Minnesota State Colleges and Universities System

Selected Material Financial Statement Components and Federal Financial Assistance Programs Fiscal Year 1996

June 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-29

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board

We have audited selected material financial activities of the Minnesota State Colleges and Universities (MnSCU) for the fiscal year ended June 30, 1996. We also reviewed internal controls over material federal student financial aid programs at five colleges and universities for fiscal year 1997. We emphasize that our audit did not include all financial activities of MnSCU. We further explain our audit scope and objectives in Chapter 1.

The work conducted at MnSCU was part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements and Single Audit of federal financial assistance programs. The State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996 includes our unqualified audit opinion thereon dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996 will also include our audit reports on the supplementary federal financial schedules, internal control structure and compliance with laws and regulations. We anticipate issuing that report in June 1997. The following summary highlights the audit conclusions which we discuss more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The auditing standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that MnSCU complied with provisions of laws, regulations, contracts and grants that are significant to the audit. The management of MnSCU is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of MnSCU. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 6, 1997.

James R. Nobles
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Legislative Auditor

John Asmussen
John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 28, 1997

Report Signed On: May 29, 1997

SUMMARY

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Minnesota State Colleges and Universities System

Selected Material Financial Statement Components and Federal Financial Assistance Programs Fiscal Year 1996

Public Release Date: June 6, 1997 No. 97-29

Background Information

The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. The new MnSCU system combined the former state universities system and the former community college system with the technical colleges which had been local government entities prior to the merger. A 15 member board of trustees was appointed by the governor on July 1, 1995, to oversee the activities of MnSCU. Dr. Judith Eaton was appointed the first MnSCU chancellor effective August 15, 1995.

Scope and Objectives

We audited selected material financial activities of MnSCU as part of our audit to express an opinion on the State of Minnesota's fiscal year 1996 financial statements. Those activities included tuition and fees, Pell Grant revenues and expenditures, and material revenue, expenditure, and asset balances in the MnSCU Enterprise Activities and Supplemental Retirement Funds.

In addition, we audited the following major federal financial assistance programs administered by MnSCU: Pell Grant program, the Perkins Loan program, the Federal Family Education Loan (FFEL) subsidized and unsubsidized Stafford Loan programs, and Carl D. Perkins Vocational Education Basic Grant program for fiscal year 1996. We also reviewed internal controls over material federal student financial aid programs at five colleges and universities for fiscal year 1997.

The primary objectives of our audit were to determine if the state's financial statements were materially correct for the areas included in our financial audit scope, to gain an understanding of the internal control structure, and to determine compliance with material legal provisions, including federal regulations.

Conclusions

MnSCU material financial activities included in our audit scope were fairly presented in the State of Minnesota's Fiscal Year 1996 Comprehensive Annual Financial Report in accordance with generally accepted accounting principles. MnSCU experienced significant problems, however, in obtaining financial information which impacted its ability to prepare timely and complete financial statements.

MnSCU also administered material federal financial assistance programs in compliance with federal requirements, except that we noted a few overawards to students, and undocumented adjustments to cost of attendance budgets in certain cases. We concluded that internal controls provided reasonable assurance that MnSCU administered the federal programs in accordance with regulations. We noted isolated control weaknesses, however, at certain campuses including concerns over access to financial aid computer systems, lack of controls over financial aid disbursements, and minor exceptions to cash management and federal reporting procedures affecting the community college loan management system and Vocational Education-Basic Grants to States program.

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
James Riebe, CPA	Audit Manager
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Tammy Schmidt	Staff Auditor
Shane Smeby	Staff Auditor
Eric Wion	Staff Auditor
Neil Huhnerkoch	Intern
Becky Hoese	Intern

Exit Conference

We discussed the results of the audit at an exit conference with the following MnSCU staff on May 9, 1997:

Lee Kerschner	Executive Vice Chancellor and Chief Operating Officer
Laura King	Vice Chancellor and Chief Financial Officer
Al Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Chapter 1. Introduction

The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. The new MnSCU system combined the former state universities system and the former community college system with the technical colleges which had been local government entities prior to the merger. A 15-member board of trustees was appointed by the governor on July 1, 1995, to oversee the activities of MnSCU. Dr. Judith Eaton was appointed the first MnSCU chancellor effective August 15, 1995.

Our work in MnSCU was completed as part of our audit to express an opinion of the state's fiscal year 1996 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon, dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing that report in June 1997.

In addition to those reports, we developed some audit findings and recommendations pertaining to the MnSCU system office and individual campuses.

- Chapter 2 includes our testing and analysis of MnSCU system-wide financial statement components including various asset, revenue, and expenditure balances.

- Chapter 3 includes our financial and compliance audit of federal student financial aid. Federal financial aid activities are governed by extensive eligibility and federal compliance requirements. Individual campuses are responsible for maintaining internal controls and ensuring compliance with federal student financial aid laws and regulations.

- Chapter 4 covers the community college Perkins loan management system. The MnSCU system office centrally collects Perkins loan repayments from community college students.

- Chapter 5 discusses our work on the Federal Vocational Education Basic Grant program. The MnSCU system office allocates funds for this federal program which are administered by individual technical colleges.

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Chapter 2. Financial Statement Components

Chapter Conclusions

Minnesota State Colleges and Universities (MnSCU) material financial activities included in our audit scope were fairly presented in the state of Minnesota's fiscal year 1996 Comprehensive Annual Financial Report in accordance with generally accepted accounting principles. MnSCU experienced significant problems, however, in obtaining complete financial information which impacted its ability to prepare timely and complete financial statements.

Background

During fiscal year 1996, MnSCU campuses used a combination of the MnSCU accounting system, campus subsystems and manual records, and the state's accounting and procurement system to record financial transactions. MnSCU accounting is a computerized general ledger accounting system. MnSCU developed its new accounting system at the same time the state implemented the Minnesota Accounting and Procurement System (MAPS).

Also during fiscal year 1996, MnSCU campuses used the State Colleges and Universities Personnel/Payroll System (SCUPPS) and the state's payroll and personnel system (PPS) for payroll and personnel accounting. SCUPPS is an enhanced version of the prior state university system that was used to budget, forecast, and control payroll costs.

Individual campuses are responsible for processing and recording daily business transactions on the accounting systems and ensuring the integrity of the accounting information.

Audit Scope, Objectives, and Methodology

Our audit scope included the following MnSCU material financial activities for the fiscal year ending June 30, 1996, as listed in Table 2-1. In addition to the areas listed in the table, we reviewed material construction projects in the Capital Projects Fund which are administered by the system office and the Building Construction Division of the Department of Administration. We also reviewed approximately $15.7 million in technical college fund balances transferred to the state on July 1, 1995, as a result of the MnSCU merger.

Table 2-1
Financial Statement Audit Areas (in thousands)
Year Ended June 30, 1996

Fund/Account Type	Audit Area	Amount
General	• Tuition and Fees	$257, 566
Federal	• Pell Grant Revenues and Expenditures	56,237
Defined Contribution	• Investments	93,392
(MnSCU Supplemental	• Equity in Investment Trust Funds	195,019
Retirement Fund)	• Contributions	21,788
	• Realized/Unrealized Gains (Losses)	39,567
	• Refunds	11,232
Enterprise Activities	• Cash and Investments	20,393
	• Loans Receivable	33,656
	• Sales	49,744
	• Inventory	6,787
General Long-term Debt Account Group	• Compensated Absences	59,838

Source: State of Minnesota's Comprehensive Annual Financial Report for the Year Ended June 30, 1996.

The primary objectives of our audit were:

- to determine if the state's financial statements were materially correct for the areas included in our audit scope;
- to gain an understanding of the internal control structure; and
- to determine compliance with material legal provisions.

To meet our objectives, we compared the financial activity for fiscal year 1996 to prior fiscal year(s) and to selected individual school accounting records and obtained external confirmations for investment balances.

Conclusions

MnSCU's material financial activities included in our audit scope were fairly stated in Minnesota's Comprehensive Annual Financial Report for fiscal year 1996. The following findings, however, negatively impacted MnSCU's ability to prepare timely and accurate financial statements.

1. MnSCU experienced significant delays and difficulties in the preparation of its financial statements.

In fiscal year 1996, many MnSCU technical college and community college campuses did not use the MnSCU accounting system to record all of their local financial activities. We cited this finding for technical colleges previously in the audit report for the Transition of Technical Colleges into State Government (Report 96-35). The MnSCU system office instructed campuses to record summary financial information into the MnSCU accounting system from subsystems and manual records. As a result, the system office needed to use a combination of MnSCU accounting information to summarize campus financial activity for financial reporting purposes and made many adjustments to the data in preparing the MnSCU financial statements. The system office submitted preliminary Enterprise Activity Fund financial statements to the Department of Finance up to seven weeks later than the agreed upon schedule. In response to these concerns, as of December 31, 1996, the system office began requiring campuses to record all financial activity in the MnSCU accounting system on a timely basis.

In addition, many MnSCU campuses had not reconciled their June 30 bank statements to supporting accounting records for over three months after fiscal year end. We previously reported this concern with the technical colleges in audit report 96-35. By mid-October, 18 campuses had not sent us the requested reconciliations. By the end of November, four campuses (Anoka-Hennepin Technical College, Dakota Technical College, Minneapolis Community and Technical College, and Riverland Technical College) had not completely reconciled their accounts. The campuses need to complete reconciliations timely so that errors are resolved and accounting records are corrected in a timely manner. MnSCU needs accurate accounting records to support its financial statements.

Finally, some campuses lacked the support for financial statement amounts. For example, Minneapolis Community and Technical College and Northwest Technical College - East Grand Forks did not complete a June 30, 1996, physical count of bookstore inventory. These schools used internal accounting records to calculate the inventory amounts. In addition, Minneapolis Community and Technical College did not have complete accounting information for its bookstore activity which forced the campus to estimate the amount of bookstore sales for the financial statements.

Recommendation

- *MnSCU system office should ensure that its accounting systems contain complete and accurate financial activity for effective and efficient financial reporting purposes.*

2. MnSCU did not effectively coordinate the reporting of approximately $23.6 million in compensated absences liabilities for community and technical college faculty sick leave.

MnSCU community colleges and technical colleges did not calculate and report compensated absences liabilities for faculty sick leave to the system office for inclusion in the financial statements. As a result, MnSCU used the June 30, 1995, compensated absence liability, plus an inflationary factor, to estimate the liability of $23.6 million for the fiscal year 1996 financial statements for these employees. MnSCU needs to develop a system for campuses to calculate and report compensated absences.

The community colleges and technical colleges maintain manual leave records for faculty, but these records could not be accumulated efficiently. MnSCU classified employees, unclassified administrators, and state university faculty leave balances were maintained on either SEMA4 or PPS, the state's payroll and personnel accounting systems. The Department of Finance relies on leave balances and salary rates maintained in the payroll systems to calculate the compensated absence liability for the state. Since community college and technical college faculty leave balances and salary rates were not maintained on the accounting systems, each campus should have gathered this information manually for inclusion in the state's annual financial statements.

Recommendations

- *The MnSCU system office should ensure that the community and technical colleges calculate and report faculty compensated absence liabilities for timely inclusion in the state's financial statements.*
- *MnSCU system office should require campuses to maintain community and technical college faculty leave balances to efficiently accumulate the necessary information.*

Chapter 3. Federal Student Financial Aid Programs

Chapter Conclusions

Minnesota State Colleges and Universities (MnSCU) administered material federal student financial aid programs in compliance with federal requirements with some exceptions. We noted a few overawards to students from various campuses that resulted from student loans and grants in excess of the annual federal limits and financial aid provided to ineligible students. We also noted questionable adjustments to cost of attendance budgets in certain cases.

For the five campuses included in our review of internal controls over material federal student financial aid programs, we concluded that the internal controls provided reasonable assurance that the campuses administered the programs in accordance with federal regulations. We noted certain isolated weaknesses at individual campuses, however, including concerns over access to financial aid computer systems, lack of controls over financial aid disbursements, and weak cash management procedures.

Background

MnSCU is responsible for administering federal student financial aid funds. State universities and community and technical colleges award both federal and state financial aid from various financial aid programs to eligible students. Each campus develops an annual Cost of Attendance (COA) 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 regulations for each Title IV financial aid program. With the exception of the unsubsidized Stafford loan and PLUS programs, a student must demonstrate financial need to be eligible for financial aid. Financial need is the difference between the student's Cost of Attendance budget and the family's ability to pay those costs, termed Expected Family Contribution or EFC. The EFC is determined by a central processing system. The following discussion provides information about the federal financial aid programs included in our audit scope.

- The Pell Grant Program is generally considered the first source of financial assistance for students. The federal government determines the amount of financial aid based on each student's COA and EFC. Pell grant payments are not limited to the available funds at a particular campus. The U.S. Department of Education provides funds to each campus based on eligible students enrolled. The maximum Pell grant award was $2,340 in fiscal year 1996 and $2,470 in fiscal year 1997.

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- The 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. The colleges are required to provide an institutional capital contribution or match at a rate of one-third of the federal capital contribution (or 25 percent of the combined federal and institutional match) for the Perkins Loan Program. Universities perform their own loan collections. Community colleges centrally collect Perkins loan repayments for all campuses. (Refer to Chapter 4 for a discussion on the community college loan management system.) 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 audit scope 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 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 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.

Audit Scope, Objectives and Methodology

We audited the Pell Grant Program, the Perkins Loan Program, and the Federal Family Education Loan (FFEL) subsidized and unsubsidized Stafford loan programs for fiscal year 1996. These programs are considered to be major programs according to the Single Audit Act. Table 3-1 provides the financial activity for each program for fiscal year 1996.

Table 3-1
Major Federal Student Financial Aid Programs
Fiscal Year Ended June 30, 1996

CFDA Number	Program	State Universities	Community Colleges	Technical Colleges	Total
84.032	FFEL (new loans)	$80,098,240	$34,204,318	$31,658,158	$145,960,716
84.038	Perkins Loans (new)	4,654,320	1,215,157	N/A	5,869,477
84.063	Pell Grants	16,799,818	19,086,630	20,350,833	56,237,281

Source: Minnesota Financial and Compliance Report on Federally Assisted Programs-Statement of Expenditures and respective footnotes #3 and #4 for the Year Ended June 30, 1996.

As discussed in Chapter 2, 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 1996. The Statewide Audit is also designed to meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. Our audit objectives under the Single Audit Act included determining whether:

- the state complied with rules and regulations that may have a material effect on each major federal program;
- the state had 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.

To address these objectives, we interviewed business office and student financial aid personnel at MnSCU campuses and reviewed applicable federal policies, procedures, and guidelines. We received electronic data files of federal student financial aid transactions from all campus financial aid systems, tested representative samples of federal student financial aid transactions, and performed key item testing and analytical procedures, as appropriate. We tested a total of 260 individual MnSCU students for compliance with federal requirements. Of the total students tested, we selected 153 students randomly and selected 107 students because of the amount of financial aid received or other unusual circumstances. We also tested financial aid disbursements to all MnSCU students for compliance with financial aid program limits. Approximately 42,000 MnSCU students received federal Pell grants in fiscal year 1996.

We also obtained an understanding of the internal control policies and procedures for fiscal year 1997 at the following five MnSCU colleges and universities:

- Dakota County Vocational Technical College
- North Hennepin Community College
- Mankato State University
- St. Cloud State University
- Normandale Community College

We also performed additional tests of controls for a sample of students receiving federal financial aid at these schools.

We reported the results of our internal control review of federal financial aid programs for fiscal year 1996 at four state universities and eight community colleges in a separate report titled, *Minnesota State Colleges and Universities Federal Student Financial Aid Programs Fiscal Year 1995 Management Letter* (Report Number 96-24).

Conclusions

MnSCU administered material federal student financial aid programs in compliance with federal requirements except for those issues discussed in findings 3 through 5 and 9.

For the five campuses included in our review of internal controls over material federal student financial aid programs, we concluded that the internal controls provided reasonable assurance that the campuses administered the programs in accordance with federal regulations. We noted certain weaknesses at individual campuses, however, which we discuss in findings 6 through 8.

3. Some students were overpaid federal student financial aid from various financial aid programs.

A few campuses overpaid federal student financial aid to some students. In certain cases, the overpayments resulted from a lack of coordination of financial aid payments for students who transferred to other MnSCU institutions during the year. In other cases, students were paid in excess of annual financial aid program limits. We performed detailed tests on a total of 51 students for compliance with financial aid program limits. We tested an additional 21 students that received financial aid at more than one MnSCU institution.

Lake Superior College and Mesabi Community College paid one student over the $2,340 annual Pell grant maximum during the 1995-96 school year. Mesabi Community College sent a financial aid transcript to Lake Superior College indicating that it paid $1,560 to the student. Subsequent to submitting the transcript, Mesabi Community College paid the student an additional Pell grant of $390. Lake Superior was not aware of this subsequent payment and paid the student a $780 Pell grant. Due to the concurrence of the awards, the student received Pell grants totaling $2,730 which is $390 in excess of the annual maximum.

Minneapolis Community and Technical College and North Hennepin Community College paid the same student two Pell grants for the same quarter. The student received concurrent awards of $585 at each campus. Minneapolis Community and Technical College sent a financial aid transcript to North Hennepin Community College, however, it did not show disbursement information for the current quarter. Due to the concurrence of the awards, the student received Pell grants totaling $2,535 which is in excess of the annual limits as well as $585 in excess of the awarded amount of $1,950 for this student.

Minneapolis Community and Technical College and Normandale Community College exceeded the annual loan limits for Federal Subsidized Stafford Loans for one student by $1,170. In addition, this student's total financial aid exceeded financial need by $596. Normandale Community College sent a financial aid transcript to Minneapolis Community and Technical College. Minneapolis Community and Technical College was not notified of a subsequent loan payment made by Normandale Community College. The colleges certified total loans to the student in the amount of $4,670. Federal regulations provide that a first year student is eligible for $3,500 in Federal Subsidized Stafford Loans during the 1995-96 academic year. The excessive loan amounts also allowed the student received financial aid payments that exceeded the student's financial need by $596.

Rochester Community College overpaid one student $437 in federal workstudy. The student was originally awarded $3,525 of federal workstudy leaving an unmet need of $70. But due to a poor tracking system for federal workstudy payments, the student's actual earnings exceeded the awarded amount by $507, resulting in an overpayment of $437 in total financial aid.

Metropolitan State University exceeded the annual loan limits for Federal Subsidized Stafford Loans paid to one student by $1,000. The college certified loans to the student in the amount of $6,500. Federal regulations provide that a third-year student is eligible for $5,500 in Federal Subsidized Stafford Loans during the 1995-96 academic year.

The Mankato State University financial aid office provided Perkins loans in excess of the annual loan limit to one student. The student received two Perkins loan awards totaling $4,446 for the 1995-1996 school year, one for the regular academic year and another for summer term. 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 $1,446 overaward can be recovered.

Recommendations

- *MnSCU institutions need to strengthen controls over coordination of financial aid payments for students transferring between institutions during the academic year to ensure that students' total annual financial aid disbursements do not exceed program limits.*

- *Lake Superior College should reimburse the Pell grant account $390 and continue efforts to recover the Pell grant from the student.*

- *Minneapolis Community and Technical College should (1) continue procedures to collect the $585 Pell grant overaward from the student, and (2) work with the U.S. Department of Education to remedy the $1,170 Federal Stafford Loan overpayment and overaward of $596.*

- *Rochester Community College should remedy the federal workstudy overpayment of $437. Rochester Community College should improve its federal workstudy tracking system to ensure students only earn up to the awarded amount.*

Recommendations (Continued)

- *Metropolitan State University should work with the U.S. Department of Education to remedy the $1,000 Federal Subsidized Stafford Loan overpayments.*

- *Mankato State University should work with the U.S. Department of Education to resolve the $1,446 overaward. Further federal financial assistance to the student should be discontinued until the overaward is resolved.*

4. Northwest Technical College-East Grand Forks paid financial aid of $7,805 to a student that did not meet satisfactory academic progress standards.

During the 1995-1996 school year, Northwest Technical College-East Grand Forks inappropriately paid federal financial aid to a student who did not meet satisfactory academic progress standards established by the campus. As shown below, the student received $7,805 of various types of federal financial aid:

Federal Financial Aid Program:	
Pell Grant	$ 780
FSEOG	400
Subsidized Stafford Loan	2,625
Unsubsidized Stafford Loan	4,000
1995-1996 Total	$ 7,805

The student did not maintain a 2.0 grade point average and did not complete 67 percent of the credits attempted which is required by the campus satisfactory academic progress standards. The student's academic transcript shows the student was ineligible before the 1995-1996 school year had begun and no appeal had been filed or approved by the college.

Recommendation

- *Northwest Technical College-East Grand Forks should repay the $1,180 of ineligible Federal Pell and FSEOG. It should also work with the U.S. Department of Education to remedy the Federal Subsidized and Unsubsidized Stafford Loan overpayments.*

5. Three campuses made questionable or undocumented adjustments to certain students' cost of attendance budgets.

Three MnSCU campuses made questionable increases to the cost of attendance (COA) budgets used to award financial aid to particular students. Budget adjustments were made for undocumented car repairs and travel costs already considered in the standard COA budgets. The net result is that these campuses provided additional financial aid to these students. The following paragraphs describe the questioned or undocumented use of professional judgment noted at certain campuses.

- Itasca Community College increased one student's COA budget for an estimated car repair of $3,500. The student hit a deer and did not have collision insurance to pay for the automobile damages. The college did not obtain an invoice for the repair. We tested two students at Itasca Community College.

- Northwest Technical College - Bemidji increased one student's COA budget for gas and other car expenses for $389 when COA budgets already include an amount for general transportation. The college did not document the adjustment for the student's additional mileage beyond the original travel allowance. The college did not increase the financial aid awarded to this student, therefore, no questioned costs resulted. However, the college created the potential for additional financial aid because of the adjustment. We tested two students at Northwest Technical College - Bemidji.

- Rochester Community College increased one student's COA budget by $900 for additional travel expenses but did not reduce the adjustment by the $300 travel expense allowance built into the original COA budget. We tested six students at Rochester Community College.

Federal regulations allow financial aid directors to use professional judgment to adjust COA budgets on a case-by-case basis. However, Itasca Community College and Northwest Technical College - Bemidji did not provide sufficient documentation for these adjustments.

Recommendations

- *MnSCU campuses should maintain complete and actual documentation to support any increases to standard cost of attendance budgets.*

- *The two MnSCU campuses identified above should work with the U.S. Department of Education to remedy the questionable payments.*

6. Mankato State University did not resolve FFEL disbursement differences between the financial aid system and the business office term-billing system since March 1996.

Mankato State University (MSU) had not investigated and resolved differences between the financial aid and business office term billing systems. MSU has an effective control to ensure that financial aid awards are accurately disbursed. A computer program compares disbursements between the two systems. As of March 1996, however, the university had not resolved FFEL loan differences that had been identified. Primary concern rests with differences indicating students may have been potentially overpaid financial aid for 1995-1996. A campus report noted Stafford loan net differences between the two systems totaling $27,200. We reviewed nine students with net differences of $4,500; individually, the differences ranged from $5,228 to ($2,906). In some cases, the accounts receivable system reported larger financial aid payments and, in some cases, the financial aid system reported larger payments. Without resolution of the report differences, the university lacks assurance that these students were paid correctly or if data discrepancies exist.

Effective internal controls would include timely follow-up and resolution of FFEL disbursement differences between the two accounting systems. Previously, FFEL checks were delivered to students; now, the volume of FFEL proceeds received by electronic funds transfer has increased. The change to electronic fund transfers has increased the number and complexity of differences requiring follow-up. The prior academic year differences should be resolved before the next year to determine the impact on subsequent year eligibility. Without resolution, subsequent year awards, which rely on financial aid system information for the previous year, could be in error.

Recommendation

- *Mankato State University should perform timely follow-up and resolution of FFEL loan disbursement differences between the financial aid and business office term billing systems.*

7. PRIOR FINDINGS NOT RESOLVED: Two campuses did not restrict access controls to computerized financial aid systems.

St. Cloud State University student workers in the financial aid office have the ability to clear critical edits in the financial aid computer systems. St. Cloud State University has an effective computerized system which edits financial aid verification and eligibility information. The effectiveness of edit controls is weakened, however, by allowing student workers the ability to clear edits. Student worker userIDs are not restricted and include access to the edit maintenance (DFAEDT) screen. Students can clear an edit exception on any student financial aid record without detection. The system does not track which userID cleared an edit nor does it report the number of edit clears initiated by a userID.

North Hennepin Community College continued to allow student workers to share their SAFE login identification codes and passwords. In addition, users of SAFE were not required to change passwords periodically. Two financial aid office employees had not changed their passwords since 1993 and 1991, respectively. Prompting users to periodically change their passwords decreases the risk of unauthorized transactions from other employees using their login identification code.

Recommendations

- *St. Cloud State University should restrict student userIDs from having the ability to clear edits or monitor edits cleared by student workers.*

- *North Hennepin Community College should only allow student workers access to SAFE using their unique login assigned. All SAFE users should periodically change their passwords.*

8. Normandale Community College submitted information on several federal reports that was not adequately supported by accounting records.

Normandale Community College submitted inaccurate federal Perkins loan information on several reports for the 1995-96 and 1996-97 school years. For the 1995-96 school year, the college reported on the Fiscal Operations and Application (FISAP) Report that it drew and disbursed the Federal Capital Contribution (FCC) for the Federal Perkins loan Program. Also, the college reported on the monthly Federal Cash Transaction Reports for 1995-96 that it spent the $65,000 FCC. In addition, the college reported that it made the required institutional match (ICC). However, the college did not draw the FCC nor make the required state match.

For the 1996-97 school year, the college also reported spending federal Perkins loan funds on the September 1996 through December 1996 Federal Cash Transaction Reports. As of January 24, 1997, however, the college had not drawn its Federal Capital Contribution for the Federal Perkins Loan Program.

Recommendations

- *Normandale Community College needs to determine the status of its Perkins Loan Federal Capital Contribution receipts and disbursements for fiscal years 1996 and 1997 and request its federal funds and make its required match, if applicable.*

- *Normandale Community College should ensure that financial information on the federal reports is accurately reported and adequately supported by accounting records.*

9. North Hennepin Community College could not locate a signed Perkins loan promissory note for one student.

The Accounting and Fees Office at North Hennepin Community College could not locate one student's Perkins promissory note of $750 for fall quarter 1996. We tested a sample of 11 students for this attribute. Federal regulations require students to sign a promissory note prior to disbursement of financial aid. The Perkins promissory note is a legally binding document for the student's loan and may be needed to enforce collection in the event of default.

Recommendation

- *North Hennepin Community College should obtain a signed Perkins loan promissory note from the student and ensure that Perkins loan promissory notes are signed by all students prior to disbursement.*

10. Three MnSCU campuses did not receive federal reimbursement for $18,411 in Pell grant disbursements.

Metropolitan State University, Northland Community and Technical College, and Worthington Community College disbursed Pell grants to certain students which were rejected for funding by the federal government. These campuses are unable to obtain reimbursement from the federal government without an audit to verify the eligibility of the rejected students. We reviewed the student files and determined that the campuses were eligible for additional Pell grant authorizations. As highlighted in Table 3-2, the campuses were eligible for increased authorization totaling $18,411 of the $20,930 in unreimbursed Pell grants.

Table 3-2
Minnesota State Colleges and Universities (MnSCU)
Audit Review of Unreimbursed Federal Pell Grant Disbursements

Campus and School Year	Pell Grant Disbursed to Rejected Students	Federal Pell Grants Reimbursements	Unreimbursed Pell Grant Amount	Ineligible Amount	Pell Grant Disbursements Eligible for Reimbursement
Metropolitan State University					
1995-1996	$ 7,171	$ 0	$ 7,171	$ 200	$ 6,971
Northland Community and Technical College					
1994-1995	7,201	2,175	5,026	968	4,058
Worthington Community College					
1994-1995	6,872	0	6,872	766	6,106
1995-1996	1,861	0	1,861	585	1,276
Totals	$23,105	$ 2,175	$20,930	$ 2,519	$18,411

Source: Auditor Calculations from Campus Student Financial Aid Records.

We reviewed seven Metropolitan State University students with Pell grants rejected totaling $7,171. One student received Pell grants based on an incorrect estimated family contribution (EFC). This allowed the student to receive $200 more than the student was eligible for. The student received Pell grants totaling $1,390 rather than $1,190.

Northland Community and Technical College disbursed Pell grants totaling $7,201 to five students, but had been reimbursed only $2,175 from the federal government. We reviewed the five student files and determined that the students were eligible for the Pell grant disbursements totaling $4,058. The college originally requested federal reimbursement for $5,026. We found, however, that the college used the wrong EFC and overpaid one student by $968 in Pell grants.

Finally, we reviewed 11 Worthington Community College students: eight from 1994-95 totaling $6,872 and three from the 1995-96 school year totaling $1,861. We determined that one student from 1994-1995 was ineligible for Pell grant funding of $766 due to unsatisfactory academic progress. A second student did not have an official federal Student Aid Report (SAR) processed by the federal government. Federal regulations require a processed SAR resulting in a federally determined EFC. The college paid the student $585, and, without a SAR, must fund the inappropriate Pell grant payment from institutional funds.

Recommendations

- *Metropolitan State University should work with the U.S. Department of Education to increase its 1995-96 Pell authorization by $6,971.*
- *Northland Community and Technical College should work with the U.S. Department of Education to increase its 1994-95 Pell authorization by $4,508.*
- *Worthington Community College should work with the U.S. Department of Education to increase its 1994-95 Pell authorization by $6,106 and its 1995-96 Pell authorization by $1,276.*

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Chapter 4. Community College Perkins Loan Management System (LMS)

Chapter Conclusions

The central community college Loan Management System (LMS) properly accounted for Perkins loan repayments, deferments, and cancellations in accordance with program requirements. All new loans issued for fiscal year 1996 were properly accounted for on LMS. We noted, however, that the outstanding Perkins loans balances reported in LMS differed from the Perkins loan balances reported in campus Fiscal Operations Report and Application (FISAP) for several campuses.

Background

The MnSCU system office performs all loan collection responsibilities for the community colleges. State universities operate their own independent Perkins loan repayment systems, while technical colleges do not administer the Federal Perkins Loan Program. The Federal Perkins Loan Program provides low-interest, long-term loans to students. The colleges act as lenders, using both federal funds and an institutional match for capital contributions. Individual campuses are responsible for awarding, disbursing, and entering loan amounts into the system-wide loan management system. Disbursement transactions are automatically updated in the loan management system once a week.

The MnSCU system office is responsible for a balance of over $7 million in Perkins loans for the community colleges. These duties include corresponding with students in repayment status, receiving loan repayments, and pursuing delinquent loans. The MnSCU system office also authorizes loan cancellations, deferments, postponements, and forbearances.

Audit Objectives and Methodology

The primary objective of our audit was to determine whether the Perkins loan program financial activities were fairly presented in the LMS accounting system and in the footnotes to the schedule of federal expenditures. As part of our work, we gained an understanding of the internal control systems to provide assurance that it is managing federal financial assistance programs in compliance with material financial-related laws and regulations.

To address our audit objectives, we interviewed MnSCU system office staff responsible for the Loan Management System. We ensured that all new loans issued for the 1995-96 school year were transferred into the loan management system from the financial aid system. We also tested fiscal year 1996 repayment and cancellation transactions. We also compared the ending student loans receivable balance reported in LMS to the loans receivable balances reported by campuses on the Federal Fiscal Operations Report and Application (FISAP).

Conclusions

The MnSCU system office properly managed the central Loan Management System to ensure accurate reporting of Perkins loan repayments, deferments, and cancellations, and compliance with applicable laws and regulations. All new loans issued for fiscal year 1996 were properly recorded on LMS. We noted, however, that the LMS student loan receivable balances differed from the outstanding Perkins loan balances reported by individual campuses on their federal Fiscal Operations Report and Application (FISAP) as discussed in the next finding.

11. Outstanding Perkins loan principal balances in the Loan Management System (LMS) differed from amounts reported in campus Fiscal Operations Report and Application (FISAP) reports.

Several community college campuses have reported significantly different Perkins loans receivable balances in the FISAP than loans receivable balances recorded on LMS as reported in Table 5-1. For example, Normandale Community College reported $87,284 more in Perkins loan receivables than will be collected according to the receivable balance recorded on LMS. Conversely, the North Hennepin Community College Perkins loan receivable balance on LMS could be overstated since the college's FISAP shows $19,715 less in loans receivable. LMS loan balances represent funds to be repaid by borrowers and are based on new loans issued and actual collections or cancellation transactions. Campus Perkins loan records, used to prepare the federal FISAP report, should agree with LMS transaction activity.

Table 5-1
Minnesota State Colleges and Universities (MnSCU)
Community College Perkins Loan Balances by Campus
As of June 30, 1996

Community College Campus	FISAP Loans Receivable Balance Reported by Colleges	LMS (NBY740) Student Loans Receivable Balance	Overstatement (Understatement)	Percent Difference
Minneapolis	$ 47,754	$ 36,955	$ 10,799	29.2%
Normandale	987,797	900,513	87,284	9.7%
Arrowhead - Vermilion	120,950	112,367	8,583	7.6%
Northland	149,836	145,036	4,800	3.3%
Fergus Falls	232,035	229,882	2,153	0.9%
Inver Hills	403,074	399,547	3,527	0.9%
Arrowhead - Hibbing	448,007	445,705	2,302	0.5%
Arrowhead - Mesabi	102,797	102,777	20	0%
Anoka-Ramsey	487,030	487,030	0	0%
Central Lakes - Brainerd	186,009	186,042	(33)	0%
Arrowhead - Rainy River	140,559	141,113	(554)	-0.4%
Rochester	1,378,980	1,387,934	(8,954)	-0.7%
Riverland	318,735	321,735	(3,000)	-0.9%
Arrowhead - Itasca	527,621	532,670	(5,049)	-1.0%
North Hennepin	1,288,341	1,308,056	(19,715)	-1.5%
Worthington	247,602	254,033	(6,431)	-2.5%
Ridgewater - Willmar	139,948	154,613	(14,665)	-9.5%
Total	$ 7,207,075	$ 7,146,006	$ 61,069	0.8%

Source: MnSCU Loan Management System (LMS) Report NBT740 as of June 30, 1996 and individual Campus Federal Fiscal Operations Report and Application (FISAP) for 1995-1996

Recommendation

- *MnSCU system office should work with the individual community colleges to resolve the Perkins loan receivable differences between the colleges' records and the Loan Management System and ensure that the records are in agreement in the future.*

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Chapter 5. Federal Vocational Education-Basic Grants to States

Chapter Conclusions

MnSCU complied with material federal program requirements of the Carl D. Perkins Vocational Education-Basic Grants to States program, CFDA 84.048. Program costs of $11.4 million were accurately reported for fiscal year 1996. Internal controls provided reasonable assurance that the program was administered in compliance with federal requirements with the following exceptions. We noted two issues that impacted MnSCU's ability to report financial information for this program. First, the majority of the federal program payroll costs were not posted to the program accounts until after fiscal year end. Secondly, technical colleges did not identify the proper CFDA number on all financial transactions.

Background

The Carl D. Perkins Vocational and Applied Technology Education Act of 1990 provides federal assistance to secondary, post secondary and adult vocational education programs. The program provides funding to technical colleges for education of individuals with handicaps, the educationally and economically disadvantaged, individuals of limited English proficiency, individuals who participate in programs designed to eliminate sexual bias, and individuals in correctional institutions.

The MnSCU system office has established a process for technical colleges to use in applying for and receiving federal funding. The funding received by the colleges post secondary and adult education programs is based on the proportion of Pell grant recipients and recipients of assistance from the Bureau of Indian Affairs in each institution compared to the total number of recipients in the state. MnSCU has also established standards and performance measures to evaluate the effectiveness of the programs receiving federal funding.

In fiscal year 1996, the total Carl Perkins federal program expenditures were $14.1 million, with $11.4 million expended for the Vocational Education-Basic Grants to States program (CFDA #84.048). The remaining funds, which are further granted to other higher education institutions and the Department of Children, Family & Learning, were not included in our audit scope.

Payroll costs represent the largest share of federal program expenses for the Vocational Education-Basic Grants to States program. Table 5-1 shows how federal program funds administered by MnSCU were spent during fiscal year 1996.

Table 5-1
Vocational Education-Basic Grants to States, CFDA #84.048
Fiscal Year 1996 Federal Expenditures

Expense Type	Amount	Percent
Salaries and Fringe	$7,205,517	63%
Purchased Services	830,572	7%
Supplies	1,045,277	9%
Indirect Costs and Other Expenses	66,793	1%
Grants	2,241,759	20%
Total	$11,389,918	100.0%

Source: Department of Finance FY 1996 Federal Financial Schedules prepared by MnSCU.

Audit Objectives and Methodology

The primary objective of our audit of this program was to determine whether the federal program financial activities were accurately recorded in the accounting system. As part of our work, we gained an understanding of the internal control systems to provide assurance that MnSCU is managing the federal programs in compliance with material financial-related laws and regulations. We also determined compliance with program requirements.

To address the audit objectives, we interviewed MnSCU system office staff and reviewed records regarding the application process, campus reviews, and evaluation of standards and performance measures. We analyzed and reviewed financial records from the MnSCU system office regarding the accounting and reporting of grant revenue and expenditures. We performed analytical reviews of program information and sampled accounting transactions for specific financial and compliance tests. We compared expenditures recorded in the accounting system to the list of allowable costs under federal grants and tested payroll costs to determine the propriety of charges to the federal program.

Conclusions

MnSCU federal financial activities for CFDA #84.048 were accurately recorded in the accounting system for fiscal year 1996. MnSCU system office and campuses internal controls structure provided reasonable assurance that the program was administered in compliance with material federal program rules and regulations. We found, however, that MnSCU technical college campuses did not post payroll charges to the federal program until after fiscal year-end. In addition, technical colleges were not always properly identifying the proper CFDA identification number on accounting transactions.

12. MnSCU technical college campuses did not post federal payroll charges timely and accounting transactions did not always include the proper federal program CFDA numbers.

Technical college accounting balances for federal programs were incomplete for most of fiscal year 1996. Payroll charges were not being posted to the federal program accounts in MnSCU accounting. In addition, approximately $200,000 of $11 million in expenditures were not identified with the proper federal CFDA number which resulted in difficulty compiling the federal program financial reports. Accounting transactions need to be complete and provide sufficient detail to provide meaningful financial information.

Payroll charges were being initially funded from state accounts and not being posted to the federal program accounts. Payroll costs represent a significant omission because it is the largest federal program cost. As of June 30, 1996 only $2.6 million of the $7.2 million in payroll costs were posted. Accruals and adjustments totaling $4.6 million were processed to transfer payroll charges to the correct federal program incurring the costs after June 30, 1996. We first raised this concern in a separate audit of the transition of technical colleges into state government (Audit Report 96-35).

MnSCU technical college campuses did not consistently provide identification of the federal program CFDA numbers in MnSCU accounting. The CFDA number identifies which Federal Carl Perkins Program the accounting transaction relates to and allows the MnSCU system office to compile annual program financial schedules. Some campuses did not enter the CFDA number in the original account structure so that federal expenditures totaling $202,624 during fiscal year 1996 had no CFDA number assigned. MnSCU system office staff reviewed the expenditures and determined they were obligations of CFDA #84.048. To avoid this administrative demand, technical colleges should ensure that accounting transactions identify the proper federal CFDA number to be charged.

Recommendation

- *MnSCU technical colleges need to ensure that federal payroll costs are being posted timely to federal program accounts in the accounting system. Federal program accounting transactions also need to identify the proper CFDA numbers to be charged in order to expedite preparation of accurate financial statements for each federal program.*

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MnSCU

Minnesota State Colleges & Universities

May 18, 1997

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report on financial statement and federal financial aid. Fiscal year 1996 was the first year that MnSCU prepared financial statements. We were also operating from a new accounting system. These factors caused great difficulties, and as a result the statements were delivered late to the Department of Finance. We have taken steps to improve our financial reporting process for future years.

We believe that the audit report demonstrates that MnSCU colleges and universities have adequate controls over federal financial aid, and complied with federal regulations and requirements. MnSCU disbursed over $73 million in federal financial aid during fiscal year 1996. We are please with the limited number of exceptions in the audit report. However, we will take corrective action for the findings in the audit report.

My thanks to your staff for the professional and courteous manner in which they conducted the audit.

Listed below is our response to each individual finding:

1. MnSCU experienced significant delays and difficulties in the preparation of its financial statements.

   We concur with this finding. A major reason for the difficulty in completing financial statements was the lack of complete information in the MnSCU accounting system. Colleges and universities are now using the system for all their financial activity. The system office monitors the completeness of the data. In addition, the system office issued accounting procedures which addressed the areas that caused problems with the fiscal year 1996 statements. With the improvements in our financial reporting process, MnSCU should not experience delays in preparation of future financial statements.

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2. MnSCU did not effectively coordinate the reporting of approximately $23.6 million in compensated absences liabilities for community and technical college faculty sick leave.

   MnSCU has added a component to our automated personnel system (SCUPPS) for recording leave accrual balances. Colleges and universities can use this system for reporting leave balances or submit the June 30, 1997 balances to the system office. Accurate leave balances will allow the system office to make the necessary calculations for the financial statements.

3. Some students were overpaid federal student financial aid from various financial aid programs.

   Colleges and universities will repay overpayments to the appropriate federal program.

4. Northwest Technical College - East Grand Forks paid financial aid of $7,805 to a student that did not meet satisfactory academic progress standards.

   The college will reimburse the federal grant accounts for the overpayments, and work with the federal government to resolve the loan over award.

5. Four campuses made questionable or undocumented adjustments to certain students' cost of attendance budgets.

   The system office will work with the campuses on the need for adequately documenting professional judgment. Each college will work with the federal government to resolve any questions that may arise from the instances stated in the audit report.

6. Mankato State University did not resolve FFEL disbursement differences between the financial aid system and the business office term-billing system since March 1996.

   Mankato State University has investigated and resolved all FFEL disbursement differences between the financial aid and accounting systems for fiscal year 1996. No over awards were found. Mankato State is now reconciling the two systems for fiscal year 1997, and will do future reconciliations on a quarterly basis.

7. Two campuses did not restrict access controls to computerized financial aid systems.

   As of March 3, 1997, St. Cloud State University had removed all access for student workers to clear or view critical edits in the financial aid system. North Hennepin Community College is in the process of restricting access for their student workers.

8. Normandale Community College submitted information on several federal reports that was not adequately supported by accounting records.

Normandale Community College amended the FISAP report to reflect accurate Perkins loan information. The college has established a procedure for tracking cash balances needed for accurate reporting to the federal government.

9. North Hennepin Community College could not locate a signed Perkins loan promissory note for one student.

North Hennepin Community College has sent two notices to the student requesting a promissory note. The college will continue efforts to obtain the proper documentation.

10. Three MnSCU campuses did not receive federal reimbursement for $18,411 in PELL grant disbursements.

The colleges and university will seek full reimbursement from the federal government.

11. Outstanding Perkins loan principal balances in the Loan Management System (LMS) differed from amounts reported in campus Fiscal Operations Report and Application (FISAP) reports.

MnSCU will ensure that the FISAP and LMS records agree. The differences date back to the implementation of LMS. Since LMS is the official record for outstanding loan balances, colleges will adjust their FISAP to the system balance.

12. MnSCU technical colleges did not post federal payroll charges timely and accounting transactions did not always include the proper federal program CFDA numbers.

Several system and procedural problems prevented technical colleges from properly posting payroll in fiscal year 1966. We have corrected these issues and colleges can now make the proper postings.

Sincerely,

Laura M. King
Vice Chancellor - Chief Financial Officer