



*Minnesota Higher
Education Services
Office*

*Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2004 and
Independent Auditors' Reports*

MINNESOTA HIGHER EDUCATION SERVICES OFFICE

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Director of Minnesota Higher Education
Services Office
Saint Paul, Minnesota

We have audited the basic financial statements of Minnesota Higher Education Services Office ("MHESO") as of and for the year ended June 30, 2004 and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether MHESO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered MHESO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Minnesota Higher Education Services Council, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 29, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Director of Minnesota Higher Education
Services Office
Saint Paul, Minnesota

We have audited the compliance of Minnesota Higher Education Services Office ("MHESO") 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 for the year ended June 30, 2004. MHESO'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 MHESO's management. Our responsibility is to express an opinion on MHESO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Non-Profit 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 MHESO'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 MHESO's compliance with those requirements.

In our opinion, MHESO 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, 2004. 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 item 04-1.

Internal Control Over Compliance:

The management of MHESO 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 MHESO'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards:

We have audited the basic financial statements of MHESO as of and for the year ended June 30, 2004 and have issued our report thereon dated September 3, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of MHESO. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Minnesota Higher Education Services Council, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deloitte + Touche LLP". The signature is written in black ink and is positioned above a thin vertical red line.

October 29, 2004

MINNESOTA HIGHER EDUCATION SERVICES OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Grantor/Program Title	Federal CFDA Number	Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION:			
Leveraging Educational Assistance Partnership	84.069A	\$ 579,811	\$ 579,811
Special Leveraging Educational Assistance Partnership	84.069B	706,674	706,674
Improving Teacher Quality Grants—SAHES	84.367B	1,004,938	957,722
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	1,814,217	
Federal Family Education Loans (special interest allowances and loan servicing)	84.032	<u>7,534</u>	<u> </u>
Total U.S. Department of Education		4,113,174	2,244,207
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
Learn and Serve America Higher Education	94.005	136,890	129,797
AmeriCorps	94.006	<u>37,658</u>	<u> </u>
Total Corporation for National and Community Service		<u>174,548</u>	<u>129,797</u>
Total Federal Awards		<u>\$ 4,287,722</u>	<u>\$ 2,374,004</u>

See notes to Schedule of Expenditures of Federal Awards.

MINNESOTA HIGHER EDUCATION SERVICES OFFICE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources. Encumbrances are used during the year for budgetary control purposes and lapse at fiscal year-end.

Federal financial awards provided to subrecipients are treated as expenditures when they are paid to the subrecipients. The Minnesota Higher Education Services Office (“MHESO”) received no noncash awards under its federal awards programs for the year ended June 30, 2004.

2. REPORTING ENTITY

MHESO, for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

MHESO administers certain federal financial awards programs through subrecipients. Those subrecipients are not considered part of the reporting entity of MHESO.

3. GUARANTEED STUDENT LOAN (“GSL”) PROGRAM

The U.S. government pays the Loan Capital Fund of MHESO a special interest allowance quarterly on outstanding guaranteed loans. During fiscal 2004, \$7,534 (CFDA No. 84.032) was received for special interest allowances, all of which was expended to First Mark Services for the servicing of loans under the program. As of June 30, 2004, total loans outstanding under the GSL program is \$464,762.

4. RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO MHESO’S COMBINED STATEMENT OF ACTIVITIES

The following schedule is a reconciliation of total expenditures of federal awards as shown on the Schedule of Expenditures of Federal Awards to the federal appropriations expenses on the combined statement of activities for the year ended June 30, 2004, which is included in MHESO’s basic financial statements:

Expenditures per schedule	\$ 4,287,722
Salaries, professional services	332,280
Miscellaneous reconciling items	<u>(6,923)</u>
Federal appropriations expense per combined statement of activities within the financial statements	<u>\$ 4,613,079</u>

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MINNESOTA HIGHER EDUCATION SERVICES OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- A. Type of auditor's report issued: unqualified
- B. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- C. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

- D. Internal control over major programs:
- Material weakness(es) identified? _____ yes X no
 - Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- E. Type of auditor's report issued on compliance for major programs: unqualified
- F. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: X yes _____ no

G. Identification of major programs:

NAME OF FEDERAL PROGRAM OR CLUSTER	CFDA NUMBER(S)
Leveraging Educational Assistance Partnership	84.069A
Special Leveraging Educational Assistance Partnership	84.069B
Learn and Service America Higher Education	94.005

- H. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- I. Auditee qualified as a low-risk auditee: X yes _____ no

Section II - Financial Statement Findings

No matters are reportable.

MINNESOTA HIGHER EDUCATION SERVICES OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded) YEAR ENDED JUNE 30, 2004

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: DT-04-1
CFDA No.: 84.069B Special Leveraging Educational Assistance Partnership ("SLEAP")
Compliance Requirement: Matching
Questioned Costs: \$706,674

Condition:

MHESO drew down SLEAP funds from the U.S. Department of Education in fiscal year 2004. Subsequent to year-end, during the allocation of SLEAP funds to specific students in October 2004, it was noted that there were not enough state grant funds to meet the matching requirement. The excess drawdown was returned to the U.S. Department of Education in October 2004.

Criteria:

The SLEAP grant has specific matching requirements.

Effect:

MHESO was not in compliance with matching requirements regarding SLEAP funds.

Recommendation:

MHESO should review matching requirements prior to the drawdown of grant funding.

