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Minnesota Office of Higher Education

Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2008, and
Independent Auditors' Reports

MINNESOTA OFFICE OF HIGHER EDUCATION

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

To the Director of
Minnesota Office of Higher Education
Saint Paul, Minnesota

We have audited the basic financial statements of Minnesota Office of Higher Education (the "Agency") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 15, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

This report is intended solely for the information and use of the director, 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.

Deloitte + Touche LLP

September 15, 2008

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INDEPENDENT AUDITORS' 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

To the Director of
Minnesota Office of Higher Education
Saint Paul, Minnesota

Compliance

We have audited the compliance of Minnesota Office of Higher Education (the "Agency") 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 its major federal program for the year ended June 30, 2008. The Agency's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency'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 could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency'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 the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed and instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the 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 the Agency's internal control over compliance.

A control deficiency in the Agency'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 Agency'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 that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

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 Agency's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated September 15, 2008. 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. 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 director, 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.

Deloitte + Touche LLP

September 15, 2008

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION:			
Leveraging Educational Assistance Partnership	84.069A	$ 589,218	$ 589,218
Special Leveraging Educational Assistance Partnership	84.069A	676,187	676,187
Title II — Eisenhower Professional Development Program	84.367B	866,257	812,741
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	2,738,381	315,207
Guaranteed Student Loan Program (special interest allowances and loan servicing)	84.032	430	
Total U.S. Department of Education		4,870,473	2,393,353
TOTAL EXPENDITURES OF FEDERAL AWARDS		$4,870,473	$2,393,353

See notes to schedule of expenditures of federal awards.

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

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, unless the amount specifically relates to the prior year and there is approval to extend the encumbrance.

Federal financial awards provided to subrecipients are treated as expenditures when they are paid to the subrecipients. The Minnesota Office of Higher Education (the "Agency") received no noncash awards under its federal awards programs for the year ended June 30, 2008.

2. REPORTING ENTITY

The Agency, 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*.

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

3. GUARANTEED STUDENT LOAN (GSL) PROGRAM

The U.S. government pays the Loan Capital Fund of the Agency a special interest allowance quarterly on outstanding guaranteed loans. During fiscal year 2008, $430 (CFDA No. 84.032) was received for special interest allowances, all of which was expended to Firstmark Services, LLC for the servicing of loans under the program. As of June 30, 2008, there are no loans outstanding under the GSL program.

4. RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE AGENCY'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, 2008, which is included in the Agency's basic financial statements:

Expenditures per schedule	$4,870,473
Miscellaneous reconciling items	10,824
Special interest allowances	(430)
Federal appropriations expense per combined statement of activities within the financial statements	$4,880,867

* * * * * *

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

A. Type of auditors' report issued: unqualified

B. Internal control over financial reporting:

- Material weakness(es) identified? ______ yes __X__ no
- Significant deficiency(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
- Significant deficiency(s) identified that are not considered to be material weaknesses? __X__ yes ______ none reported

E. Type of auditors' 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 OMB Circular A-133: __X__ yes ______ no

G. Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A

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 financial statement matters are reportable matters.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2008-1

Program Title: Gaining Early Awareness and Readiness for Undergraduate Programs

Grantor: U.S. Department of Education

CFDA No.: 84.334A

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: $51,305

Criteria: Indirect cost reimbursement

Condition/Context/ Cause: As noted in Education Department General Administrative Regulation (EDGAR) 75 Subpart E, Sec. 75.562, indirect cost reimbursement on a training grant is limited to the recipient's actual indirect costs, as determined by its negotiated indirect costs rate agreement, or 8% of the modified total cost base, whichever amount is less. During audit procedures, we noted that in relation to the Gaining Early Awareness and Readiness for Undergraduate Programs grant, the Agency requested reimbursement of indirect costs at a rate of 10.7% of the Agency's modified direct costs, which was based on the Agency's approved rate per the September 1, 2007, indirect cost rate agreement with the U.S. Department of Education. As required by the grant and EDGAR, the Agency should have limited indirect cost expenditures to 8% of modified direct costs.

Effect: As a result of using the approved indirect cost rate agreement, the Agency requested $51,305 of drawdowns in excess of the maximum allowed indirect costs per the grant.

Recommendation: The Agency should ensure that the finance manager is aware of all of the specifics within the grant requirements prior to the calculation of the indirect rate reimbursement.

Management Response/Corrective Action Plan: The Agency agrees with this finding. The Agency used the 10.7% restricted indirect cost rate approved by the Department of Education when calculating indirect cost charges. However, the GEAR UP grant agreement stipulated a maximum indirect cost rate of 8%. On August 28, 2008 and September 3, 2008, the Agency processed a transaction to reverse $51,305.62 in indirect costs, as calculated by management. The indirect cost rate of 8% will be used in future calculations to correctly charge the program for indirect costs. In addition, future grants will be reviewed to ensure the correct indirect cost rate is being utilized by the Agency.