

# **South Central Technical College**

## **Special Review**

### **Misuse of Emergency Student Loan Funds**

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**December 1997**

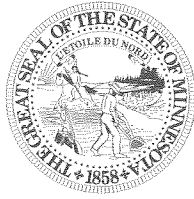
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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-55**





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

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Minnesota State Colleges and Universities

Mr. Ken Mills, President  
South Central Technical College

## **Audit Scope**

We conducted a special review into the misuse of emergency student loan funds at the South Central Technical College (SCTC), Faribault Campus. On June 4, 1997, the Minnesota State Colleges and Universities (MnSCU) reported a suspected misuse of funds to the Office of the Legislative Auditor's investigations unit. MnSCU reported that South Central Technical College had obtained evidence suggesting a former financial aid assistant and a student had inappropriately obtained funds from the college's emergency student loan program. On June 11, 1996, Ms. Wendy Montgomery, the former financial aid assistant authorized a \$1,500 "emergency loan" to Ms. Beth Layeux, a student at SCTC, Faribault Campus. Ms. Layeux cashed the loan check on June 11, 1996, and gave the proceeds to Ms. Montgomery. Ms. Montgomery used the loan funds to purchase a vehicle for her personal use.

Our review addressed the following questions:

- Did Ms. Layeux receive a \$1,500 loan and give the proceeds to Ms. Montgomery?
- If so, did Ms. Montgomery repay Ms. Layeux or the college?
- Did Ms. Montgomery divert other student loan funds for her personal benefit?

## **Audit Techniques**

We reviewed the emergency student loan records covering the period from August 1995 through February 1997. We interviewed college employees regarding the student loan program. We

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questioned Ms. Montgomery on July 8, 1997. We also obtained, from Ms. Montgomery, certain personal bank and telephone records. We took testimony under oath from Ms. Layeux on June 17, 1997, and on September 2, 1997.

## **Background**

The Faribault Campus was associated with the Minnesota Riverland Technical College until July 1, 1996, when the campus merged with South Central Technical College. Riverland Technical College hired Ms. Montgomery in June 1995 as a financial aid assistant. Ms. Montgomery's job responsibilities included administering the emergency student loan program from August 1995 to September 1996. Ms. Montgomery resigned from this position in February 1997. Ms. Layeux was a student at the Faribault Campus from 1995 to 1997. Ms. Layeux worked for Ms. Montgomery in the Financial Aid Office during the 1996-1997 academic year.

The Faribault Campus established an emergency student loan fund with donations from the Faribault Vocational Technical Trust Association (FVTTA). The FVTTA is a private, nonprofit organization created to support the programs and students at the college. Between August 1995 and July 1997, the FVTTA contributed \$8,000 to the student loan program. The FVTTA deposited the funds in a local checking account entitled Faribault Vocational Technical Trust Association Student Loan Fund. The account's authorized signers included Ms. Montgomery, the college president, and two other college employees.

The student loan program provided a source of funds for students in emergency situations. For example, emergency loans were given to students for car repairs, groceries, and books. Generally, students who received student loans had applied for, but had not yet received their financial aid. Students requested emergency loans through the financial aid office. Ms. Montgomery approved the loans, wrote the checks, co-signed the checks, received the loan repayments, and maintained the bank statements and canceled checks. The checks required two signatures. Ms. Montgomery prepared and signed the checks and obtained another signature from another college employee who had check signing authority. From August 1995 through September 1996, the student loan fund disbursed \$34,390 in loans and deposited \$36,972 in loan repayments. The emergency student loans ranged from \$8 for child care expenses to the \$1,500 loan to Ms. Layeux. The next largest emergency loan processed by Ms. Montgomery was to another student for a \$585 car repair.

The records for the emergency student loan fund did not properly document loan activities. When Ms. Montgomery administered the program, the college did not have policies and guidelines for the loan program. From August 1995 to September 1996, the college did not require students to sign loan applications or promissory notes. In addition, the college did not record these loans on the college's accounts receivable system. Ms. Montgomery used the check register to record loan checks and the subsequent repayments. Ms. Montgomery stated that she would write "paid" next to the check entry to indicate repayment of a loan. In the check register, next to the loan check to Ms. Layeux for \$1,500, the word "paid" had been written indicating the repayment of this loan. The deposit records did not provide sufficient information to substantiate student repayment. Although the students did not sign promissory notes, Ms. Montgomery stated she required that the students repay these loans when they received their financial aid.

In September 1996, the Faribault Campus implemented new emergency loan program policies and procedures. The college currently requires students to sign emergency loan applications including promissory notes. The college also requires students to repay their emergency loan at the time of withdrawal, graduation, or within 60 days, whichever comes first. The college expects the students to repay their emergency loans with their next available resources. The college also enters the emergency loans on the accounts receivable system. From September 1996 until her resignation, Ms. Montgomery continued to approve loan applications; however, she no longer maintained the checkbook, or co-signed checks.

Prior to July 1996, the Faribault Campus inappropriately used the FVTTA student loan bank account as an imprest checking account for other college activities. The Student Senate and other college programs and organizations were allowed to use the student loan checking account. The account was also used to reimburse employee expenses. The emergency loan records did not contain sufficient detail to ensure that the fund was properly reimbursed for these transactions. After merging with South Central Technical College, the Faribault Campus began recording these activities on the Minnesota State Colleges and Universities (MnSCU) accounting system.

## **Conclusions**

On June 11, 1996, Ms. Montgomery, the financial aid assistant, authorized a \$1,500 "emergency loan" to Ms. Layeux, a student at SCTC, Faribault Campus. Ms. Layeux stated that she cashed the loan check on June 11, 1996, and gave the proceeds back to Ms. Montgomery. Ms. Montgomery acknowledged that she received \$1,500 from Ms. Layeux. Ms. Montgomery used the funds to purchase a personal vehicle.

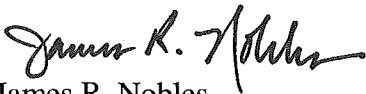
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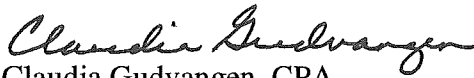
We found that the college had not been repaid the \$1,500 emergency loan; although, the records indicated "paid" next to the loan amount. Ms. Montgomery stated that she repaid Ms. Layeux \$1,500 in cash during June 1997. Ms. Layeux stated during her second testimony that Ms. Montgomery had repaid her \$1,500 on June 4, 1997. Ms. Layeux further admitted that she had not repaid the loan to the college but had used the funds to pay personal debts. On November 10, 1997, the Faribault Campus received a check from Ms. Layeux for \$1,500 to repay the loan.

We found no evidence that Ms. Montgomery or Ms. Layeux diverted other money from the student loan fund. We reviewed the check register and canceled checks for the period August 1995 through February 1997. Our review of these documents did not provide additional evidence of misuse of funds.

Pursuant to Minn. Stat. Section 3.975, we are referring this report to the Office of the Attorney General.

The report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Colleges and Universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 23, 1997.

  
James R. Nobles  
Legislative Auditor

  
Claudia Gudvangen, CPA  
Deputy Legislative Auditor

Report Signed On: December 18, 1997