitan State University should reimburse the federal Pell grant account \$780 and SEOG account \$100. Metropolitan State University should work with the U.S. Department of Education to resolve the \$1,833 Stafford overpayments. The university should improve monitoring of students on probation to determine eligibility for subsequent financial aid disbursements. This requires financial aid staff to utilize system program codes that prevent future disbursements and department faculty to post student grades timely.

Response: Metropolitan State University will reimburse the federal Pell grant account and the SEOG account \$780 and \$100 respectively, and will contact the U.S. Department of Education to resolve any Stafford overpayments. The university will make every effort to improve monitoring of students on probation by the use of specific system program codes which will prevent future disbursements. Further, appropriate academic administrators will work closely with their faculty to ensure student grades are posted in a timely manner. The Director of the Financial Aids office will work the Grants and Contracts Accountant in the Business Office to ensure that the federal programs are reimbursed. The Vice President for Academic Affairs will work through the academic Deans to address faculty's timely submissions of grades.

14. Recommendation: Metropolitan State University should reimburse the Pell grant account \$4,338 for payments to three ineligible incarcerated students.

Response: Metropolitan State University will reimburse \$4,338 to the federal Pell account for the ineligible incarcerated students. The Director of Financial Aids will work with the Grants and Contracts Accountant to accomplish this task.

15. Recommendation: Metropolitan State University should not award Pell grants in excess of the \$2,300 annual maximum. The university should continue efforts to recover overpaid Pell grants from the students.

Response: Metropolitan State University will make every effort to ensure that awards will be made within Pell limits. A new software program is currently being used that will not permit overaward. The Director of Financial Aids will monitor this process. The Cashiers Office will continue efforts to collect the overawarded amounts from students.

16. Recommendations: Metropolitan State University should reimburse the Pell grant account by \$967.69 for one ineligible student that has not repaid the Pell grant overaward. Metropolitan State University should work with the U.S. Department of Education to resolve the \$1,167 Stafford overpayment. Metropolitan State University should consider disbursing financial aid after the drop/add deadline to reduce the risk of financial aid overpayments and minimize the administrative demands of recovering overpaid aid to students.

Response: Metropolitan State University will reimburse the federal Pell grant account \$967.69 for the ineligible student and contact the U.S. Department of Education to resolve the \$1,167 Stafford overpayment. The Director of Financial Aids will work with the Grants and Contracts Accountant to accomplish this task. Effective summer term 1996-97, Metropolitan State University will apply financial aid against student's charges three days subsequent to the beginning date of the term and will disburse aid, grants and loans, after the fifth day of the term. This combined effort to verify aid and registration by the Financial Aids staff and the Business Office staff will diminish financial aid overpayments.

17. Metropolitan State University Business Office should reconcile accounting records to the bank statement on a timely basis.

Response: Metropolitan State University Reconciliation Accountant, along with the Business Manager, will bring up to date and reconcile the local bank account in which the federal financial aid funds are held by July 15, 1996. Thereafter, the reconciliation will take place on a monthly basis.

18. Metropolitan State University should submit Institutional Payment Summary Reports during the U.S. Department of Education's required reporting periods. Metropolitan State University should reconcile the amount of Pell grant disbursements reported in the accounting records to the Pell grant amount authorized by the U. S. Department of Education. The reconciliation should be done in a timely manner, prior to the preparation of the FISAP. This will facilitate accurate balances when preparing the FISAP report.

Response: The Metropolitan State University Financial Aids Office staff, under the direction of the Director of Financial Aids, will ensure that Institutional Payment Summaries are transmitted to the U.S. Department of Education once every sixty days and will provide the Grants and Contracts Accountant with a file copy of that report. The Assistant Director of Financial Aids will work in conjunction with the Grants and Contracts Accountant to ensure Metropolitan State University accounting and the financial aid system match and an accurate federal IPS report is produced.

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BEMIDJI STATE UNIVERSITY

1500 BIRCHMONT DRIVE NE • BEMIDJI, MINNESOTA 56601 • 218-755-2743 • FAX: 218-755-3986

June 7, 1996

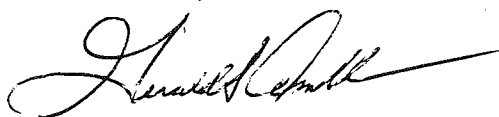
Thomas Donahue, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Bldg., 658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Donahue:

Thank you for your letter of May 21, 1995 summarizing the results of your offices' financial aid audit for fiscal year ending June 30, 1995. System audit finding number 19 states that Bemidji State University needs to contact Perkins loan borrowers three times, in addition to the exit interview, during the nine month grace period. I have since met with our loan collection staff and computer programmer for that area. We indeed do only contact the borrower twice, in addition to the exit interview at the current time but will implement a program change immediately and will be in place by July 1, 1996. I will personally be responsible for resolution.

I would like to thank you and your field team for their assistance and professionalism when visiting our campus. Please call me if more information is needed.

Sincerely,



Gerald S. Amble
Business Manager

cc: Dr. James Bensen, President
Mr. Thomas A. Faecke, Vice-President for Administrative Affairs
Mrs. Idella Hayes, Perkins Loan Collections Officer
Mr. Russell Hansen, Assistant Director of Computer Services

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Lakewood Community College

Partners in Higher Education

Northeast Metro Technical College

June 3, 1996

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

Dear Mr. Nobles:

Listed below are Lakewood Community College's responses to recommendations made as a result of our FY 1995 financial aid audit.

To strengthen the federal cash management, the College will maintain current ledgers in the change fund to monitor the cash reimbursement from the main federal aid account. Ledgers will be maintained to monitor the change fund checks to the students, the reimbursement from the main federal account, and a daily cash balance.

Entries made to the main federal aid account will be completed daily. Reconciliation of the accounts with the bank statement will be done on a monthly basis and within ten business days of receiving the bank statement.

To create a separation of duties within the business office related to the financial aid process, the business office manager (with the assistance of the cashiers) will oversee the issuance of financial aid checks. Another staff member will post to the financial aid account ledgers, reconcile the bank statements, and balance the cash.

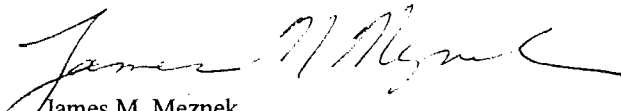
The \$313 balance in the unused Perkins Loan fund will be returned to the federal government.

The Lakewood Community College and Northeast Metro Technical College business offices have been merged and duties of the staff have been reorganized. The financial aid account has been assigned as the primary responsibility of one of the accounting staff members. Marie Peterson will be responsible for the accounting records and cash reconciliation of the financial aid account. Records will be posted daily and reconciliation completed in a timely manner.

GayAnn Louiselle, Marie Peterson, and Larry Miller will be responsible for the resolution and implementation of the audit recommendations by August 31, 1996.

With best regards, I am

Very truly yours,


James M. Meznick
President

779-3342
3401 Century Avenue
White Bear Lake, MN 55110

dkr

55

Consolidating to Create
Century Community and Technical College

Equal Opportunity Institutions. Members, Minnesota State Colleges and Universities.

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June 4, 1996

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

Dear Mr. Nobles;

I am writing in response to the Legislative Audit for the year ending June 30, 1995, Finding No. 21, 22 and 23.

Finding No. 21 indicates that Normandale Community College did not have adequate controls over federal cash. The first recommendation states that Normandale Community College should maintain complete accounting records to track federal financial aid at the individual program level. Normandale Community College will summarize accounting detail records at the individual program level daily. The individual responsible for resolution and implementation is Dave Piechowski, Director of Fiscal Services.

The second recommendation states that Normandale Community College should immediately reconcile the federal student aid account. In the future, the college should reconcile the federal student financial aid account each month. Normandale's federal student financial aid account reconciliations are underway and will be current by September, 1996. The individual responsible for resolution and implementation is Dave Piechowski, Director of Fiscal Services.

The third recommendation states that Normandale Community College should manage its cash drawdowns to ensure that it limit requests for federal funds to immediate cash needs and avoids negative cash balances in its federal account. The daily cash needs are always difficult to predict three days in advance and the federal government shutdown during the period identified also contributed to the produced negative balances. Normandale Community College will continue to closely monitor and improve estimates of cash need. The individual responsible for resolution is Dave Piechowski, Director of Fiscal Services.

Finding No. 22 indicates that Normandale Community College had not properly managed its Federal Perkins Loan program. The first recommendation states the Normandale Community College should determine the current balance of its Federal Perkins Loan program and transfer the balance to an interest-bearing account. Normandale Community College will transfer Federal

Perkins Loan funds to an interest bearing account by June 15, 1996. The individual responsible for resolution and implementation is Dave Piechowski, Director of Fiscal Services.

The second recommendation states that Normandale Community College should calculate and deposit its Federal Perkins institutional capital contribution in accordance with federal regulations and should revise its FISAP report for the period ending June 30, 1995, to account for the proper amount of institutional match. The college should ensure that all federal reports contain actual financial information. Normandale Community College has made the required deposit of Perkins institutional capital contribution eliminating the need for the FISAP to be revised.

Normandale Community College does not agree with the portion of this finding that indicates we incorrectly calculated the institutional capital contribution. The finding indicates that "Federal regulations require the state match to be calculated using the total federal capital contribution". Federal regulation 34 CFR Sec. 674.8(a) states that "The institution shall establish and maintain a Fund and shall deposit in to the Fund ICC equal to at least one-third of the FCC described in paragraph (a)(1) of this section in award year 1994-95 and succeeding years;". After consulting with Sylvia Ross, Policy Department, U.S. Department of Education in Washington, DC, she has confirmed that the institutional capital contribution is calculated after transfer of the federal capital contribution to other federal programs not before as indicated in Finding No. 22. Normandale Community College will therefore not recalculate the institutional capital contribution.

The third recommendation states the Normandale Community College should discontinue using Federal Perkins Loan funds for unauthorized purposes. Normandale Community College will transfer Perkins Loan Program funds to an interest bearing account by June 15, 1996 to assure funds are not used for unauthorized purposes. The individual responsible for resolution and implementation is Dave Piechowski, Director of Fiscal Services.

Finding No. 23 states that Normandale Community College overpaid a student federal financial aid. The recommendation indicates that we should work with the U.S. Department of Education to remedy the Federal Unsubsidized Stafford Loan overaward of \$2090. Normandale Community College is currently working with the U.S. Department of Education to resolve the overaward. This should be completed by September, 1996. The individual responsible for resolution is Catherine Breuer, Financial Aid Director.

If there is any other information required, please contact myself, Dave Piechowski or Catherine Breuer.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas J. Horak".

Thomas J. Horak
President



Fond du Lac Tribal & Community College

May 24, 1996

2101 Fourteenth Street • Cloquet, MN 55720
(218) 879-0800 • (218) 879-0821 (V/TDD) • FAX (218) 879-0814

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Bldg, 658 Cedar St
St. Paul, MN 55155

Dear Mr. Nobles:

We are in receipt of your draft report summarizing the results of the federal student financial aid audit for the year ended June 30, 1995. In regards to Fond du Lac Tribal and Community College, it was determined that the college did not adequately safeguard all incoming federal family education loan checks. This was discussed at the exit interview conducted by Mr. Mike Hassing and Ms. Laura Petersen along with FDLTCC staff on February 8, 1996. All procedures were reviewed and a new process for handling the loan checks was implemented immediately after that meeting.

All loan checks now are routed directly to the business office and stored in the safe. Photo copies are given to the financial aid office for certification purposes. Once that is complete, a list is prepared and given to the business office to notify staff that those checks are ready for disbursement. Only business office staff have access to the safe.

We believe this has successfully met your concerns and appears to be working well between the offices involved. If you have further questions or comments, please do not hesitate to call me at 879-0804. Thank you.

Sincerely,

Lester Jack Briggs, President
FDLTCC

cc: Larry Anderson, Student Services Director
Stephanie Hammitt, Director of Fiscal Operations

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June 3, 1996

To: James R. Noble
Legislative Auditor

From: Anthony Kuznik
President, Hibbing Community College

The following is Hibbing Community College's response to item #25 of the Minnesota State Colleges and Universities Federal Student Financial Aid Audit for Fiscal year 1995. Hibbing Community College Accounting Technician shall reconcile receipts to the accounts receivable system, post the receipts to the accounting records, and reconcile the bank account at month end. Hibbing Community College Clerk II (Business Office) shall count cash and checks at end of each day, balance amount to accounts receivable report, and prepare daily bank deposits. The Director of Fiscal Services shall review and sign off on all All-College bank reconciliations. He also will perform the duties of each individual above in their absence.

The above action has been initiated effective 5/31/96.

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May 29, 1996

James R. Noble
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St Paul MN 55155

Dear Mr. Nobles:

Office of the
Executive
Dean

Please consider this letter a formal written response to your office's audit of federal student financial aid at Itasca Community College for the year ending June 30, 1995. My response is organized around the two (2) areas outlined in the letter from Jim Riebe, Audit Manager, dated May 21, 1996.

FINDING 26

Itasca Community College did not maintain an adequate separation of duties over federal receipts and disbursements.

Itasca Community College will assign one of the key cash management duties to an individual independent of the business office. To prevent and detect errors and irregularities, that person will reconcile the general ledger to the bank statement. Implementation will be immediate and Bill Maki, the business officer, will be responsible for its implementation.

FINDING 27

Itasca Community College had not properly managed its Federal Perkins Loan funds.

Itasca Community College will draw cash for immediate needs and no longer rely on Perkins Loan funds to subsidize the disbursement of federal aid from other financial aid programs. We will immediately discontinue using Federal Perkins Loan proceeds for other purposes. Bill Maki, business officer, will be responsible for the implementation.

Please feel free to contact me if you have questions or need additional information.

Sincerely,

James W. Clarke, Ph.D.
Executive Dean

1851
East Highway 169
and Rapids, Minnesota
55744

Tel:
218-327-4204
or 1-800-9966-ICC
Fax:
218-327-4297
V/TTY:
218-327-4166
e-mail:
larke@it.cc.mn.us

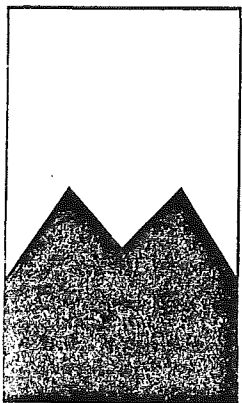


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MESABI

COMMUNITY May 30, 1996

COLLEGE



Mr. Jim Riebe, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, Mn 55155

Dear Mr. Riebe:

This letter is a formal response to the audit findings included in your letter of May 21, 1996 for Mesabi Community College. The findings were a result of your federal financial aid audit for the year ended June 30, 1995.

FINDING 28: Mesabi Community College did not make its Federal Perkins institutional capital contribution in compliance with federal timelines.

Response:

Mesabi Community College will deposit the required Federal Perkins loan institutional match in accordance with federal regulations beginning with fiscal year 1997.

Person Responsible: D. Marlene Johnson

Date of Implementation: Fiscal Year 1997

FINDING 29: Mesabi Community College did not adequately forecast its federal cash needs.

Response:

Mesabi Community College Business Office Staff are attempting to forecast there needs to meet the Federal regulations of not having funds that are not disbursed within three days of receipt. Smaller request of funds are being made to attempt to meet these requirements. Mesabi Community College has not been using Federal Perkins Loan funds for unauthorized purposes since the beginning of fiscal year 1996.

Person Responsible: D. Marlene Johnson and Tony Bartovich

Date of Implementation: Immediately

EL. 218/749-7700

DD: 218/749-7783

'800/657-3860

FINDING 30: Mesabi Community College had inadequate controls over the federal student financial aid account.

Response:

Mesabi Community College will separate duties so that one employee is not responsible for the performing of all significant duties relating to the federal account. The accounting technician will be responsible for requesting federal funds and reconciling bank statements. The Business Office clerk-typist III or student workers will be responsible for disbursing funds, and the Director of Fiscal Operations will be responsible for signing checks, and reviewing monthly bank reconciliations.

Mesabi Community college has completed all necessary reconciliations between federal and local bank accounts, accounting records, and check registers to the current date, and will continue to do all reconciliations on a monthly basis.

Person Responsible: Tony Bartovich

Date of Implementation: April 1996

FINDING 31: Mesabi Community College did not adequately safeguard incoming Federal Family Education Loan (FFEL) checks.

Response:

As of March 1, 1996, Mesabi Community College has Federal Family Education Loan checks sent directly to the Business Office. The Business Office staff verifies the receipt of the checks on the Financial Aid Office Roster and then provides a copy of the verified log to the Financial Aid Office. The Financial Aid Office will then schedule these checks for disbursement through the SAFE system in CIS.

Person responsible: Tony Bartovich

Implementation of Recommendation: March 1, 1996

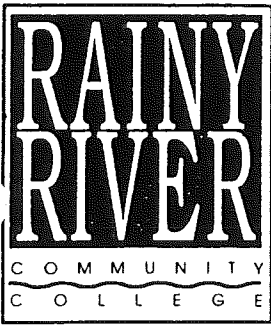
If you have any questions about these responses, please direct them to Tony Bartovich, (218)-749-7754.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Harris", with a large, stylized initial "J" and "H".

Jon Harris
President



1501 Highway 71
International Falls,
Minnesota 56649

Tel: (218) 285-7722

Fax: (218) 285-2239

TDD: (218) 285-2261

May 31, 1996

State of Minnesota
Office of the Legislative Auditor
Jim Riebe, CPA
Centennial Building
668 Cedar Street
St. Paul, MN 55155

Dear Mr. Riebe:

We have received and reviewed your letter of May 21, 1996. Our response to the findings and recommendations are as follows:

1. **RAINY RIVER COMMUNITY COLLEGE SHOULD DRAW FEDERAL FUNDS MORE FREQUENTLY SO THAT THE FUNDS ARE SUFFICIENT TO MEET ITS IMMEDIATE CASH NEEDS.**

Rainy River Community College went through a transition period in its business office during the scope of this audit. We now draw funds regularly to maintain sufficient funds to meet our cash needs.

Brenda Nicholson, Director of Fiscal Services, is now responsible for Federal cash management.

2. **RAINY RIVER COMMUNITY COLLEGE SHOULD RESOLVE THE NEGATIVE BALANCE IN ITS SEOG ACCOUNT AND DEPOSIT ADDITIONAL FUNDS INTO THE ACCOUNT IF NECESSARY.**

We will make the necessary adjustments on the 1997 FISAP which will be filed in July 1996.

Brenda Nicholson, Director of Fiscal Services, is responsible for resolution.

3. RAINY RIVER COMMUNITY COLLEGE SHOULD CONSOLIDATE THE FEDERAL PERKINS LOAN FUNDS AND ACTIVITIES INTO ONE ACCOUNT.

All Perkins funds will be in one account by July 1, 1996.

Brenda Nicholson, Director of Fiscal Services, is responsible for resolution.

4. RAINY RIVER COMMUNITY COLLEGE SHOULD DEPOSIT \$8,198 OF INSTITUTIONAL CAPITAL CONTRIBUTIONS INTO ITS FEDERAL PERKINS LOAN ACCOUNT. THE COLLEGE SHOULD DEPOSIT FUTURE INSTITUTIONAL CONTRIBUTIONS BEFORE OR AT THE SAME TIME IT RECEIVES FEDERAL CAPITAL CONTRIBUTIONS.

On February 9, 1996, we deposited \$8,197.34 into our Federal Perkins Loan account. In the future we will make our institutional contributions at the same time we receive federal capital contributions.

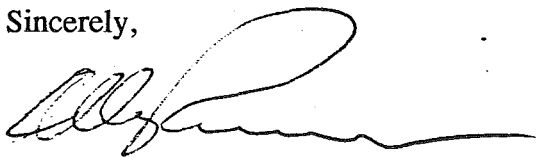
Brenda Nicholson, Director of Fiscal Services, was responsible for resolution.

5. RAINY RIVER COMMUNITY COLLEGE SHOULD ENSURE THAT EMPLOYEES OF THE FINANCIAL AID OFFICE DO NOT HAVE ACCESS TO FEDERAL FAMILY EDUCATION LOAN CHECKS.

The financial aid office will no longer receive nor open envelopes containing federal student loan checks. These envelopes will be removed and a copy of the check disbursement register will be given to the financial aid office. This process will ensure that employees of the financial aid office will not have access to FFEL checks.

Scott Riley, Financial Aid Director, is responsible for resolution effective March 1996.

Sincerely,



Allen Rasmussen
President

cc: Scott Riley, Financial Aid Director, RRCC
Brenda Nicholson, Director of Fiscal Services, RRCC,
Bill Maki, Director of Administrative Services, ACCR
Dr. Judith Eaton, Chancellor

May 31, 1996

James R. Nobles, Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Response to Legislative Auditor's draft report dated 5/21/96.

Vermilion Community College agrees with the findings of the legislative auditors. The projected date for implementation of all of the recommendations of the legislative auditors is the start of Fiscal Year 1997. Many of the areas of weakness have already been improved. The person responsible for resolving all of the issues noted on the audit is Ross Petersen, the director of Fiscal Services.

Vermilion Community College would like to have it noted that the three day excess cash requirement is too restrictive. Excessive staff time is wasted monitoring cash balances and juggling funds and the federal requirements are still impossible to meet. I believe that all of the legislative auditors in the field concur with this assessment. If the Legislative auditor could help convey this to the U.S. Dept. of Education it would be appreciated.

Sincerely,



Ross T. Petersen
Director of Fiscal Services

cc: Jon Harris
Sandy Olin
Rose Shober
Bev Lobe
Doug Furnstahl

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INVER HILLS Community College

2500 80th Street East • Inver Grove Heights, MN 55076-3224

Mr. James R. Noble
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Noble,

The audit exceptions (items 36 and 37) from the Legislative Audit are listed below along with Inver Hills Community College responses to the items. John M. Pogue, Director, Office of Financial Aid is responsible to see that the responses are immediately implemented.

Finding 36

Inver Hills Community College needs to improve the security access to the SAFE financial aid computer system.

Response

The Office of Financial Aid has changed the security clearances of the two Business Office personnel that had access to SAFE. It should be noted that there were no instances of errors or irregularities as a result of these personnel having access. Inver Hills Community College does agree that access to SAFE should be from the personnel of the Office of Financial Aid only.

Finding 37

Inver Hills Community College transposed two numbers in an adjustment in a cost of attendance budget that resulted in an overaward of \$547 in an Unsubsidized Stafford Loan.

Response

Inver Hills Community College concurs that it did indeed transpose two numbers that resulted in the overaward. The Office of Financial Aid will contact the student and the Department of Education to remedy the loan overpayment by June 15, 1996.

If my staff or I can be of further assistance, please contact me.

Sincerely,



Dr. Steven Wallace
President

5-31-96

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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 4, 1996

James R. Nobles, Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The following is our response to your audit:

FINDING: North Hennepin Community College did not provide sufficient access control over the SAFE financial aid computer system.

RESPONSE: The College concurs with the need to improve internal controls over the use of the SAFE system. In order to remedy this situation, Dennis Stukenborg is being assigned the task of outlining specific steps that will be implemented and working with the Legislative Auditors Office in reviewing adequacy of planned steps.

FINDING: North Hennepin Community College overawarded a student \$1,500 in Federal Perkins Loans.

RESPONSE: The College concurs with the finding and recommendation. Dennis Stukenborg is assigned to implement the recommendation.

FINDING: North Hennepin Community College made questionable adjustments to the cost of attendance budgets used to award financial aid to students.

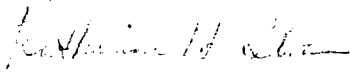
RESPONSE: As indicated and as discussed in the exit conference, the central issue seems to be the use of professional judgment. While we understand the latitude intended with the concept of professional judgment, we are concerned with the questions raised by the audit. The college concurs with the need to review this with the appropriate officials to confirm that we are operating within the broad parameters intended by the Department of Education. In order to resolve this situation, Dennis Stukenborg is being assigned to work with the Department of Education in resolving the \$9,970 in questionable payments and working with the Department of Education in resolving the larger question of the appropriate

June 4, 1996
page 2
Leg. Aud.

use of professional judgment. Once we have obtained clarification from the Department of Education regarding appropriate use of professional judgment, Dennis will also be responsible for developing internal control mechanisms to ensure compliance.

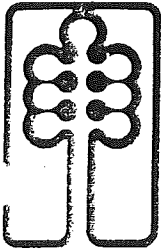
Thank you and if there are any questions please contact me at 424-0812 or Rick Ellefson at 424-0817.

Sincerely,

A handwritten signature in cursive script, appearing to read "Katherine H. Sloan".

Katherine H. Sloan
President

cc: Dr. Yvette Jackson
Dennis Stukenborg
Rick Ellefson



ROCHESTER
COMMUNITY
COLLEGE

June 6, 1996

James R. Nobles, Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is being sent in response to the findings of the federal student financial aid audit for the year ending June 30, 1995, relative to Rochester Community College.

FINDING # 41: Rochester Community College provided five students with Federal Stafford Loans which exceeded the annual loan limits.

All five of the students who received excess loans were enrolled in programs which are offered in conjunction with the Mayo School of Health Related Sciences, and include a required fourth quarter of attendance. Each was paid for one full year of loan eligibility, as well as for the following summer. As of July 1, 1995, we receive lists of students enrolled in each of these programs. A Financial Aid Loan Specialist checks the previous years' records for each of these students to assure that, unless they have remaining eligibility, their aid is taken from the following year. Financial Aid Director Arlouene Olson oversees this function, and will make every attempt to assure that aid is distributed according to federal guidelines.

FINDING # 42: Rochester Community College did not resolve conflicting information in one student's file.


The student in question was sent a letter from Financial Aid Director Arlouene Olson on February 9, 1996, asking for proof of parentage of the children for which he claimed dependency. On February 14, 1996, a signed response was received from him, along with copies of birth certificates for the children in question. These were placed in his permanent financial aid file.

If you have further questions about either of these findings, please call me at (507)285-7216. If you prefer to speak with Miss Olson directly, her number is (507)285-7267.

Sincerely,

Dr. Karen E. Nagle
President

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WILLMAR COMMUNITY COLLEGE

May, 31, 1996

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

Dear Mr. Nobles:

I am writing in response to the draft report that summarizes the results of your Federal Student Aid Audit for the year ending June 30th, 1995, that are applicable to Willmar Community College.

Finding Number 43:

Willmar Community College overpaid a student in federal financial aid.

Response:


Willmar Community College agrees with the audit finding that a student was overpaid \$258.00 in a Federal Unsubsidized Stafford Loan; and that the overpayment was caused by an increased Minnesota State Grant payment to the student.

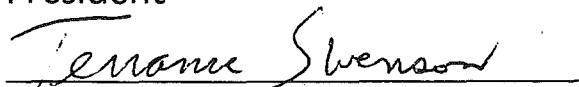
Recommendation

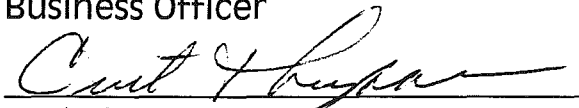
Willmar Community College should work with the U.S. Department of Education to remedy the Federal Unsubsidized Stafford Loan overaward of \$258.00.

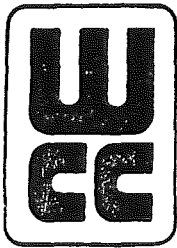
Response

* Willmar Community College has identified the student and will work with the students lender to make correction of the \$258.00 overaward. In addition, Willmar Community College will advise the U.S. Department of Education with a copy of the remittance to the lender.


Mary E. Retter, Ph. D.
President


Terrance Swenson
Business Officer


Curt Thompson
Financial Aid Director



worthington community college

1450 COLLEGEWAY ■ WORTHINGTON, MN 56187-3024 ■ 507-372-2107

1-800-657-3966 ■ FAX 507-372-5801 ■ TDD 507-372-2107

Quality Educational Opportunity For Over a Half Century

June 3, 1996

Mr. Jim Riebe
Audit Manager
Office of the Legislative Auditor
Centennial Building
658 Cedar St.
St. Paul, MN 55155

Dear Mr. Riebe:

Below are Worthington Community College's responses to the federal student financial aid audit for the year ending June 30, 1995;

Finding #44.

Worthington Community College realizes the importance of maintaining the utmost security in the processing of financial aid. It also is well aware of the requirements in the separation of duties in the awarding and scheduling of aid and the disbursement of aid.

As of this date, no business office personnel has access to SAFE, and it has been this way for approximately the last two years. At no time were awards adjusted and/or made on SAFE by business office personnel.

Also, as of this date, the financial aid director does not allow work study and/or any other personnel to have access to SAFE through his password. Such has been the case during the past award year.

Finding #45.

Worthington Community College is of the opinion that the student was eligible to receive the financial aid awarded to them. As of this date, the student has completed 148 credits (the last 8 on a consortium agreement - as a student at Southwestern Technical Collere.) This indicates to WCC that as the student entered their last full-time quarter at WCC, they had completed 124 credits. The 67 credits earned at SW Technical College were not included in the initial determination of academic level.

In addition, the student also changed programs while attending WCC. In doing so, the student's total credits increased. The above-mentioned student has an exemplary academic record.

79
Worthington Community College does not discriminate on the basis of race, color, national origin, sex, religion or disability in employment or the provision of services.

THE COLLEGE THAT CARES

The second student monitored falls into a similar situation as the above-mentioned student. Once again, as the student entered their last quarter of enrollment at WCC, they were under the 145 credit limit and aid was awarded. WCC will review this case and work with the Department of Education and the HESO to determine eligibility for any awards received.

WCC does monitor SAP with consortium agreements.

Finding #46.

The cost of attendance budgets used for the Federal Stafford Loans are the federal financial aid cost of attendance budgets.

WCC will review the overpayment of \$417 with the Department of Education.

Thank you for allowing us to respond to the findings. Please feel free to contact me if you should have any questions or need any additional information.

Sincerely.,



C. W. Burchill
President

xc: Michael Fury, Director of Financial Aid
Don Fleming, Dean of Students