

Minnesota State Colleges and Universities System

Selected Material Financial Statement Components and Federal Financial Assistance Programs Fiscal Year 1997

March 1998

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

98-16



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

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morris J. Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board

We have audited selected financial activities of the Minnesota State Colleges and Universities (MnSCU) system for the fiscal year ended June 30, 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 1997 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, 1997, includes our unqualified audit opinion thereon dated December 8, 1997. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1997, 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 March 1998. 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 March 13, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 30, 1998

Report Signed On: March 9, 1998

SUMMARY

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Minnesota State Colleges and Universities System

Selected Material Financial Statement Components and Federal Financial Assistance Programs Fiscal Year 1997

Public Release Date: March 13, 1998

No. 98-16

Background Information

The Minnesota State Colleges and Universities System (MnSCU) consists of 36 colleges and universities with 53 campuses located throughout Minnesota. The system includes state universities, community colleges, and technical colleges. A 15-member board of trustees, appointed by the Governor, oversees the activities of MnSCU. Morris J. Anderson replaced Dr. Judith Eaton as the MnSCU chancellor effective July 7, 1997.

Scope and Objectives

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. The financial audit scope included the following areas: tuition and fees; construction expenditures for specific projects; revenues and expenditures for federal student financial aid; and material revenue, expenditure, and asset balances in the MnSCU Enterprise Activities, Supplemental Retirement, Agency, and Gift Funds, as applicable.

In addition, we audited the following programs administered by MnSCU for compliance with federal requirements for fiscal year 1997: Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Family Education Loans (FFEL), Federal Work Study (FWS), Perkins Loans, Pell Grants, Nursing Grants, and the Carl D. Perkins Vocational Education Basic Grant program.

Conclusions

MnSCU financial activities included in our audit scope were fairly presented in the state of Minnesota's fiscal year 1997 Comprehensive Annual Financial Report in accordance with generally accepted accounting principles. MnSCU continued to experience significant problems, however, in obtaining reliable financial information which impacted its ability to prepare timely and complete financial statements.

MnSCU also administered material federal programs in compliance with federal requirements, except that we noted overawards in the student financial assistance programs totaling \$6,429. We also noted a questionable cost of attendance budget adjustment that could potentially result in another overpayment of \$2,824. The college increased financial aid for one student for international travel to check on the welfare of the student's child. In addition, we found internal control weaknesses related to the administration of federal work study at 4 of 24 colleges tested.

MnSCU Response

MnSCU agreed with the findings and recommendations in the audit report, except for the finding on one college's questionable use of professional judgment. MnSCU submitted a corrective action plan for the other findings and recommendations contained in the report. Some of the findings have been resolved.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
James Riebe, CPA	Audit Manager
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Anna Lamin	Staff Auditor
Neal Dawson	Intern
Michelle Breault	Intern
Steve Carr	Intern
Keith Bispala	Intern

Exit Conference

We discussed the results of the audit at an exit conference with the following MnSCU staff on February 26, 1998:

Laura King	Vice Chancellor, Chief Financial Officer
Al Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting
Chris Halling	System Director for Student Financial Aid
John Asmussen	Executive Director of Internal Auditing

Chapter 1. Introduction

The Minnesota State Colleges and Universities System (MnSCU) consists of 36 colleges and universities with 53 campuses located throughout Minnesota. The system includes state universities and community and technical colleges. A 15-member board of trustees that is appointed by the Governor oversees the activities of MnSCU. Morris J. Anderson succeeded Judith Eaton as MnSCU chancellor effective July 7, 1997.

We completed our work at MnSCU as part of our audit to express an opinion of the state's fiscal year 1997 financial statements. MnSCU is responsible for various financial activities that are material to the state's financial statements. MnSCU administers its Supplemental Retirement Fund, Enterprise Activities Fund, and Revenue Bond Fund. Other MnSCU financial activities are material components of other state funds. For example, tuition revenues are material to the state's General Fund and student financial aid revenues and expenditures are material to the Federal Fund. Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1997, includes our unqualified audit opinion on the state's financial statements.

We also audited material federal programs to meet the requirements of the Single Audit Act. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1997, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing that report in March 1998.

We discuss our audit scope, objectives, and conclusions, including applicable findings and recommendations, in the following chapters:

- 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. 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 and individual university Perkins loan management systems. The MnSCU system office centrally collects Perkins loan repayments from community college students. Each of the seven universities maintain their own Perkins loan management systems.
- Chapter 5 discusses our work on the Federal Vocational Education Basic Grant program. The MnSCU system office allocates funds for this federal program to individual technical colleges.

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Chapter 2. Financial Statement Components

Chapter Conclusions

Minnesota State Colleges and Universities (MnSCU) fairly presented the material financial activities included in our audit scope in accordance with generally accepted accounting principles. MnSCU continued to experience significant problems, however, in obtaining complete financial information which impacted its ability to prepare timely and complete financial statements.

Background

MnSCU campuses use a combination of the MnSCU accounting system, campus subsystems and manual records, and the state's accounting and procurement system to record financial transactions. The campuses also use the State Colleges and Universities Personnel and Payroll System (SCUPPS) and the state's payroll and personnel system. SCUPPS is 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. The system office is responsible for preparing MnSCU financial statements for inclusion in the state's annual financial statements. MnSCU relies on the information recorded in the MnSCU accounting system as a basis for preparing its financial statements.

Audit Scope, Objectives, and Methodology

Our audit scope included only MnSCU financial activities that were material to the state of Minnesota's financial statements for the fiscal year ending June 30, 1997, as listed in Table 2-1.

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Table 2-1
Financial Statement Audit Scope¹
Year Ended June 30, 1997
(In Thousands)

<u>Fund/Account Type</u>	<u>Audit Area</u>	<u>Amount</u>
General	Tuition and Fees	\$267,342
Federal	Selected Student Financial Assistance Programs Revenues and Expenditures (Pell, Federal Work Study, Federal SEOG)	68,137
College and University Retirement	Cash and Investments	144,163
	Equity in Pension Investment Trust Funds	215,471
	Contributions	24,282
	Realized/Unrealized Gains (Losses)	57,484
	Refunds	12,951
Enterprise Activities	Cash and Investments	20,786
	Loans Receivable	35,153
	Sales	52,500
	Inventory	6,715
Capital Projects	Selected Construction Project Expenditures (at five colleges and universities)	13,334
Endowment	Revenues	6,159
	Expenditures	8,651
General Long-term Debt Account Group	Compensated Absences	65,740

Note 1 Information presented in this table is intended to define our audit scope and not intended to present comprehensive MnSCU financial data.

Source: State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1997.

In addition to the amounts reported in Table 2-1, our audit scope included payroll costs of approximately \$621 million, general fixed assets of \$1.1 billion, approximately \$21 million in cash and investment amounts in local bank accounts for other MnSCU funds, and Agency Fund activities.

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;
- gain an understanding of the internal control structure; and
- determine compliance with material legal provisions.

To meet our objectives, we performed analytical procedures and verified financial statement amounts to selected individual school accounting records. We obtained external confirmations for cash and supporting documentation for investment balances.

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Conclusions

MnSCU's material financial activities included in our audit scope were fairly presented in Minnesota's Comprehensive Annual Financial Report for fiscal year 1997. The issues reported in Finding 1, however, negatively impacted MnSCU's ability to prepare timely and accurate financial statements.

1. PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: MnSCU experienced significant delays and difficulties in preparing its financial statements.

Delays of over two months in the preparation of financial statements resulted from untimely or incomplete reconciliations of local bank account balances to the accounting system and campuses not recording all financial transactions in the MnSCU accounting system. These weaknesses necessitated numerous adjustments by the MnSCU system office in order to prepare accurate financial statements because the basis for MnSCU's financial reporting is the MnSCU accounting system. Because of the problems with accounting system data, system office staff had to do significant additional analysis and review. The difficulty in obtaining complete and accurate financial information from other sources, and the number and extent of the required adjustments, resulted in significant delays in the financial reporting process and audit verification. We cited the lack of comprehensive financial information on MnSCU accounting and untimely bank account reconciliations in several prior audits of MnSCU institutions.

In fiscal year 1997, the system office made adjustments to MnSCU accounting to eliminate prior year financial activity, to add activity not recorded on MnSCU accounting, and to adjust unreconciled cash and investment amounts.

- The MnSCU system office made numerous adjustments for millions of dollars because many MnSCU campuses had not reconciled their June 30 local bank account statements to supporting accounting records. Despite the magnitude of the adjustments, an unreconciled difference of approximately \$654,000 could not be resolved. Many of the campuses had not reconciled their bank accounts for over three months after fiscal year end. By mid-October, 10 campuses had not provided the requested bank account reconciliations. The system office had directed that this information be submitted by August 31. By the end of November, five campuses (Anoka-Hennepin Technical College, Century College, Rainy River Community College, Northland Community and Technical College, and Bemidji State University) had not completely reconciled their accounts. The campuses need to complete reconciliations timely to resolve errors and correct the accounting records, and to ensure that MnSCU has accurate accounting records to support its financial statements.
- The system office made financial statement adjustments of approximately \$853,000 because several colleges and universities did not record all of their local financial activities in MnSCU accounting from subsystems, despite a directive from the MnSCU system office.
- The system office erroneously included approximately \$10.6 million in fiscal year 1996 financial aid payments in the fiscal year 1997 draft financial statements.

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Although the magnitude of MnSCU's financial reporting problems remains serious, the system office did institute certain procedures to improve the integrity of MnSCU financial information in fiscal year 1997. System office staff held training workshops for campus personnel on the bank reconciliations process, verified the accuracy of the campus bank reconciliations, and reconciled federal financial activity recorded on the accounting system to campus federal reports, among other procedures.

Recommendation

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

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 for the transactions tested, with some limited exceptions. We noted \$6,429 in financial aid overpayments to students. Many of these overpayments resulted from the method certain schools used to determine financial aid for summer sessions. We also questioned a \$2,824 adjustment to a student's cost of attendance budget for international travel for family reasons which potentially resulted in an overpayment. Finally, we noted an internal control weakness over the administration of federal work study at four colleges.

Background

State universities, along with community and technical colleges, award both federal and state financial aid to eligible students from various financial aid programs. 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 portions of the Federal Family Education and W. D. Ford Federal Direct Loan Programs, a student must demonstrate financial need to be eligible for financial aid. Financial need is the difference between the student's COA budget and the family's ability to pay those costs, termed Expected Family Contribution (EFC). The Central Processing System (CPS) determines a student's EFC.

The Single Audit Act Amendment of 1996 changed the audit scope for federal student financial aid programs for fiscal year 1997. The amendment defines all federal student financial aid programs that share common compliance requirements as a cluster of programs. The federal government specifies that a cluster of programs becomes a major program. Therefore, the following federal student financial aid programs were included in the scope of our audit this year.

- The Federal Pell Grant Program (Pell) 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 the number of eligible students enrolled. The maximum Pell grant award was \$2,470 in fiscal year 1997.

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- The Federal Perkins Loan Program provides low-interest loans to students. Universities and community colleges act as a lender, using both federal funds and institution (state) match for capital contribution. (Technical colleges do not participate in the Perkins Loan Program.) Federal regulations require institutions to fund the program at a rate of one-third of the federal capital contribution, or 25 percent of the combined federal and state capital contribution. Community colleges collect Perkins loan repayments centrally for all campuses, while each university processes its own loan collections. (Refer to Chapter 4 for a detailed discussion of the community college and university loan management systems.)
- The Nursing Student Loan Program (NSL) provides low-interest loans to nursing students. Similar to the Perkins Loan Program, loan funds are established using federal and institution capital contributions. Repayments of principal and interest return to the fund.
- The Federal College Work Study Program (FWS) provides part-time employment to students. The federal government provides funds to institutions and campuses provide matching funds. Colleges apply for federal funds, hire students, and process biweekly student payroll. The system office processes student payroll for many of the community colleges and certain technical colleges.
- The Federal Supplemental Educational Opportunity Grant Program (FSEOG) provides grants to eligible undergraduate students. Pell recipients that have the lowest EFC receive first priority. Awards range from \$100 to \$4,000. Campuses match federal funds with institutional (state) funds.
- The Federal Family Education Loan (FFEL) Program includes subsidized and unsubsidized federal Stafford loans to students and PLUS loans to parents. Private lenders provide the principal for these loans. The federal government guarantees the loans, reimbursing the lender in the event of default or cancellation. The universities and colleges certify that the student is eligible for a loan, and forwards the application to the state guarantee agency for approval. If the guarantee agency and the lender approve the loan, the lender sends the loan amount to the college. The college distributes the loan proceeds to the student.

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

- The William D. Ford Federal Direct Loan (Direct Loan) Program is essentially the same as the Federal Family Education Loan (FFEL) Program in terms of the types of loans offered. The key difference is that the federal government, rather than a private lender, provides the principal for these loans.

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Audit Scope, Objectives, and Methodology

We audited the cluster of federal student financial aid programs listed in Table 3-1 for compliance with federal program requirements in fiscal year 1997.

Table 3-1
Federal Student Financial Aid Programs
Fiscal Year Ended June 30, 1997
(in Thousands)

<u>CFDA Number</u>	<u>Program</u>	<u>Total</u>
84.032	FFEL	\$152,050
84.063	Pell	55,998
84.007	FSEOG	7,338
84.033	FWS	7,352
84.038	Perkins	6,761
84.268	Direct Loan	6,600
93.364	NSL	54

Source: Minnesota Financial and Compliance Report on Federally Assisted Programs-Statement of Expenditures and respective Perkins loan program footnotes for the year ended June 30, 1997.

Our audit objectives under the Single Audit Act included determining whether:

- MnSCU complied with rules and regulations that may have a material effect on the cluster of federal student financial assistance programs.
- MnSCU designed internal controls to provide reasonable assurance that the cluster of federal student financial assistance programs was administered in compliance with federal requirements.

To address our compliance objectives, we reviewed applicable federal policies, procedures, and guidelines. We also interviewed business office and student financial aid personnel at certain MnSCU campuses. 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 reviewed financial aid disbursements to all MnSCU students for compliance with financial aid program limits. We also tested a total of 186 individual MnSCU students for compliance with federal requirements. Of the total students tested, we selected 52 students randomly. In addition, we selected 134 students because of the amount of financial aid received or other unusual circumstances. For those students selected randomly, we tested compliance with all applicable federal program requirements. For the other students, we substantiated the propriety of the amount of financial aid or unusual circumstances that brought the item to our attention.

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To meet our objectives for internal control over federal student financial aid programs, we relied on the internal control work performed on student financial aid during audits of the following schools for which we issued separate reports in 1997:

- Minneapolis Community College (**Report Number 97-23**)
- Lake Superior College (**Report Number 97-24**)
- Metropolitan State University (**Report Number 97-26**)
- Fergus Falls Community College (**Report Number 97-35**)
- Moorhead State University (**Report Number 97-36**)
- Alexandria Technical Community College (**Report Number 97-38**)
- Winona State University (**Report Number 97-39**)
- St. Paul Technical College (**Report Number 97-41**)
- Northland Technical College (**Report Number 97-45**)
- Pine Technical College (**Report Number 97-47**)
- Rainy River Community College (**Report Number 97-53**)
- Inver Hills Community College (**Report Number 97-54**)

In addition to these reports, we reported the results of our internal control review of federal financial aid programs for fiscal year 1997 at Dakota County Vocational Technical College, North Hennepin Community College, Mankato State University, St. Cloud State University, and Normandale Community College in a report titled, *Minnesota State Colleges and Universities Federal Student Financial Aid Programs Fiscal Year 1996 Management Letter* (**Report Number 97-29**).

Finally, we gained an understanding of campus and MnSCU system office controls over federal work study for the community colleges and technical colleges that process work study payroll disbursements through the system office. We also tested controls over work study payments for a sample of students system-wide.

Conclusions

MnSCU administered material federal student financial aid programs in compliance with federal requirements, except for the overpayments discussed in Finding 2, the questionable adjustment to a student's cost of attendance budget in Finding 3, and internal control weaknesses over federal work study reported in Finding 4.

2. A limited number of students were overpaid from various student financial aid programs.

Five campuses overpaid financial aid totaling \$6,429 to nine students. The overpayments resulted from payments in excess of financial aid program limits. Several of the exceptions related to how the schools packaged financial aid for summer sessions. Overpayments occurred when the campuses originally allocated the students maximum financial aid award to fall, winter, and spring quarters. The schools awarded summer session at a later time, and did not consider any prior financial assistance payments. Table 3-2 summarizes the overpayments identified in our testing.

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Table 3-2
Financial Aid Overpayments
Fiscal Year Ended June 30, 1997

Campus	Federal Program	Over-payment	Award Amount	Annual Award Limit (*)	Over-payment Category
Metro State:	FFEL	\$1,139	\$11,139	\$10,000	Exceeded graduate student loan limit
Mankato: Student #1	FFEL	\$197	\$8,697	\$8,500	Exceeded graduate student loan limit
Student #2	FFEL	\$931	\$9,431	\$8,500	Excluded aid received at another college
Student #3	FFEL	\$1,902	\$10,402	\$8,500	Omitted summer session from total aid calculation
Student #4	FFEL	\$115	\$8,615	\$8,500	Omitted summer session from total aid calculation
Inver Hills: Student #1	FFEL	\$875	\$4,375	\$3,500	Omitted summer session from total aid calculation
Student #2	FFEL	\$564	\$4,564	\$4,000	Omitted summer session from total aid calculation
Itasca	Perkins	\$500	\$3,500	\$3,000	Omitted summer session from total aid calculation
Worthington	Pell	\$206	\$2,676	\$2,470	Omitted summer session from total aid calculation

(*) = Annual award limits vary depending on the type of financial assistance and the academic grade level obtained by the student.

Recommendation

- *The MnSCU campuses should work with the U.S. Department of Education to remedy the various overpayments.*

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3. Anoka Ramsey Community College made a questionable adjustment to one student's cost of attendance budget.

Anoka Ramsey Community College used professional judgment to increase one student's financial aid by an additional \$2,824 for airfare and other expenses not related to the student's course of study. The student received the additional financial aid for an international trip to work with the Immigration and Naturalization Service to bring the student's child to the United States. The student received approximately \$15,000 in federal financial assistance in fiscal year 1997 and had an expected family contribution of zero. Federal regulations allow financial aid directors to use professional judgment to adjust COA budgets on a case-by-case basis. The adjustments, however, must serve an educational purpose. The trip in question appears personal in nature and not related to the student's education. Also, at the time of our audit, the student's financial aid file did not contain evidence that the airfare and other expenses had actually been incurred. Subsequent to our fieldwork, the college obtained actual documentation supporting the additional financial aid. From the time the expenses were incurred, however, several months had lapsed.

Recommendation

- *Anoka Ramsey Community College should work with the U.S. Department of Education to resolve the use of a questionable expense to increase the student's financial aid.*

4. Four campuses did not adequately separate duties over certain college work study student payroll functions.

Of 26 community and technical colleges included in our internal control work for federal work study, Minnesota West, St. Cloud TC, Itasca, and Rainy River did not adequately separate duties over processing student payroll. Incompatible duties exist when responsibilities for an entire accounting process or transaction cycle are concentrated in one individual, thereby precluding an independent verification by another individual.

At the campuses noted above, one employee from either the business office or financial aid office performed all duties pertaining to student payroll processing. Specifically, the employee added new student workers to the student payroll system, collected timesheets, summarized timesheets for processing at the systems office, received the checks, reconciled the student payroll, and occasionally distributed the checks to students.

When one person has control over an entire process or transaction cycle, the risk that errors or irregularities will go undetected increases significantly. The campuses could separate incompatible duties by involving other individuals in certain aspects of the student payroll process. At a minimum, the campuses could separate the physical custody of the assets from the record keeping function.

Recommendation

- *Campuses should assign student payroll duties among the financial aid, payroll, and business offices to ensure an adequate separation of duties.*

Chapter 4. Perkins Loan Management Systems

Chapter Conclusions

Perkins loan repayments, deferments, and cancellations were properly recorded in the community college Loan Management System (LMS) and the individual state university loan systems in accordance with program requirements. The program was administered in compliance with the federal requirements for the items tested. The loan collection systems also properly recorded all new loans issued for fiscal year 1997.

Background

The Federal Perkins Loan Program provides low-interest 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 loan management systems. Disbursement transactions automatically update the loan management systems once a week. The MnSCU system office performs all loan collection responsibilities for the community colleges. State universities operate their own independent Perkins loan repayment systems. Technical colleges do not administer the Federal Perkins Loan Program.

The MnSCU system office is responsible for a balance of over \$7 million in Perkins loans for the community colleges. The state universities cumulatively manage approximately \$28.7 million in Perkins loans. Loan management entails corresponding with students in repayment status, receiving loan repayments, pursuing delinquent loans, authorizing loan cancellations, deferments, postponements, and forbearances.

Audit Objectives and Methodology

The primary objective of our audit was to determine whether the loan management systems complied with Perkins Loan Program requirements. As part of our work, we gained an understanding of the internal control systems to provide assurance that MnSCU 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 and university staff responsible for the loan management systems. We ensured the financial aid systems transferred all new loans issued for the 1996-97 school year into the loan management systems. We also tested fiscal year 1997 repayment and cancellation transactions. We compared the ending student loans receivable balance reported in LMS and the individual university systems to the loans receivable balances reported by campuses to the federal government on the Federal Fiscal Operations Report and Application to Participate (FISAP) report.

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Conclusions

MnSCU's Perkins loan management systems provided reasonable assurance that Perkins loan activity, including loan repayments, deferments, and cancellations, was accurately recorded and administered in compliance with applicable laws and regulations. MnSCU properly recorded all new loans issued for fiscal year 1997 on LMS and the university systems. For the items tested, MnSCU complied with Perkins loan management requirements. We noted, however, minor discrepancies between the Perkins loans receivable balances reported by several community colleges on the loan management system and the loans receivable amounts reported to the federal government for fiscal year 1997. In fiscal year 1996, we reported a finding that several community college campuses reported significantly different Perkins loans receivable balances.

Chapter 5. Federal Vocational Education-Basic Grants to States

Chapter Conclusions

MnSCU complied with material federal program requirements for the Carl D. Perkins Vocational Education-Basic Grants to States program, CFDA 84.048, for the items tested. MnSCU accurately reported program costs of \$17.8 million for fiscal year 1997. MnSCU designed internal controls that provided reasonable assurance that the program was administered in compliance with federal requirements.

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 the education of individuals with handicaps, the educationally and economically disadvantaged, individuals with 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.

Audit Scope, Objectives, and Methodology

In fiscal year 1997, the total Carl Perkins federal program expenditures were \$17.8 million. MnSCU administers approximately \$15.5 million for the Vocational Education-Basic Grants to States program (CFDA #84.048). MnSCU grants the remainder of approximately \$2.3 million to the Department of Children, Families & Learning (CFL). Those funds are subject to audit coverage at CFL.

Payroll costs represent the largest share of federal program expenditures for the Vocational Education-Basic Grants to States program. Table 5-1 shows how MnSCU spent federal program funds during fiscal year 1997.

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Table 5-1
Vocational Education-Basic Grants to States, CFDA #84.048
Fiscal Year 1997 Federal Expenditures
(In Thousands)

<u>Expense Type</u>	<u>Amount</u>	<u>Percent</u>
Salaries and Fringe	\$7,615	43%
Grants	5,582	31%
Grants to Children, Families & Learning	2,260	13%
Purchased Services	1,209	7%
Supplies	1,120	6%
Indirect Costs and Other Expenses	42	0%
Total	<u>\$17,828</u>	<u>100%</u>

Source: Minnesota Financial and Compliance Report on Federally Assisted Programs-Statement of Expenditures for the year ended June 30, 1997.

The primary objective of our audit of this program was to determine compliance with federal program requirements for the Vocational Education-Basic Grants to States program, CFDA #84.048. As part of our work, we gained an understanding of the internal control systems MnSCU designed to provide reasonable assurance that the program funds were managed in compliance with material financial-related laws and regulations.

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

For fiscal year 1997, MnSCU complied with Vocational Education-Basic Grants to States program requirements for the items tested and accurately recorded federal financial activities for CFDA #84.048 in the accounting system. The MnSCU system office and campus internal control structure provided reasonable assurance that campuses administered the program in compliance with material federal program rules and regulations.

Status of Prior Audit Issues

As of January 30, 1998

Most Recent Audit

June 6, 1997, Legislative Audit Report 97-29 focused on selected financial activities for fiscal year 1996 that were material to the state's financial statements and the Single Audit of federal programs. The report cited two financial statement issues. One significant issue pertaining to delays and difficulties in the preparation of financial statements was partially implemented in that the system office performed additional procedures in fiscal year 1997 to improve the integrity of financial data. See Finding 1 for the current status of this issue.

The report also cited several Single Audit issues including control weaknesses and noncompliance with federal regulations. The majority of those issues have been resolved. We noted substantial improvement, but not full resolution, on one issue pertaining to discrepancies in Perkins loan receivable balances on the community college loan management system and the amount reported to the federal government. Therefore, the issue is not repeated in our current report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota State Colleges and Universities

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Minnesota State Colleges & Universities

March 9, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent audit report concerning *Selected Material Financial Statement Components and Federal Financial Assistance Programs - Fiscal Year 1997*. The work of your office is a valuable measure of MnSCU's financial and programmatic leadership on behalf of Minnesota's system of public higher education institutions. The MnSCU Board of Trustees and Chancellor Anderson are deeply committed to strong financial management and the highest level of financial integrity. As your audit points out, while some improvements have occurred, MnSCU has much work remaining to deliver on this commitment.

The audit represents the second annual system wide review of financial statement and financial aid information that is a part of the state's overall financial statements. Last year at this time your office issued its report concerning FY1996 with similar financial statement and financial aid conclusions. MnSCU colleges and universities have adequate controls over material federal financial aid programs and comply with federal regulations and requirements. MnSCU disbursed nearly \$70 million in financial aid in FY1997 to more than 50,000 students. I was very pleased to see only three findings result from your review of what is a technically highly exacting federal program.

As always, my thanks to your staff for the professional and courteous manner in which they conducted the audit. Listed below please find specific responses to each of the four findings including time lines and remedies.

1. Prior audit recommendation partially implemented: MnSCU experienced significant delays and difficulties in preparing its financial statements.

The MnSCU system office has responsibility for the compilation of financial information created and maintained by the 36 colleges and universities across the state. Institutions use local bank checking for activities not maintained in the state treasury. Accounting procedures require regular reconciliation of the local accounts to MnSCU accounting. This has been an area of continuing difficulty for the institutions due to the use of excessive bank accounts and a lack of proficiency performing the reconciliations.

The system office has undertaken several actions since the preparation of the FY1997 financial statements. All presidents and chief financial officers were informed in November 1997 that multiple local bank checking accounts were to be closed by the end of FY1998 (June 1998). Under very limited circumstances more than one checking account will be allowed starting July 1.

The system office also has provided additional training to all colleges and universities on the reconciliation process. Beginning with the February reporting period evidence of monthly reconciliation will be provided to the system office as additional assurance that the institutions are on track.

It is my expectation that these actions will substantially improve the timeliness and completeness of the FY1998 financial statement process. The system office will continue efforts in FY1998 through training, procedures, monitoring and reporting to improve the effectiveness and efficiency of our financial reporting process. Ms Rosalie Greeman, recently appointed as the Associate Vice Chancellor for Financial Reporting, will have overall responsibility for this effort.

2. A limited number of students were overpaid from various student financial aid programs. A total of nine students from five campuses were found to have been overpaid from federal financial aid funds by a total of \$6,429.

Financial aid staff at each of the five colleges have examined the finding, agree with it, and are working with the U.S. Department of Education (and the appropriate lending entities) to remedy the overpayments. This should be completed before the end of the current fiscal year.

3. Anoka-Ramsey Community College made a questionable adjustment to one student's cost of attendance budget. The auditor is questioning a \$2,824 cost of attendance adjustment in one student's budget.

We do not agree with this finding.

Title IV of the Higher Education Act of 1965, As Amended: Section 479A(a) says: "IN GENERAL -- **Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance...**to allow for treatment of an individual eligible applicant with special circumstances...**nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator** in such cases to request and use supplementary information

about the financial status or personal circumstances of eligible applicants **in selecting recipients and determining the amount of awards under this title.**”

The financial aid director at Anoka-Ramsey Community College lawfully and appropriately exercised her professional judgement to increase a student’s cost of attendance budget to reflect unanticipated dependent care and transportation expenses. The adjustment was made for one student, not for a class of students; it was made to legitimate components of the student’s cost of attendance budget; and the reasons for the adjustment were documented by the financial aid director. In addition, the actual incurring of the expenses has now been documented as well (this, of course, cannot happen until the event actually occurs). We have submitted this finding and the supporting materials to the U. S. Department of Education Training Officer for Region V (which includes Minnesota); her response supports our position.

4. Four campuses did not adequately separate duties over certain college work study student payroll functions.

Financial aid staff at the four colleges are aware of the requirement and will work with their administrations to appropriately assign payroll duties to ensure an adequate separation of duties. The System Director for Student Financial Aid will work with them to ensure that this is done before student payrolls are run for the next fiscal year.

Warmest Regards,


Laura M. King
Vice Chancellor - Chief Financial Officer