

**MINNESOTA STATE COLLEGES
AND UNIVERSITIES**

*Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2007 and
Independent Auditors' Report*

**MINNESOTA STATE COLLEGES
AND UNIVERSITIES**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133* AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

February 27, 2008

Board of Trustees
Minnesota State Colleges and Universities
St. Paul, Minnesota

COMPLIANCE

We have audited the compliance of Minnesota State Colleges and Universities ("MnSCU") with the types of compliance requirements described in the U.S. Office of Management and Budget ("*OMB*") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs, as determined by the State of Minnesota Office of the Legislative Auditor, for the year ended June 30, 2007. MnSCU's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of MnSCU's management. Our responsibility is to express an opinion on MnSCU's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MnSCU's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MnSCU's compliance with those requirements.

In our opinion, MnSCU complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying Schedule of Findings and Questioned Costs as items KDV 07-4 through KDV 07-11.



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INTERNAL CONTROL OVER COMPLIANCE

The management of MnSCU is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered MnSCU's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MnSCU's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.



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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the consolidated financial statements of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Minnesota State Colleges and Universities (MnSCU) as of and for the year ended June 30, 2007 and have issued our report thereon dated November 12, 2007. Our audit was performed for the purpose of forming opinions on the consolidated financial statements that collectively comprise MnSCU's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the consolidated basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the consolidated basic financials statements taken as a whole.

MnSCU's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit MnSCU's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Trustees, the Audit Committee, management and the State of Minnesota Office of the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

MINNESOTA STATE COLLEGES AND UNIVERSITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Federal Agency	CFDA #	Expenditures
CLUSTERED PROGRAMS		
<i>Department of Labor:</i>		
<i>Employment Services Cluster -</i>		
Employment Service	17.207	\$ 1,245,209
<i>Department of Education:</i>		
<i>Student Financial Assistance Cluster:</i>		
Federal Supplemental Educational Opportunity Grants	84.007	5,639,009
Federal Work-Study Program	84.033	6,309,125
Federal Pell Grant Program	84.063	107,663,237
Academic Competitiveness Grants	84.375	1,366,021
National Science and Mathematics Talent (Smart) Grants	84.376	994,667
<i>Special Education Cluster -</i>		
Special Education - Preschool Grants	84.173	101,311
<i>TRIO Cluster:</i>		
TRIO - Student Support Services	84.042	5,689,368
TRIO - Talent Search	84.044	1,284,730
TRIO - Upward Bound	84.047	4,460,911
TRIO - Educational Opportunity Centers	84.066	724,987
Office of Safe and Drug-Free Schools	84.184	82,032
<i>Department of Health and Human Services:</i>		
<i>Child Care Cluster -</i>		
Child Care and Development Block Grant	93.575	4,956
<i>Department of the Interior:</i>		
<i>Fish & Wildlife Cluster -</i>		
Wildlife Restoration	15.611	8,032
National Park Service	15.912	2,230
Total Clustered Programs		135,575,825

NONCLUSTERED PROGRAMS:

Department of Agriculture:

Tribal Colleges Education Equity Grants	10.221	20,714
Institutions Research Program	10.227	47,253
Risk Management Crop Insurance Grant	10.459	25,606
Cooperative Extension Service	10.500	63,555
Child and Adult Care Food Program	10.558	12,970
Forest Service	10.652	11,547
Soil Survey	10.903	3,555

MINNESOTA STATE COLLEGES AND UNIVERSITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007 (continued)

Federal Agency	CFDA #	Expenditures
NONCLUSTERED PROGRAMS (continued):		
<i>Department of the Navy:</i>		
Basic and Applied Scientific Research	12.300	8,911
<i>Department of Housing and Urban Development:</i>		
Community Planning and Development	14.246	114,277
Community Development Work-Study Program	14.512	42,812
<i>Department of the Interior:</i>		
Fish and Wildlife Management Assistance	15.608	4,032
State Wildlife Grants	15.634	2,689
Assistance to State Water Resources Research Institutes	15.805	537
Upper Mississippi River System - Long Term Resource Monitoring Program	15.978	15,506
<i>Department of Justice:</i>		
Developing, Testing and Demonstrating Promising New Programs	16.541	331,823
Edward Byrne Memorial Law Enforcement Assistance Grants Program	16.580	180,780
<i>Department of Labor:</i>		
WIA Adult Program	17.258	6,929
Dislocated Workers	17.260	6,318
WIA Pilots, Demonstrations, and Research Projects	17.261	1,361,399
Incentive Grants - WIA Section 503	17.267	5,036
Occupational Safety and Health Training	17.502	96,181
Mine Safety and Health Administration	17.600	257,184
<i>Department of State:</i>		
Bureau of Intelligence and Research	19.300	23,293
<i>Department of Transportation:</i>		
Interagency Hazardous Materials Public Sector Training and Planning	20.703	43,722
<i>National Aeronautics and Space Administration:</i>		
Aerospace Education Services Program	43.001	66,973

MINNESOTA STATE COLLEGES AND UNIVERSITIES

YEAR ENDED JUNE 30, 2007 (continued)

Federal Agency	CFDA #	Expenditures
NONCLUSTERED PROGRAMS (continued):		
<i>National Foundation on the Arts and the Humanities:</i>		
Promotion of the Arts - Federal/State Partnership	45.025	\$ 753
Promotion of the Humanities - Federal/State Partnership	45.129	6,645
National Endowment of the Humanities	45.164	1,567
State Library Program	45.310	108,002
<i>National Science Foundation:</i>		
Engineering Grants	47.041	328,414
Mathematical and Physical Sciences	47.049	44,091
Geosciences	47.050	14,322
Computer and Information Science and Engineering	47.070	130,788
Biological Sciences	47.074	159,094
Social, Behavioral, and Economic Sciences	47.075	105,568
Education and Human Resources	47.076	1,036,843
Polar Programs	47.078	3,038
<i>Small Business Administration:</i>		
Small Business Development Center	59.037	949,167
<i>Environmental Protection Agency:</i>		
Surveys, Studies, Investigations Grants	66.436	15,067
Nonpoint Source Implementation Grants	66.460	71,006
Small Water System Training and Certification	66.471	19,101
Science to Achieve Results (STAR) Research Program	66.509	342,526
<i>Department of Energy:</i>		
State Energy Program	81.119	39,886
Science Program	81.049	237,030
<i>Homeland Security Agency:</i>		
Hazardous Materials Training Program	97.020	10,354
State Fire Training Systems Grants	97.043	1,800
<i>Department of Education:</i>		
Adult Education - State Grant Program	84.002	17,806
Special Education Grants to States	84.027	81,228
Higher Education - Institutional Aid	84.031	172,611
Vocational Education - Basic State Grants	84.048	20,401,279
Vocational Education - Indian	84.101	245,341
Fund for the Improvement of Postsecondary Education	84.116	65,794
Rehabilitation Long-Term Training	84.129	113,449
Fund for the Improvement of Education	84.215	86,850
Trio - McNair Post Baccalaureate Achievement	84.217	229,192
Tech-Prep Education	84.243	1,877,470
Tech-Prep Demonstration Grants	84.353	113,456

MINNESOTA STATE COLLEGES AND UNIVERSITIES

YEAR ENDED JUNE 30, 2007 (continued)

Federal Agency	CFDA #	Expenditures
<i>Department of Education:</i>		
Comprehensive Centers	84.283	\$ 68,304
Special Education- State Personnel Development	84.323	20,930
Research in Special Education	84.324	1,049,479
Special Education Personnel Preparedness to Improve Services for Children with Disabilities	84.325	239,763
Childcare Access Means Parents in School	84.335	75,793
Teacher Quality Enhancement Grants	84.336	757,649
TRIO - Dissemination Partnership Grants	84.344	92,492
Occupational and Employment Information State Grants	84.346	75,817
Mathematics and Science Partnerships	84.366	40,559
Improving Teacher Quality State Grants	84.367	285,149
<i>Department of Health and Human Services:</i>		
Consolidated Knowledge Development and Application	93.230	9,472
Alcohol Research Programs	93.273	299,523
Discovery and Applied Researcher to Improve Human Health	93.286	26,778
Advanced Nurse Education	93.299	1,581
Trans-Nih Research Support	93.310	50,181
Advanced Education Nursing Traineeships	93.358	97,914
Nurse Education, Practice, and Retention Grants	93.359	1,865
Nursing Research	93.361	7,346
Head Start	93.600	48,527
Child Welfare Services Training Grants	93.648	108,411
Foster Care - Title IV	93.658	207,821
Microbiology and Infectious Diseases Research	93.856	39,676
Specially Selected Health Projects	93.888	82,587
Geriatric Education Centers	93.969	15,713
International Research and Training	93.989	35,725
<i>Corporation for National and Community Service:</i>		
Learn and Serve America - Higher Education	94.005	3,959
AmeriCorps	94.006	273,682
Planning and Program Development Grants	94.007	17,245
Total Non Clustered Programs		33,817,081
Grand Total		\$ 169,392,906

MINNESOTA STATE COLLEGES AND UNIVERSITIES

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federally sponsored transactions of the Minnesota State Colleges and Universities (“MnSCU”) reported on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*.

NOTE 2 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO MnSCU’S BASIC FINANCIAL STATEMENTS

The following Schedule is a reconciliation of total expenditures as shown on the Schedule of Expenditures of Federal Awards to the federal grant revenue on MnSCU’s basic financial statements for the year ended June 30, 2007.

Federal Grant Revenue Per Basic Financial Statements	\$ 169,629,236
Less Miscellaneous Adjustments	<u>(236,330)</u>
 Total Per Schedule of Expenditures of Federal Awards	 <u><u>\$ 169,392,906</u></u>

NOTE 3 – PERKINS AND NURSING STUDENT LOAN PROGRAMS

The amount reported on the financial statements for the Perkins Loans (84.038) for the Minnesota State College and University System is the administrative and collection cost. Below is a summary of the loan activity for the Perkins Loans and Nursing Loans Program (93.364) during fiscal year 2007.

	<u>Perkins</u>	<u>Nursing Loans</u>
Loans Receivable, Beginning	\$ 35,208,849	\$ 38,216
Loan Repayments	(6,468,356)	(17,116)
Loan Cancellations	(652,351)	-
New Loans Issued	<u>6,111,822</u>	<u>-</u>
 Loans Receivable, Ending	 <u><u>\$ 34,199,964</u></u>	 <u><u>\$ 21,100</u></u>

MINNESOTA STATE COLLEGES AND UNIVERSITIES

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007**

NOTE 4 – FEDERAL FAMILY EDUCATION LOAN PROGRAMS

The Minnesota State College and University System financial records provide information on various federal higher education student loan programs for which the state does not manage the federal funds.

Under the Federal Family Education Loans (FFEL) Program (84.032), financial institutions make loans to students attending institutions of higher education. The Federal Direct Student Loan (FDSL) Program (84.268) operates similar to the FFEL Program except the federal government, rather than a private lender, provides the loan principal to the student. MnSCU distributed the following FFEL and FDSL loans to students attending state colleges or universities during fiscal year 2007.

Federal Family Education Loans Issued:

Federal Subsidized Stafford	\$ 160,430,784
Federal Unsubsidized Stafford	143,366,549
Federal Parent Loans for Undergraduate Students	<u>14,981,692</u>
Total Federal Family Education Loans	<u>\$ 318,779,025</u>

Federal Direct Student Loans	<u>\$ 48,373,203</u>
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MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified:	No
• Significant deficiencies identified that are not considered to be a material weakness(es)?	Yes, findings 07-1 to 07-3
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditors report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of <i>Circular A-133</i> ?	Yes, findings 07-4 to 07-11

Identification of Major Programs**

CFDA No.:	Various*
Name of Federal Program or Cluster:	Student Financial Assistance Cluster
Dollar Threshold used to Distinguish between Type A and Type B programs:	\$ 22.5 million**
Auditee qualified as low risk auditee?	No

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Identification of Major Programs

- * Includes Federal Supplemental Educational Opportunity Grant Program (CFDA No. 84.007), Federal Work Study Program (CFDA No. 84.033), Federal Pell Grant Program (CFDA No. 84.063), Academic Competitiveness Grant Program (CFDA No. 84.375), National Science and Mathematics talent (Smart) Grant Program (CFDA No. 84.376), Federal Direct Student Loan Program (CFDA No. 84.268), Federal Family Education Loans (CFDA No. 84.032), Federal Perkins Loans – Federal Capital Contributions (CFDA No. 84.038) and Nursing Student Loans (CFDA No. 93.364).
- ** The State of Minnesota Office of the Legislative Auditor (“OLA”) determined the dollar threshold used to distinguish between Type A and Type B programs. The OLA also determined the major programs to be audited under Circular A-133.

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant Deficiency KDV 07-1 - Scholarship Allowance

As part of the audit, an error of approximately \$ 2,300,000 was noted in the calculation of the scholarship allowance at two MnSCU campuses. The error was subsequently corrected in MnSCU’s financial statements. Had it not been corrected, this error would have an equal and offsetting effect on both revenues and expenses, and therefore would have had no effect on operating income or change in net assets. Further, there would have been no impact on assets, liabilities or net assets.

We recommend that management review internal control procedures over scholarship allowance to ensure it is being recorded, processed and reported in the financial statements consistent with the assertions of management.

Significant Deficiency KDV 07-2 - Understatement of Liabilities for Unrecorded Accounts Payable

MnSCU has established an automated query process to capture all accounts payable for invoices paid through July 31. For payments made subsequent to that date, MnSCU colleges and universities are responsible to review invoices and determine whether each payment should be reflected in the year end accounts payable balance. Certain MnSCU campuses and the system office did not properly review invoices supporting payments made after July 31 to determine whether any invoices pertained to the previous fiscal year. The cumulative amount of significant accounts payable not captured was approximately \$ 1,364,000.

We recommend management review and implement internal control procedures over accounts payable to ensure that accounts payable are being recorded, processed and reported in the financial statements consistent with the assertions of management.

MINNESOTA STATE COLLEGES AND UNIVERSITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant Deficiency KDV 07-3 - Journal Entry Approval

In evaluating the sufficiency in the operation of internal control over a significant process, we consider the likelihood that the control could fail to detect a misstatement in the financial statements and the magnitude of the misstatement that could occur. Preparing and recording journal entries is a significant accounting process for which there needs to be adequate internal control. Inappropriate journal entries have the potential to cause material misstatements in the financial statements. Although no inappropriate or incorrect journal entries were noted during the audit at the magnitude to cause a material misstatement, it was noted during the audit, journal entry errors occurred in situations where there was no review of journal entries by someone other than the preparer, and supporting documentation for journal entries was not always available.

We recommend a policy whereby all journal entries are documented and approved by someone other than the preparer. All entries should document the preparer and the reviewer in order to attribute responsibility to the appropriate individuals.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-4

CFDA No.: 84.007
 Program: Federal Supplemental Educational Opportunity Grant

CFDA No.: 84.063
 Program: Federal Pell Grant

CFDA No.: 84.032
 Program: Federal Family Education Loans (“FFEL”)

CFDA No.: 84.038
 Program: Federal Perkins Loans

Compliance Requirement: Special Tests and Provisions

Institution: Saint Paul College

Known Questioned Costs: \$ 10,323, of which all has been repaid.

Condition:
 Saint Paul College did not perform timely calculations of return to Title IV funds for some students receiving both “W” - withdrawals and “F” – failing grades during fiscal year 2007. The impact of not calculating these funds in a timely manner resulted in \$10,323 being refunded late. In January 2008, the College paid the U.S. Department of Education and applicable lenders \$10,323. This condition affected the following aid awards:

<u>CFDA</u>	<u>Description</u>	<u>Fiscal Year</u>	<u>Total</u>
84.063	Federal Pell Grant	2007	\$ 4,175
84.032	Subsidized FFEL	2007	1,022
84.032	Unsubsidized FFEL	2007	<u>5,126</u>
Total			<u>\$ 10,323</u>

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-4 (Continued)

Criteria:

The *OMB Compliance Supplement* requires an institution to properly calculate and determine the return of Title IV funds for all students that receive financial aid and either officially or unofficially withdraw.

Effect:

Saint Paul College was not in compliance with the federal requirements regarding return of Title IV funds. Specifically, funds were returned late to the U.S. Department of Education.

Recommendation:

Saint Paul College should improve the methodology used to identify students and perform timely and accurate return of Title IV fund calculations.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-5

CFDA No.: 84.007
Program: Federal Supplemental Educational Opportunity Grant

CFDA No.: 84.063
Program: Federal Pell Grant

CFDA No.: 84.032
Program: Federal Family Education Loans (“FFEL”)

CFDA No.: 84.038
Program: Federal Perkins Loans

Compliance Requirement: Cash Management, Special Tests and Provisions

Institution: Multiple, See Below

Known Questioned Costs: None – Procedural Finding Only

Condition:

The following Colleges and Universities did not always return loan funds to the lenders within the required time frame; Ridgewater College (1 loan), Winona State University (4 loans) and Saint Paul College (1 loan). These loan funds were returned between 1 and 31 days late. Regulations require the timely repayment of loan funds to lenders for students who do not accept the loans after receipt by the College or University.

Criteria:

The *OMB Compliance Supplement* requires an institution to properly calculate and return undisbursed funds on a timely basis for students who decline approved loans.

Effect:

The above Colleges and Universities were not in compliance with the federal requirements regarding return of Title IV funds. Specifically, funds were returned late to the applicable lenders.

Recommendation:

The above Colleges and Universities should improve the methodology used to identify loan returns and perform timely and accurate return of these loans.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-6

CFDA No.: 84.268
Program: Federal Direct Student Loans (“FDSL”)

CFDA No.: 84.032
Program: Federal Family Education Loans (“FFEL”)

Compliance Requirement: Special Tests and Provisions

Institution: Multiple

Questioned Costs: None – Procedural Finding Only

Condition:

During our sampling of student enrollment status changes, we noted that MnSCU does not have consistent practices to ensure timely and accurate reporting of enrollment changes in accordance with federal enrollment reporting requirements. Colleges and Universities submit enrollment status changes to the National Clearinghouse, an enrollment reporting service provider who subsequently submits to lenders and guaranty agencies and to NSLDS based on the institution’s NSDLS Roster File schedule. During our testing, we specifically noted inconsistencies related to reporting deadlines and reporting enrollment status for students who graduate or withdraw in 9 of 60 students sampled.

Criteria:

Under the requirements for the Federal Family Education Loan and Federal Direct Student Loan Programs, changes in student status must be reported to lenders and guaranty agencies within 30 days, unless the institution expects to submit the data on a Roster File received within 60 days of the change.

Effect:

MnSCU may not have been in compliance with enrollment status change reporting requirements.

Recommendation:

The Office of the Chancellor needs to review and revise its process to ensure accurate and timely reporting of student enrollment status changes in accordance with federal regulations.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-7

CFDA No.: 84.063
Program: Federal Pell Grant

Compliance Requirement: Reporting

Institution: Minnesota State University, Moorhead, Saint Paul College

Questioned Costs: None – Procedural Finding Only

Condition:
The above College and University did not report Federal Pell Grant Program (Pell) disbursements within 30 days. The College and University reported late twice during the year.

Criteria:
Under the requirements for the Federal Pell Grant Program, the College must report student payment data within 30 calendar days after the institution makes a payment to students or becomes aware of the need to make an adjustment to previously reported or expected student payment data.

Effect:
The above College and University are not in compliance with the reporting requirements specified by federal program guidelines.

Recommendation:
The above College and University should ensure that Federal Pell Grant expenditures are reported to the U.S. Department of Education within 30 days of being disbursed.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-8

CFDA No.:	84.268
Program:	Federal Direct Student Loans (“FDSL”)
CFDA No.:	84.032
Program:	Federal Family Education Loans (“FFEL”)
CFDA No.:	84.038
Program:	Federal Perkins Loans
<i>Compliance Requirement:</i>	Eligibility, Special Tests and Provisions
<i>Institution:</i>	Multiple
<i>Known Questioned Costs:</i>	None – Procedural Finding Only

Condition:

Northland Community College and Rainy River Community College did not notify students or parents in writing when disbursing loan proceeds to the students as required by federal regulations.

MnSCU’s three direct lending institutions also did not provide the required notification. Rather, these institutions relied on the disbursement disclosure sent by the direct lending loan origination center of the U.S. Department of Education.

Several other institutions send information to the student or parent, but this information is missing various disbursement dates or amounts. In addition, many institutions did not retain related documentation to verify that students or parents were notified.

Criteria:

Code of Federal Regulations (CFR) Section 668.165 requires if an institution credits a student’s account at the institution with direct loans, FFEL, or federal Perkins program funds, the institution must notify the student or parent in writing of the date and amount of the loan disbursement and the student’s or parent’s right to cancel all or a part of the loan proceeds.

Effect:

The above Colleges and Universities were not in compliance with CFR Section 668.165 relating to notification of loan disbursement information.

Recommendation:

The Office of the Chancellor should work with Colleges and Universities to develop a process to ensure proper notifications are completed when loan proceeds are disbursed.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-9

CFDA No.: 84.007
Program: Federal Supplemental Educational Opportunity Grant

CFDA No.: 84.033
Program: Federal Work Study

CFDA No.: 84.063
Program: Federal Pell Grant

CFDA No.: 84.268
Program: Federal Direct Student Loans (“FDSL”)

CFDA No.: 84.032
Program: Federal Family Education Loans (“FFEL”)

CFDA No.: 84.038
Program: Federal Perkins Loans

Compliance Requirement: Period of Availability of Federal Funds, Reporting

Institution: Multiple Institutions

Questioned Costs: None

Condition:

Various Colleges and Universities accounting systems did not always match the applicable drawdown reports or FISAP reports as follows:

Rainy River Community Colleges FISAP report did not match their accounting system for the SEOG program by \$6,675, SEOG administrative allowance by \$288 and Federal Workstudy administrative allowance by \$5,755 due to certain accounting transactions not being posted in a timely manner.

Rochester Community and Technical College FISAP report did not match their accounting system for the Pell program by \$3,967, the SEOG program by \$750 and the Federal Workstudy program by \$9,698 due to certain accounting transactions not being posted in a timely manner.

St. Cloud State University’s Federal Workstudy accounting system records did not always match the applicable drawdown reports and/or FISAP reports by \$34,678 due to not drawing down funds for the applicable federal award program.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-9 (Continued)

Criteria:

The *OMB Compliance Supplement* requires accurate and timely reporting of federal grant information.

Effect:

The above Colleges and Universities were not in compliance with the OMB Compliance Supplement relating to period of availability and reporting of federal funds.

Recommendation:

The above Colleges and Universities should implement procedures to review and reconcile activity and resolve any differences prior to filing the applicable FISAP for federal grants to ensure compliance with OMB Provisions.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-10

CFDA #:	84.063
Program:	Federal Pell Grant
CFDA #:	84.268
Program:	Federal Direct Student Loans (“FDSL”)
CFDA #:	84.032
Program:	Federal Family Education Loans (“FFEL”)
CFDA #:	84.038
Program:	Federal Perkins Loans
<i>Compliance Requirement:</i>	Special Tests and Provisions
<i>Institution:</i>	Multiple, See Below
<i>Questioned Costs:</i>	None – Procedural Finding Only

Condition:
The following Colleges did not have all the required policies and procedures in place for verifying applicant information as required by 34 CFR Sections 668.51 through 668.61.

Minnesota State College - Southeast Technical – insufficient detail in written verification policy
Rainy River Community College – no written verification policy available
Anoka Technical College – no written verification policy available

Criteria:
Under the requirements of 34 CFR Sections 668.51 through 668.61, an institution not participating under an ED-approved QAP is required to establish written procedures that incorporate the above provisions for verifying applicant information, including number of family members, number of family members attending post secondary education institutions, dependency status, adjusted gross income, U.S. taxes paid and untaxed income.

Effect:
The above Colleges are not in compliance with the verification requirements specified by federal program guidelines.

Recommendation:
The above Colleges should develop complete written policies for verification procedures as required by 34 CFR 668.51 through 668.61.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-11

CFDA #: 84.007
Program: Federal Supplemental Educational Opportunity Grant

CFDA #: 84.033
Program: Federal Work Study

CFDA #: 84.063
Program: Federal Pell Grant

CFDA #: 84.268
Program: Federal Direct Student Loans (“FDSL”)

CFDA #: 84.032
Program: Federal Family Education Loans (“FFEL”)

CFDA #: 84.038
Program: Federal Perkins Loans

CFDA #: 93.364
Program: Nursing Student Loans

Compliance Requirement: Eligibility – Institutional, Special Tests and Provisions

Institution: Saint Paul College

Questioned Costs: None – Procedural Finding Only

Condition:
Saint Paul College’s Satisfactory Academic Progress published policy did not accurately reflect the practice being required of students. Specifically, the published policy did not state that students would be continued on probation if they performed well and met the term standards during their probation, but had not yet meet cumulative standards. This specific provision was set up in the system being used to monitor progress and funds were disbursed accordingly. The College has corrected this language on its website and will correct the next edition of its printed materials.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding KDV 07-11 (Continued)

Criteria:

The *OMB Compliance Supplement* requires an institution to establish and publish an academic progress policy in compliance with OMB requirements. These requirements are explained in more detail in the SFA Handbook.

Effect:

Unclear policies may cause financial aid recipients to not understand requirements for maintaining aid eligibility.

Recommendation:

Saint Paul College needs to ensure that the Satisfactory Academic Progress policy published to students accurately reflects the practices in place.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION IV – PROGRAM REVIEWS – PRIOR YEARS

The U.S. Department of Education conducted program reviews at several institutions during the audit year. A summary of these reviews follows:

1. A program review was completed at St. Cloud State University, and a final determination letter was received July 30, 2007. This determination letter closed the findings and indicated further review to the actions committee was possible. Internal audit also reviewed the University's process for return to Title IV funds for Fall 2006 and Spring 2007 terms, noting that Fall 2006 calculations were approximately 2 months late, and Spring 2007 calculations were timely. Fall 2006 results indicated one student receiving a "U" grade did not have a return calculation completed in a timely manner. Funds totaling \$1,175 were returned to the lender on February 12, 2008 for this student. In addition, \$663 of Pell funds were returned in error for a student due to an isolated calculation error.

2. A program review was performed at Metropolitan State University, and a final determination letter was received March 22, 2007. This determination letter closed the findings. MnSCU, however, has not closed the review internally, pending further return to Title IV monitoring.

3. Minneapolis Community and Technical College (MCTC) did not monitor its Satisfactory Academic Progress policy for award years 2001 through 2006 as it relates to some students who had been placed on probation prior to 2000. The lack of monitoring of these students was caused by the implementation of a new computer system, which has been subsequently corrected. This resulted in certain students receiving financial aid who should have been ineligible. Currently, the impact of the findings is \$ 527,230 in questioned costs (see Note 1 below) for the period 2001 through 2007. In addition, penalties and interest may be assessed by the U.S. Department of Education.

A summary of these questioned costs for MCTC are as follows:

CFDA	Description	Fiscal Year	(See Note 1) Questioned Costs
84.063	Federal Pell Grant	2001-2006	\$ 190,085
84.032	Subsidized Federal Family Education Loans	2001-2006	169,499
84.032	Unsubsidized Federal Family Education Loans	2001-2006	159,696
84.007	Federal Supplemental Equal Opportunity Grant	2001-2006	<u>7,950</u>
Total			<u>\$ 527,230</u>

Note 1 – The USDOE for other institutions has based the loan liability based on a loss estimate. The loss estimate has been based on default rates plus interest. The questioned costs noted above are gross loan amounts. The estimated liability may be substantially lower than these gross amounts.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SECTION V – PRIOR YEAR UNRESOLVED FEDERAL AWARD FINDINGS

Prior Year Finding KDV 05-9

Status: Not Resolved

Institution: Several

Condition:

Many colleges and universities had excessive security access rights granted to individuals to the financial aid system, including setup access for the financial aid system, deleting and changing holds and student payroll approval and processing.

Recommendation:

MnSCU Colleges and Universities should ensure that access to the financial aid system is limited to appropriate levels based on job responsibilities to reduce unnecessary security risks.

OTHER SUPPLEMENTAL INFORMATION



Minnesota
STATE COLLEGES
& UNIVERSITIES

March 5, 2008

Board of Trustees
Chancellor James H. McCormick
Minnesota State Colleges and Universities

Kern DeWenter Viere has audited the compliance of Minnesota State Colleges and Universities with the types of compliance requirements described in the U.S. Office of Management and budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of our major federal programs, as determined by the State of Minnesota Office of the Legislative Auditor, for the year ended June 30, 2007. The Schedule of Expenditures of Federal Awards is presented by management for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements.

It is the auditor's opinion that Minnesota State Colleges and Universities complied, in all material respects, with the requirements referred to above that are applicable to each of the major federal programs for the year ended June 30, 2007. The auditors noted no matters involving Minnesota State Colleges & Universities' internal control over compliance and its operation that would be considered a material weakness. However, in the course of the audit, instances of non-compliance with internal controls and other federal requirements were identified.

The purpose of this letter and the attachment are to convey management's acceptance of the noted issues of non-compliance and to indicate steps that will be taken to remedy the conditions. Management of the Office of the Chancellor and the colleges and universities named in the audit accept responsibility for the auditor's findings and have already undertaken remedies. It is noteworthy that in 2007 our colleges and universities administered over \$490 million in federal financial aid, to the benefit of over 90,000 Minnesota students. The auditor's unqualified opinion serves as added assurance to the Board of Trustees, Chancellor McCormick and the public that care and stewardship are exercised by employees across the state.

Sincerely,

Linda L. Baer
Senior Vice Chancellor for Academic
and Student Affairs

Laura M. King
Vice Chancellor for Finance -
Chief Financial Officer

Enclosure

MANAGEMENT RESPONSE

Audit Finding KDV 07-4

The College agrees with the auditor's recommendation and has reviewed and revised their process and procedure to better identify students and perform timely and accurate return of Title IV calculations.

Responsible Person: Susan Prater, Financial Aid Director
Effective Date: March 31, 2008

Audit Finding KDV 07-5

The Colleges and Universities agree with the auditor's recommendation and have reviewed their methodology for identifying loan returns to ensure that there are no systemic weaknesses. Saint Paul College is also shortening their appeal review process to better guarantee timely and accurate return of loans.

Responsible Person(s):
Ridgewater College Jim Rice, Financial Aid Director
Winona State University Greg Peterson, Financial Aid Director
Saint Paul College Susan Prater, Financial Aid Director

Effective Date: April 30, 2008

Audit Finding KDV 07-6

The Office of the Chancellor agrees with the auditor's recommendations and will review institutional reporting schedules and processes, and continue to work with institutions to ensure accurate and timely reporting of student enrollment status changes.

Responsible Person(s): Chris Halling, System Director for
Student Financial Aid

System Financial Aid Directors

Effective Date: June 30, 2008

Audit Finding KDV 07-7

The Colleges and Universities agree with the auditor's recommendation and have reviewed their procedures to ensure that Federal Pell Grant expenditures are reported to the U.S. Department of Education within 30 days of being disbursed.

Responsible Person(s):

Minnesota State University Moorhead
Saint Paul College

Carolyn Zehren, Financial Aid Director
Susan Prater, Financial Aid Director

Effective Date:

March 31, 2008

Audit Finding KDV 07-8

The named Colleges and Universities and the Office of the Chancellor agree with the auditor's recommendations. Northland Community College and Rainy River Community College will implement procedures to notify students and parents in writing when disbursing loan proceeds as required by federal regulations.

Responsible Persons:

Northland Community College
Rainy River Community College

Donna Quam, Financial Aid Director
Scott Riley, Financial Aid Director

Effective Date:

June 30, 2008

The Office of the Chancellor will work with institutions and system IT staff to develop a process to ensure that proper notifications are completed when loan proceeds are disbursed.

Responsible Person:

Chris Halling, System Director for
Student Financial Aid

Effective Date:

June 30, 2008

Audit Finding KDV 07-9

The Colleges and Universities agree with the auditor's recommendations. Board Procedure 7.3.16 Guideline for Finance Exception Reporting has been significantly upgraded for financial aid reconciliation requirements as of January 7, 2008. The prior language simply called for quarterly reconciliations. The new requirements provide the colleges and universities with more specific procedural language as follows:

Colleges and universities will reconcile quarterly the G5 (formerly GAPS) system award letter, EDGAPS, ISRS reporting, and FA0012CP. The September 30 reconciliation will also include the FISAP. The reconciliations must be completed within 30 days after the end of each quarter and submitted to campus assistance. Campus assistance will review and determine if reconciliations are correct.

Responsible Person:

Tim Stoddard, Associate Vice-Chancellor,
Financial Reporting

Effective Date:

January 7, 2008

Audit Finding KDV 07-10

The Colleges agree with the auditor's recommendations and will develop complete written policies for verification procedures.

Responsible Person(s):

Minnesota State College – Southeast Technical
Rainy River Community College
Anoka Technical College

Anne Dahlen, Financial Aid Director
Scott Riley, Financial Aid Director
Susan Rumpca, Financial Aid Director

Effective Date:

June 30, 2008

Audit Finding KDV 07-11

The College agrees with the auditor's recommendations and has updated their policies posted on the institutional web site, and has updated the written policy distributed in the college's publications.

Responsible Person:

Susan Prater, Financial Aid Director

Effective Date:

June 30, 2008

Section V Finding KDV 05-9

The Office of the Chancellor is complying with the auditor's recommendation by limiting access to the financial aid system to those individuals whose job responsibilities require such access.

Responsible Person:

Chris Halling, System Director for
Student Financial Aid

Effective Date:

April 30, 2008