
Guide for Compliance Audits of Programs Administered for the 2024-25 Academic Year for Clock-Hour Programs

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The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Minnesota State Grant Program is the largest financial aid program administered by the Office of Higher Education, awarding up to \$240 million annually in need-based grants to Minnesota residents attending eligible colleges, universities and career schools in Minnesota. The agency oversees other state scholarship programs, tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Plan, licensing and early college awareness programs for youth.

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Introduction

The Audit Unit of the Legal and Compliance Division of the Minnesota Office of Higher Education (OHE) created this audit guide (the Guide) to document its own policies and procedures related to compliance audits of postsecondary institutions that offer only clock-hour programs. However, others may find the Guide useful, including other OHE staff and financial aid staff at postsecondary institutions subject to audits.

We recognize that some clock-hour schools do not currently participate in any Federal Title IV aid programs but were grandfathered to allow for continued participation in OHE-administered aid programs. The Title IV aid application process also serves as the initial application process for many OHE-administered programs including Minnesota State Grant. Therefore, OHE requires all clock-hour schools to abide by most Title IV requirements except where OHE's program guidance explicitly differs.

We also include internal guidance related to the process of auditing a clock hour school that charges up front for the entire program cost.

Our mission is to ensure that postsecondary institutions participating in OHE's programs properly administer those programs. The ultimate goal is for each student who completes the application process for a program timely receives the accurate amount of aid or other assistance, neither too much nor too little.

To achieve our goal, we not only perform compliance audits of postsecondary institutions, but also act as part of OHE's resources for those same institutions when they have questions. OHE would rather answer a question and/or provide guidance to an institution during an aid year to prevent errors from occurring than find those errors a year or more after the aid year has closed.

We encourage you to read the Guide and we welcome your feedback and questions.

Finally, we look forward to working with postsecondary institutions and other parties to achieve the common goal of serving the students of Minnesota.

Robert Helgeson, Audit Manager

Crystal Kubat, Auditor

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Use of Abbreviations and Acronyms

Financial aid and tax professionals use many abbreviations and acronyms in their work. This guide will “spell out” a new term the first time it is used followed in parentheses by its abbreviation or acronym. A list of abbreviations and acronyms appears in Appendix A of this guide.

New Programs and Changes for 2024-25 Audits

Federal Title IV Changes

The final changes required to implement both the Free Application for Federal Student Aid (FAFSA) Simplification Act and the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act went into effect for the 2024-25 aid year.

These two Acts resulted in material changes such as:

- A new FAFSA format including additions and deletions of questions;
- New federal needs analysis calculations;
- The consolidation of six guides including The ISIR Guide into a single publication;
- The cost of attendance (COA) changes that began in the 2023-24 aid year became enforceable by the U.S. Department of Education (ED);
- A number of changes to long-standing terminology such as the Student Aid Index (SAI) replacing the Expected Family Contribution (EFC);
- A new calculation system for Pell Grants that eliminated the use of the traditional Pell tables; Pell is now awarded in three different ways based on the student's situation (Max Pell, Min Pell, Calculated Pell using the SAI);
- Pell Grants no longer based on banded enrollment levels, now based on "enrollment intensity" ranging from one credit to 12 credits; and
- The elimination of using a partial EFC when a student is enrolled for less than a full aid year; this is no longer permitted with the change to the SAI.

For more information, see the 2024-25 Federal Student Aid Manual including the [2024-25 Application and Verification Guide \(AVG\)](#).

Changes to OHE Programs

In addition to the changes necessitated by those to Title IV programs mentioned above, other OHE changes during 2024-25 included:

- **Minnesota State Grant (MSG)**
 - Calculation parameters changed.
 - Changes to the MSG program that were passed by the legislature in the 2023 session did not officially take effect until the 2024-25 aid year in order to coincide with the federal changes noted earlier.

- OHE implemented changes to conform the MSG program awarding process for clock-hour schools to closely match that of the Federal Pell Grant.

For more details, see “Minnesota State Grant (MSG)” later in the Guide.

- **Changes to OHE Aid Processing System**

The first three phases of the implementation of OHE’s new consolidated web-based aid system (MNAid) were completed. Most OHE programs were processed via MNAid during 2024-25.

Minnesota Compliance Audit Information

OHE's Authority to Audit and Alternative Audit Option

OHE's authority to audit the administration of its programs comes from [Minnesota Statute \(MS\) 136A.01 Subd 2 \(a\)\(1\)](#). Postsecondary institutions (institutions) are allowed to use their external auditors to perform the Minnesota compliance audits under [MS 136A.1313](#). The text of that statute follows:

Beginning with audits for fiscal year 1996, in place of the audits provided by the office, public institutions that administer state grants under decentralized delivery may arrange for audits of state financial aid awards and tuition reciprocity recipients in conjunction with their audits for federal financial aid. Audits must be conducted in compliance with guidelines and materials prepared by the office. The office shall develop a review process including procedures for responding to audit exceptions. All other institutions under decentralized delivery may arrange for audits under this section beginning with audits for fiscal year 1997.

An institution that considers using the alternative must be aware of the following:

- The institution must use the same external auditor for both its federal and Minnesota financial aid compliance audits.
- The institution must pay the external auditor for performing the Minnesota compliance audit while OHE does not charge for its audit services.
- The external auditor must use the processes and procedures developed by OHE's Audit Unit to perform the Minnesota compliance audit.
- An institution that chooses to either begin using or discontinue using an external auditor for its Minnesota compliance audit must inform OHE's Audit Manager in writing by June 30 of the aid year (e.g. by June 30, 2025 if any changes are to occur for the audit of the 2024-25 aid year).
- An institution using an external auditor for the first time must provide OHE's Audit Manager with the contact information for the external auditor.
- The institution and its external auditor assume the responsibility of learning and understanding OHE's compliance audit requirements. OHE's requirements and processes are different from those used for compliance audits of federal Title IV aid programs. OHE's Audit Unit will act as a resource for an external auditor and will work with them to ensure the successful completion of the Minnesota audit.
- An institution that chooses to use an external auditor must annually complete a Minnesota compliance audit even if OHE may have selected an institution for audit on a different schedule.
- The external auditor must complete a separate Minnesota compliance audit and prepare a separate audit report for each campus of an institution that processes financial aid for its own students. In some cases, one campus may process aid from one or more programs for multiple campuses so only one Minnesota audit

may be required. If an institution and/or its external auditor has questions about these requirements, they should contact OHE's Audit Manager for clarification before planning the Minnesota compliance audit.

- An external auditor must consult with OHE's Audit Manager if they identify any evidence of illegal or fraudulent activity during the audit. OHE may need to consult with its General Counsel and/or the Office of the Minnesota Attorney General or other authorities to ensure individuals' rights are protected while also not jeopardizing any further investigations.
- The institution will authorize the release of the draft Minnesota compliance audit report to OHE's Audit Manager for review prior to the report becoming final.
- The institution shall authorize the external auditor to allow OHE staff access to review and receive copies of the auditor's work papers related to the Minnesota compliance audit.
- The institution or the external auditor will send to the OHE Audit Manager by January 31 (or such other date as agreed upon) final versions of the institution's federal compliance audit, the Minnesota compliance audit, and any management letters or other reports created in the normal course of an audit. OHE's Audit Manager will review the reports, ask questions if applicable, and then formally accept the reports. Documents and messages may be sent by email if no personally identifiable information is included.

The rest of the Guide does not refer to "external auditors". All of the policies, procedures, and requirements in the following pages are applicable to any auditor performing a Minnesota compliance audit.

An Auditor's Responsibilities

- Assist in meeting OHE's stewardship of Minnesota tax dollars and other funds entrusted to it.
- Remain up to date on federal and Minnesota state programs and related policies.
- Maintain an attitude of professional skepticism during an audit, i.e. fully understand and be able to explain the details of each material item under review rather than simply accepting an institution's explanation without further investigation.
- Identify specific or general areas of non-compliance with Minnesota program standards (these standards may or may not be the same as for federal Title IV programs).
- Identify potential internal control issues within an institution's administration of Minnesota programs.
- Interpret and explain issues identified during an audit to OHE's program managers or other staff.
- Remember the Audit Unit does not create policy; it provides a service to OHE's program managers in order to implement their program requirements.
- Provide feedback and suggestions to both OHE's program managers and to institutions as to how they could improve their administration of Minnesota programs.

Annual Financial Aid Cycle

Each OHE program has its own start to finish workflow, but some major processes are common to most programs.

The following is a list of the major processes:

- Institution requests to participate in a program.
- Student applies for program funds/benefits.
- Institution (and sometimes OHE) determines if it has valid and sufficient information to determine a student's eligibility.
- Institution (sometimes in partnership with OHE) determines a student is eligible for the funds/benefits for which they applied.
- The institution awards the aid and notifies the student.
- The institution requests and receives funds from OHE to be used for student awards.
- The institution disburses aid to a student's account at the institution (preferred method).
- Institution submits required reports and spending during an academic year/term to OHE.
- Institution continues to monitor the student's eligibility throughout the academic year.
- Institution performs program reconciliations and other end of term/year close out procedures in a timely manner.

Types of Audits Performed

OHE annually disburses funds to approximately 100 Minnesota institutions. Student Education Loan Fund (SELF) funds are also disbursed to many institutions in other states that participate in the SELF program to allow their Minnesota residents access to SELF.

Ideally, OHE would annually perform a complete and thorough review of each institution that received funds. However, that is not possible given limited time and staff. OHE's Audit Unit annually prioritizes each institution based on many reasons including, but not limited to:

- Number of years since its last audit
- Total enrollment and amount of OHE funds received
- Outcomes of prior audits of the institution
- Significant and recent staff changes in the financial aid office
- At the request of an OHE program manager
- Mix of different types of institutions
 - MN State two-year
 - MN State four-year
 - Private non-profit
 - Private for-profit/proprietary including one or more institutions offering clock-hour programs
 - Out-of-state institutions participating in SELF Loan program

Standard Audit

A standard audit may cover:

- All programs in which an institution participated,

- Only one or more programs targeted for audit, or
- 100% of all student aid recipients in a given program.

Close Out Audit

In addition to the planned audits, OHE must conduct a close out audit of any institution that closes, loses eligibility for aid programs, or voluntarily ends its participation in one or more OHE programs. This can occur as a planned audit but can also occur with little or no warning.

Depending on the circumstances of an individual institution, OHE's program managers may waive the close out requirement.

The period to audit is determined by when an institution ceases operations or otherwise ends its participation in OHE programs. Usually, the audit period will be the current aid year, but it may include one or more prior aid years.

A close out audit should be performed while an institution is still in operation and approaching the announced date of closure. However, in some cases, a close out audit will need to be performed immediately after an institution closes while staff are still available to provide documents and answer questions.

Policy Audit

A policy audit is a form of targeted audit. OHE may audit an institution's policies and how the institution has implemented them. The most common policy audit topics are an institution's refund policies and procedures and its satisfactory academic progress (SAP) policy.

Timeframe Audited

In general, the timeframe audited is usually one aid year in the period from July 1 to June 30 to match the State of Minnesota's fiscal year. For 2024-25, the dates are July 1, 2024 through June 30, 2025. However, an auditor must review the entire enrollment period of a student enrolled in a clock hour program. This is especially true if a student is in a program that charges for the entire program up front.

While some institutions may operate using different fiscal years, the compliance audit period should remain the July 1 to June 30 timeframe. An institution may request an exception from the OHE Audit Manager, but the Audit Manager's decision is not subject to appeal.

Multiple Aid Years Audited

OHE may plan an audit to cover more than one aid year in cases where an institution has very few students participating in OHE's programs. Or a planned audit of one aid year may uncover issues that prompt OHE to expand its scope into prior years. The following are examples of when a multi-year audit may be necessary:

- A planned audit for a single aid year that has already closed (e.g. 2024-25). OHE may expand the timeframe to the two prior completed aid years (e.g. 2023-24 and 2022-23).

- A planned audit or a close out audit for an open aid year (e.g. 2025-26). OHE may expand the timeframe to the prior three completed aid years.
- An audit during which an auditor finds an institution may potentially be or is intentionally mismanaging one or more Minnesota aid programs. The auditor must present both their concerns and recommendations to the OHE Audit Manager before doing any further audit work. Depending on the circumstances, an audit may be expanded beyond the original scope.
- Any audit of an institution offering clock-hour programs usually requires an auditor to begin auditing a student's record from their first day of attendance through the current time if that student is still enrolled.

Programs to Be Audited

The following is a list of the active programs administered by OHE during the 2024-25 aid year that clock-hour schools were eligible to access for their students. Most institutions do not participate in every program every year. The most common programs to be reviewed at clock-hour schools are MSG, SELF, and MISP.

- Minnesota State Grant (MSG)
- Minnesota Dream Act (Dream Act)
- Public Safety Officer Survivor Grant (SOS)
- Minnesota Indian Scholarship Program (MISP)
- State Work Study (SWS)
- Student Educational Loan Fund (SELF or SELF Loan)

MNAid System

OHE's Financial Aid Division has been working with Nelnet (a third-party contractor) over the past five years to design and implement a new web-based system to improve the processing of various OHE aid programs. This system is called "MNAid". Prior to MNAid, each OHE aid program was processed in "silos" using varying levels of technology with some programs being administered via Excel spreadsheets. MNAid combines most of OHE's aid programs into one system making it user-friendly for both schools and OHE staff. Note: The SELF Loan program operates as a stand-alone and is not included in MNAid. OHE has been adding programs to MNAid in a phased approach between 2022-23 and 2024-25.

Auditors have been using MNAid during the past few years for certain programs as they were added to the system. For 2024-25 audits, auditors will have to use the MNAid system for the following programs:

- MSG
- Dream Act
- MISP

Policies to Be Audited

Each institution must develop and annually review/update certain policies related to its administration of aid programs. Some of the policies match the Title IV requirements, but not all of the Title IV policies apply to every OHE program. Some policies are unique to an individual OHE program. Some policies are required to be created, while others are optional.

An auditor must request from the institution each applicable item from the list below. An auditor may accept electronic links (preferred method) in lieu of paper/scanned documents. An auditor must obtain and review each policy prior to beginning the review of individual student files. An auditor must use their understanding of the policies during the audit to verify that the institution complied with its own policies.

If an institution has recently changed a policy, even if it was not in effect until after the 2024-25 aid year, an auditor must request and review the updated policy for compliance purposes.

An auditor must obtain additional information from clock-hour schools that is not required from term-based schools. Please note the bullet points at the end of the list for these additional items.

Policy/Forms List

- Academic calendar(s) for each program that was eligible for any state aid programs including any changes made during an academic year. This includes all start dates of aid-eligible programs.
- Satisfactory Academic Progress (SAP) policy or policies if using more than one. Clock-hour institutions' SAP policy requirements and available flexibilities are unique so an auditor must understand the nuances before evaluating a policy and/or checking for institutional SAP compliance. Clock-hour institutions must check SAP at official evaluation points as defined for Title IV programs.
- Refund policies (see "Refunds" later in this guide).
- Leave of Absence (LOA)—mostly for clock-hour institutions and is voluntary.
- Form used to inform students at the institutions that were grandfathered in to continue participation in Minnesota aid programs that the institution does not participate in the Federal Pell Grant program.
- Treatment of veteran's educational benefits and/or ROTC benefits when calculating SELF loan eligibility (see "Student Educational Loan Fund (SELF)") later in this guide.
- Clock-hour school's defined length of its academic year (minimum standard of 900 hours and 26 weeks of instructional time).
- Clock-hour school's catalog or other document describing each program including the number of clock-hours, etc.
- Clock-hour school's scheduled days of operation and patterns of attendance for each program offered that may be different for the same program if offered as both full-time and part-time versions.
- Clock-hour school's scheduled closed days (holidays, staff in-service, etc.) but also unscheduled closed days (snow days, etc.).

OHE's Audit Process

The OHE audit process is performed remotely by Audit Unit staff rather than on site at institutions. The process from beginning to end is as follows:

- An auditor selects next institution to audit from previously identified list of priority institutions or an institution that has announced its closure.
- Assigned auditor(s) collect information from OHE program managers/OHE's MNAid system to determine the programs the institution received funds from and if the institution has officially closed out each program for the year to be audited.
- After determining the overall population of student recipients by program, the auditor selects a random sample to test using a statistical function to determine the proper sample size (see "Sampling Process" later in the Guide).
- Auditor creates a student list, which is an Excel spreadsheet with all program samples combined. The student list includes an OHE identity number assigned to each student for the purpose of allowing open communication with the institution without disclosing any protected personal information.
- Once the sample selections have been made, auditor concurrently prepares Appendix A: Program Populations and Sample Sizes for the audit report.
- Audit manager or auditor send an email notification to the school to inform them of the audit and identify the appropriate institutional contact.
- Auditor, if they have not already done so, contacts MNIT staff (currently Angelique Workman) to set up the secure transfer process for the institution to be audited. Auditor follows up with their institutional contact to explain what message to watch for in their email and to take immediate action to finish setting up their account before the link expires.
- Auditor creates a sample letter including instructions to the institution explaining what documents OHE needs, how to securely download and upload the secure documents, and how to use the Excel spreadsheet with OHE identity numbers, etc.
- Auditor creates a Statement of Disclosure form for the institution to complete and retain in each student's file to indicate that a student's private data was disclosed to OHE for the purpose of an OHE Compliance Audit.
- Auditor contacts the institution to set up a time for an entrance interview either virtually or by phone.
- Auditor sends the sample letter, the sample list, and the Statement of Disclosure to institution through the secure portal prior to the entrance interview. Auditor must, at a minimum, schedule adequate time for the entrance interview to:
 - Review the audit process;
 - Ask some initial questions;
 - Allow the institution to ask questions;
 - Ask the institution to provide as quickly as possible its policies requested in the sample letter;
 - Emphasize the section of the sample letter requesting the institution to provide as quickly as possible a list of all students who received Minnesota aid (other than SWS) who fully withdrew (officially or unofficially) from the spring 2025 term to create the refund sample; and

- An auditor should use this meeting to ask clarifying questions about certain practices at the institution. An example is to ask if the institution uses any third-party servicers to perform required program functions.
- Auditor provides a date by which the institution should upload all of the requested documents and information. For larger institutions with larger student sample sizes, OHE encourages institutions to upload documents in batches (e.g. by program) as they become available rather than sending all documents on the final due date.
- The option to print paper documents rather than uploading electronically is also available to institutions. The auditor would set up a time with the institution to pick up the documents.
- Auditor creates the audit worksheets to be completed for each student selected by program.
- Auditor monitors for receipt of documents from institution and reminds the institution as the due date approaches.
- Auditor inspects documents and completes the audit worksheets. During this process, the auditor documents any follow-up questions and notes potential findings. The auditor may send follow-up questions in batches to the institution (e.g. by program) depending on the number of questions/issues to resolve.
- Auditor sends their potential findings, recommendations, etc. as an “FYI” to the Audit Manager before the auditor conducts an exit meeting via phone or virtually with any institution staff that want to be involved.
- Auditor writes the first draft of the audit report.
- Auditor notifies the other auditors that the draft is ready for their review, obtains feedback, and makes changes as necessary.
- Auditor notifies the Audit Manager that the draft is ready for review.
- Audit Manager assigns a report number and reviews the draft report and work papers. During the review process, the Audit Manager edits text and places comments and questions in the report margins.
- Auditor edits, if necessary, the draft report based on Audit Manager’s feedback.
- Auditor sends a copy to each OHE senior/division program manager in addition to the individual program managers whose programs have findings in the report.
- Auditor obtains feedback from the program managers including whether to leave a finding as a finding, reduce it to a recommendation, or remove it entirely from the report. During this process, the program managers also discuss questions with auditors and determine if the amounts that will later be invoiced to the institution are appropriate.
- The approved draft version of the audit report along with an appeal form are sent electronically via email to the financial aid director of the institution and the director’s immediate supervisor. At the institution’s request, the draft will also be sent to other institutional staff.
- The institution has approximately 30 days to review the draft and either accept it as is or file appeals of specific items and submit documentation to OHE. An institution may request additional time to review. OHE will approve the request if the delay appears reasonable (e.g. not six months).
- In some cases, OHE may require the institution to perform a 100% review of all students within a program for one or more fiscal years based upon the findings identified. If this occurs, OHE will provide instructions as to what the institution must do and the format in which the institution is to report back to OHE. When possible, OHE requests that the additional review and report be completed as part of the institution’s response to the draft report. If any additional instances of the finding are identified, then the institution can

include in its report any additional amounts due to OHE. This allows OHE to include those amounts on the institution's final invoice.

- If an institution sends a formal appeal to OHE along with additional documents and/or explanation as to why one or more findings were not accurate in its view, OHE will review the new information. The auditor who completed the audit performs the initial review. If the auditor deems it necessary, the Audit Manager will perform a secondary review. Otherwise, the auditor will meet with the appropriate program manager to discuss the appeal. The program manager's decision is final and may not be appealed.
- If the institution does not formally notify OHE during the 30 days of any appeals or if an appeal was filed and was reviewed by OHE, then OHE will make any necessary edits to the draft report and re-issue the report in final form. If the institution owes any funds to OHE as a result of an audit, the auditor must request an official invoice from the Financial Services Division (see Process to Request Official Invoice section of the Guide). This invoice is then added to the final audit as an appendix. The final report and a corrective action plan (CAP) template (if applicable) are sent to all of the institutional staff who received the draft version as well as to the chief executive officer (president or equivalent). Chris Halling from MN State's central office must also be copied on final reports for MN State institutions.
- The institution has approximately 30 days from the issuance date of the final report during which it must prepare a CAP in response to each finding and stand-alone recommendation in the final report. The CAP and the institution's payment (if applicable) are due on or before the date stated on invoice and in the report.
- Auditor monitors for receipt of the CAP and works with OHE's Financial Services staff to track payments received. MN State institutions must use the State of Minnesota's accounting software (SWIFT) to make payments. Once received, the auditor reviews the CAP. If the auditor accepts the CAP as is, they can proceed; otherwise, the auditor must return it to the institution for additional work.
- Auditor makes final decision to close the audit based on the reasonableness of the CAP and the receipt of any funds due.
- Auditor issues the close letter to the institution.
- Auditor reports the institution, students, programs, and associated terms of enrollment to the Financial Aid Division to inform them of what funds were required to be returned as a result of an audit. As of May 2024, an auditor must use the new reporting tool on OHE's public website. The primary audience for this tool is institutions, but the Audit Unit can use it, too. The OHE Refund Form is located at:
<https://ohe.mn.gov/refund-form>
- Auditor updates various internal OHE spreadsheets for historical tracking purposes.

Sampling Process

The size of each program sample to audit will depend on the number of students participating in the program (the "population") and the results of prior audits. The auditor should increase the sample size if they believe there is an increased possibility of financial aid disbursements to ineligible students or other issues. Note that sample instructions for refund calculations appear at the end of this "Sampling Process" section.

If the population for an aid program is less than or equal to 10, then the sample size is the population.

OHE uses a statistical compliance sampling model. The Excel function HYPGEOM.DIST is the tool used to determine sample sizes. The function requires five arguments.

The HYPGEOM.DIST function returns a decimal that is the complement of the confidence level. In other words, if the function's result is at or about 0.25 (25%), then the sample size used in the calculation will provide a confidence level of approximately 75%.

OHE usually caps the confidence level used in sampling at 75%. However, an auditor has the discretion to increase or decrease the confidence level to determine the sample size on a program-by-program basis.

An auditor must use their judgment to determine an appropriate sample size for each program being audited. The auditor must consider factors such as:

- An institution's prior findings and/or other history of problems in one or more programs.
- The number of years an OHE program has been in existence.
- The number of years since any major changes were made to a program.
- The number of years the institution has participated in the program.
- A recent change in financial aid staff at the institution including the director.
- The confidence level used in prior sampling for a program at an institution. If an auditor notes that OHE has used confidence levels of less than 75% for two or more audit cycles, then they should increase the confidence level to 75% for the current cycle even if there has been no history of issues with a program.

If an auditor determines during their work that an institution had a systemic problem in calculating awards for a particular program, the auditor may require the institution to perform a 100% review of the population for that program. The full review may cover the aid year under audit, the previous aid year, the aid year still open at the time of the audit, or any combination of these.

An auditor enters the appropriate values into the function to determine a sample size. The function's arguments for this application:

- Argument 1 is the expected error rate that must always be set to zero (0).
- Argument 2 is the sample size which is the variable being solved for. An auditor must use trial and error entering various numbers for this argument until the function returns a result as close to 0.25 as possible if the desired confidence level is 75%. If the confidence level chosen is, for example, 65%, then the auditor's trial and error process will try to get the function's result to be as close as possible to 0.35.
- Argument 3 is a numerical value representing the tolerable errors in the entire population (e.g. if the population is 500 and the tolerable error rate is 3%, then the value to enter for Argument 3 is 15 (3% of 500). If the calculated number is not a whole number, always round up.
- Argument 4 is the total population to be sampled (e.g. the number of students who received MSG during the year under audit).
- Argument 5 is always set to TRUE to use the function in the way prescribed by the American Institute of Certified Public Accountants (AICPA).

Refund Sample Size

The refund population is the list of all students provided to OHE by the institution who received aid from one or more OHE programs (except SWS) that fully withdrew from the institution during the spring 2025 semester or quarter. This includes both official withdrawals and unofficial withdrawals that were not identified until after spring grades were available and a student was determined to have stopped attending all classes during the term.

The refund sample size is 5% of the total refund population capped at 20 students. If an auditor randomly selects a student from the refund population and that student was already selected as part of program sample, an auditor does not need to replace that student with another selection from the refund population. If a student selected from one or more of the program samples also happened to fully withdraw from the institution during any term of the 2024-25 aid year, an auditor must still verify the accuracy of that refund calculation in addition to the official refund sample.

The auditor will include the results of the review of the refund policies as well as the refund sample audit as a separate section of the OHE audit report.

Types of Testing

An auditor's focus is on testing compliance with various attributes, requirements, and policies related to the administration of Minnesota programs. The objective of a compliance audit is not to provide an opinion on an institution's financial statements or its overall internal control system.

A test may be a "yes or no" question. For example, did a student meet the defined Minnesota residency requirement? A test may be to review a policy to make sure it includes all the required elements. Sometimes, a written policy may be non-compliant even though in practice the process was correctly administered. A test may be of an internal control such as how do supervisors review and approve work study hours for payment.

Audit Exceptions to Be Identified and Documentation Process

An auditor must document and inform the Audit Manager of all exceptions identified as potential findings and stand-alone recommendations during the audit. However, how OHE notifies and discusses exceptions with an institution will vary depending on the nature and frequency of the exceptions.

Each phase of the operation of a financial aid program is subject to exceptions. For example, an institution may have properly determined every student's eligibility, disbursed the funds to the students, and processed any required refunds. However, if the institution did not follow OHE's required spending/reporting schedule, then there is an exception.

An auditor must still document and report an exception even when an institution takes corrective action after it has closed out for an aid year. In many cases, the error was discovered while the institution was collecting requested documents for OHE's audit. This does not apply to errors found by an institution during its year-end

reconciliation processes as these errors can be corrected before and as a part of the close out of the prior year's program.

Some exceptions may be so minor or infrequent that OHE will discuss the issues with the institution's financial aid staff either by phone or in an email. In either case, those issues will not appear in the audit report.

Exceptions Include Both Overawards and Underawards to Students

The staff of the institutions that participate in OHE's programs sometimes make errors during the administration of Title IV and OHE programs. Some errors result in a student receiving more aid than they were eligible to receive. Other errors result in a student receiving less aid than they were eligible to receive. Each of these situations must be documented as a finding.

In most cases, OHE will require an institution to return overawarded amounts either directly to OHE or to the SELF servicer. This return of funds may create or increase a student's balance due to an institution.

An auditor must include a recommendation in the audit report strongly encouraging institutions to hold students harmless in these situations by either using institutional aid to pay the balance or write off the balance due without any further collection actions.

An auditor must also document underawards and include a recommendation in the audit report strongly encouraging institutions to hold students harmless, even if a student is no longer enrolled at the institution. The recommendation should include some options for the institution. Examples include:

- If the student is still enrolled, the institution can apply institutional aid or make a reduction in tuition for the current aid year on the student's account. The entry should be clearly labeled as a correction of an error from the specific year of the error.
- If a student is no longer enrolled, the institution should determine if it has an accurate address, phone number, email, etc. to contact the former student. If it does, then the institution should contact the former student and make arrangements to pay the underawarded amount to the former student. Alternatively, with written permission and instructions (including email) from the former student, the institution may send the amount with a letter of explanation to a student's loan servicer/lender to reduce the student's debt.
- If the institution determines it does not have current contact information for the former student, then the institution should contact and work with the lender/servicer of the former student's loan or parent loan to arrange for direct payment to reduce debt subject to escheatment requirements.

OHE will, in limited circumstances, net an overaward finding with an underaward finding to reduce the total due to OHE. Both the overaward and the underaward must be for the same student within the same program in the same aid year.

The next section applies only to human or technological errors made at an institution. This section does not excuse a student or parent who intentionally submitted false data or who was attempting to manipulate the aid process.

Materiality Standards

- The accounting concept of materiality is that while errors or omissions may be present, an institution's financial statements as presented would not mislead a reader of the statements.
- A compliance audit does not provide an opinion as to the institution's overall financial statements and internal control. A Minnesota compliance audit reviews how program standards were applied (or not) to individual students and whether an institution's policies are compliant (e.g. SAP, refunds, etc.).
- Minnesota compliance audits have few materiality standards.
- If the institution made an error in processing an aid program for an individual student, even if the final award amount was correct, that is still considered a finding.
- If a disbursement amount is off by \$1 (\$2 in very limited cases), this is considered immaterial and is not a finding. In fact, this occurs frequently within the MSG program.
- If after the audit and any additional required full program reviews are completed, the institution owes a refund to OHE, and the total amount due is less than \$100, then no invoice will be issued. However, if any amount is due for a borrower's SELF loan, then the institution must return the funds back to the SELF servicer and provide OHE with an email confirmation that it has been paid, so OHE can confirm it has been paid in the servicer's system.

Types of Audit Exceptions and Requirements

OHE uses two different terms in audit reports to describe audit exceptions. OHE determines the level of exception using a list of questions. The following list is not intended to cover all possible questions.

- Did the same exception appear in one or more prior year's audits of the institution?
- Did OHE document the same exception as less than a finding (recommendation or comment) in a prior year's report with a warning that future exceptions of the same kind would be findings and could result in return of funds?
- How many students in the current year's sample had the same exception?
- What was the dollar value of the current year's exception?

The two levels of exceptions currently in use are:

- **Recommendation:** This is a stand-alone item not affiliated with any finding. Used when OHE wants to encourage an institution to review and preferably make changes to one of its policies or procedures. OHE does not require repayment of funds under a recommendation. The institution does have to respond to each recommendation in its CAP to explain whether it intends to follow the recommendation or why it does not intend to follow it.
- **Finding:** Used to formally document an exception. Each finding will have at least one requirement associated with it. Each finding may also have one or more recommendations (not the same as a stand-alone recommendation per above) associated with it. These recommendations are considered a part of the finding and the institution must address each recommendation in addition to each requirement. A requirement may be a return of funds to OHE, the need for the institution or OHE to perform a 100% audit of an entire program's student population for one or more years, and/or the need to create or edit a policy that OHE has determined to not be in compliance, etc. The institution must provide as part of its CAP a

detailed response to each finding and related requirement and/or recommendation to explain why it thinks the issue occurred and what steps it will take to minimize the risk of the same issue occurring again.

Additional exception level previously used in audit reports prior to the 2021-22 aid year:

A third level of exceptions (comment) was used in prior years' audit reports. A "comment" notation was used when an institution appeared to have acted in good faith but was not fully aware of or understood a particular process or requirement. A comment was also used when a particular exception occurred for the first time at an institution and had limited impact to students. A comment may have contained a warning that future occurrences of the same exception would be considered a finding and required the institution to return funds to OHE. An institution did not have to reply to a comment in its CAP.

General Program Requirements for 2024-25 Compliance Audits of Minnesota Aid Programs

General and Specific Program Sections Not Considered to Be Comprehensive Audit Guidance

The following sections provide audit guidance for issues that apply to more than one program, followed by additional specific guidance for each individual program. **However, these sections are not intended to be comprehensive audit guidance.**

An auditor will find some situations that are not completely addressed in the Guide and must always audit a program using a combination of the Guide, the State Financial Aid Manual, the 2024-25 FSA Handbook, and other Minnesota and Title IV reference materials.

Reference Materials for Both Institutions and Auditors

The following are reference and guidance materials that both institutions and auditors must use to determine compliance with the requirements of Minnesota aid programs. While auditors are not expected to memorize all of the following, they must be very familiar with the information and know generally where to find specific information when needed during an audit. Auditors must cite specific references for each finding as well as for most stand-alone recommendations.

NOTE: When a Minnesota Statute conflicts with a Minnesota Administrative Rule, the statute takes precedence.

- [2024-25 Federal Student Aid Handbook including the Application and Verification Guide](#)¹- note that the official guidance is the federal regulations and other source materials from which ED prepares the Handbook.
- [Federal Program Integrity Information](#)²- Questions and Answers as updated
- [2024-25 FAFSA Specifications Guide \(combined six previously separate guides including The ISIR Guide into one publication\)](#).³
- Minnesota State Financial Aid Manual—auditors to use the correct version of each chapter that was in effect during the 2024-25 aid year. All are stored in the auditor’s shared drive at audit/audit manuals and policies/2024-25 OHE audit manual/OHE program manuals for 2024-25.
- Updates to Minnesota programs that occurred after the most recent version of the Minnesota State Financial Aid Manual and was provided by OHE program managers to institutions.

¹ <https://fsapartners.ed.gov/knowledge-center/fsa-handbook/pdf/2024-2025>

² <https://www.ed.gov/laws-and-policy/higher-education-laws-and-policy/program-integrity-information-questions-and-answers>

³ <https://fsapartners.ed.gov/knowledge-center/library/handbooks-manuals-or-guides/2023-05-31/2024-25-fafsa-specifications-guide-february-2025-update-2>

- [2024 Minnesota Statutes 136A. Higher Education](#)⁴.
- Minnesota Administrative Rules [Chapter 4830](#)⁵ for most programs other than SELF and [Chapter 4850](#)⁶ for SELF Loans.
- [2024 Minnesota Statutes 299A.41 through 299A.47 Public Safety Officer and Survivor Benefits](#)⁷.

⁴ <https://www.revisor.mn.gov/statutes/2024/cite/136A>

⁵ <https://www.revisor.mn.gov/rules/4830/>

⁶ <https://www.revisor.mn.gov/rules/4850/>

⁷ <https://www.revisor.mn.gov/statutes/2024/cite/299A>

Required Items to Review That Are Not Specific to an Individual Program

Institution's Financial Aid Office's Understanding of Program Requirements

An institution's financial aid office staff is expected to understand how to accurately administer each OHE program in which it participates. OHE provides both formal and informal training sessions for institutions. OHE expects that an institution will contact an OHE program manager or the Audit Unit at the time a question arises rather than after the close of an aid year.

OHE assumes that a financial aid staff has taken all necessary actions to:

- Be familiar with both federal Title IV and OHE program requirements.
- Read and understand the FSA Handbook, the Minnesota State Financial Aid Manual, and other information referred to in those documents (e.g. income tax issues).
- Remain up to date on any program changes announced by ED and OHE.

Records Retention and Availability to Audit

The following is from the 2024-2025 State Financial Aid Manual Minnesota State Grant Program:

The school must make available all pertinent books, documents, papers and records for audit and examination for three years after the last day of a fiscal year or until all audit exceptions for the period are resolved.

OHE's policy is to audit aid years prior to the year currently under audit when certain findings (e.g. Minnesota residency) are identified in the current year's audit. OHE has agreed with institutions that it will only audit back for a total of three aid years including the current year under audit. OHE is not bound by this agreement if auditors find evidence of an institution administering State aid funds in a potentially fraudulent or grossly negligent manner. Clock-hour schools must retain and be able to provide OHE with the required records and documents necessary to audit a student from their first day of enrollment through their final date of attendance adjusted for any LOAs, etc.

Student Accounts Required

OHE requires an institution to have a separate student account ledger for each student. **OHE strongly recommends** an institution run **all transactions** through a student's account. This provides the institution, the student, and auditors a complete record and audit trail. Each transaction must be dated as the dates are used to determine student eligibility for an aid disbursement.

Special disbursement note: OHE has stated that even if an institution advances its own funds to credit a student's account but labels the disbursement as, for example, MSG, then as of that date, a receivable from OHE is established for the institution. That receivable amount is not guaranteed because of certain special circumstances related to a student's enrollment level changing and usually occurs when an institution uses

summer as a header term. Certain OHE programs have other special conditions that could override this general statement.

Transactions include:

- Charges
- Adjustments to original charges for reasons such as enrollment changes, withdrawal from classes, etc.
- Personal payment credits
- Disbursements of financial aid including the name of the aid program
- Payments made from the student account (refunds of excess funds to students for living expenses, return of aid to an aid program due to a student's withdrawal, etc.)

Even though program specific guidance may allow for aid to be disbursed directly to a student, childcare provider, etc., OHE strongly recommends institutions run all activity through a student's account. An institution that chooses to make payments outside of a student's account must follow the OHE requirements stated in the State Financial Aid Manual. Many of the other OHE program manuals refer the reader back to information contained in the MSG chapter. An auditor needs to be aware of this to cite the appropriate references for findings and stand-alone recommendations.

Cash Management

OHE's grant, scholarship, and work programs are funded by legislative appropriations of Minnesota taxpayer monies. OHE's SELF Loan program is designed to be self-sustaining using the principal and interest payments made by past and current borrowers to make new loans. Institutions that participate in OHE's programs are stewards of these funds and must follow OHE's cash management requirements.

OHE either requires or encourages an institution to properly segregate and account for each Minnesota aid program's funds within its general ledger. For example, MSG funds **must be** accounted for in a separate general ledger account. Separate accounts ease the tasks of monitoring during the year and reconciliation at the end of a term or year.

Institutions are required to monitor their cash positions for each program. In general, institutions are required to return cash to OHE as soon as it becomes reasonably certain that it will not spend all the cash it has on hand. An individual aid program may have more specific requirements. Further, institutions must return cash to OHE within 10 days following receipt of a request from OHE.

Minnesota Residency

Most of OHE's aid programs require a student applicant to be a Minnesota resident as defined for each program. Minnesota residency is not simply based on a student's address or year of state residency from their Free Application for Federal Student Aid (FAFSA). Minnesota residency for in-state tuition at public institutions does not necessarily equate to Minnesota residency for OHE aid programs.

Each institution must have a process by which it can accurately determine an applicant's Minnesota resident status. This may include a requirement to complete an additional questionnaire attached to the FAFSA on-line

process or as a stand-alone form. **Note:** FAFSA applicants did not have the ability to link directly to the Minnesota questionnaire after completing the 2024-25 FAFSA due to technical issues experienced during the 2024-25 FAFSA rollout. The admissions process could include the necessary questions and documents needed for a financial aid office to make a determination.

A Valid ISIR

The “FEDERAL FOUNDATION”

OHE has adopted the Federal Title IV aid application process (FAFSA) to also serve as a student’s initial application for most Minnesota aid programs. In addition to meeting the Title IV requirements, each Minnesota program has other requirements that are discussed later in the Guide.

The Federal FAFSA Processing System (FPS) sends the processed information as an output document to institutions selected by the student. This output document is called an Institutional Student Information Record (ISIR). The recipient institution(s) must review the ISIR to determine if it is a “valid ISIR”. “Valid ISIR” is defined as an ISIR that is free of errors, has no unresolved conflicting information or codes, and/or has been secondarily reviewed by the institution if the ISIR was flagged for verification by either the FPS or the institution itself. Institutions use a valid ISIR and other information to award aid from both federal Title IV and Minnesota programs.

The primary reference tool for institutions to use is the AVG. The AVG is a part of the FSA Handbook. The AVG and the Handbook are updated annually by ED.

OHE considers a valid ISIR to be “the federal foundation”. If an institution uses an ISIR that has not been properly reviewed to become a valid ISIR, then the foundation for awarding Minnesota aid is not laid properly. The Minnesota program awards built on top of the foundation will also likely be invalid. This means that an institution may have to return to OHE up to the full amount of Minnesota aid that was previously disbursed to a student.

Institutions Assumed to Have Certain Federal Income Tax Knowledge

The AVG includes federal requirements for institutions to follow to avoid awarding with invalid ISIRs. One specific requirement relates to an institution’s assumed knowledge of certain federal income tax matters. The following was taken from Chapter 5-Special Cases of the 2024-25 AVG:

Financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can impact the need analysis. You are obligated to know:

- (1) whether a person was required to file a tax return and*
 - (2) what the correct filing status for a person should be.*
- IRS Publication 17 is also a useful resource.*

For example, an FAA who notices that a dependent student's parents, who are married and live together, have each filed as head of household (which offers a greater tax deduction than filing single or married) must ask if that is the right status. Resolution of the conflict could be the parents refiling and submitting a copy of the amended return or a reasonable explanation of why there really is no conflict under IRS rules.

OHE's Audit Unit has identified a number of tax-related findings. Most of those findings are related to the head of household filing status and various issues related to whether and how an undocumented person should file. Some cases related to an undocumented person being married to a U.S. citizen. As noted in the excerpt from the AVG, IRS Publication 17 is a good resource for these types of issues.

The ISIR comment codes 361-368 previously flagged possible mismatches between tax filing status and marital status. Those comment codes were no longer necessary as part of the FAFSA simplification process. OHE does not know what auditors may find in this area of concern due to the new FAFSA process for 2024-25. It is possible that the FAFSA changes have already addressed the problem.

Certain Minnesota Institutions Do Not Participate in Federal Title IV Programs

A small number of Minnesota institutions were allowed to continue their participation in Minnesota aid programs even though they do not participate in Federal Title IV programs. These institutions were already participating in OHE programs but were not participating in the Federal Pell Grant program as of July 1, 2010. A statutory change to MS 136A.103 required institutions to participate in the Pell program before they could apply to participate in OHE programs. The small number of institutions were grandfathered in allowing them to continue to participate in OHE programs until some future event such as a change of institutional ownership.

Since these institutions do not participate in Title IV programs, the FPS cannot send ISIRs to them. The FPS does send a FAFSA Submission Summary (FSS) (replaced the Student Aid Report (SAR)) to a student who filed a FAFSA. The institution must obtain an FSS from each student who filed a FAFSA. The institution then proceeds as described earlier regarding ISIRs to ensure the FSS is valid before awarding Minnesota aid.

Valid ISIR Issues and Findings

- Non-Title IV schools unable to determine what level of verification to perform as it was not indicated on an FSS. OHE requires these schools to perform full verification for each student selected.
- Non-Title IV school not working with students to submit required FSS changes due to verification or professional judgment.
- Institutions not following Title IV requirements in AVG for when corrections must be submitted to FPS.
- Institution awarded and paid MN aid based on an invalid ISIR.
- **NEW for 2024-25 Audits:** One of the Title IV changes newly effective for 2024-25 includes how SAIs must be treated when performing aid calculations. Unlike the EFC which provided amounts for both a nine-month aid year and for other numbers of months, the SAI cannot be pro-rated. The full SAI must always be used for calculating Title IV aid amounts. However, the calculation for certain OHE programs (MISP and SELF) requires it be done by term and not aid year. Since pro-ration of SAI is not permitted, these programs require the SAI

to be split in half for semesters or in thirds for quarters. Auditors must check that institutions complied with these new requirements.

Refunds

The word “refund” can be used in several ways when discussing student accounts and financial aid. An auditor must clearly communicate with the institution under audit about the type(s) of “refund” they wish to review. References to “term or payment period” in the upcoming sections below must be replaced with “program” for schools that charge up front .

“Refund” may be used in reference to the following situations:

- Title IV credit balance on a student’s account.
- Minnesota credit balance on a student’s account.
- “Standard credit balance”-an excess of payments and credits over charges on a student account that does not meet either Title IV or Minnesota credit balance standards. This may occur during a student’s enrollment or following a student’s withdrawal from an institution.
- A reduction in tuition, fees, or other charges due to a student’s change of enrollment while still enrolled including fully withdrawing during a term or payment period.
- The required return of Title IV aid funds as calculated under the R2T4 process when a student is considered to be fully withdrawn from enrollment prior to completing at least 60% of the term or payment period.
- The OHE Refund Calculation process used to determine if an institution must return OHE aid funds to OHE following a student’s partial or complete withdrawal from enrollment prior to completing a term or payment period.

Title IV Credit Balance

Reference: 2024-25 FSA Handbook, Volume 4, Chapter 2, “Title IV Credit Balances”

A Title IV credit balance occurs whenever the amount of Title IV funds credited to a student’s account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period. Please see Volume 5 for a discussion of credit balances when a student withdraws.

While OHE does not have the ability to require an institution to take action to correct any federal issues identified during an audit, OHE may include an explanatory note in the audit report describing those issues.

Minnesota Credit Balance

Reference: State Financial Aid Manual-Minnesota State Grant Program- “Student Account Balances”

The same language is also found in most, if not all, OHE program manuals including State Work Study as a student may authorize an institution to credit work earnings directly to their student account.

Unless otherwise authorized by the student, whenever an institution applies state financial aid disbursements to a student’s account and determines that the amount of those disbursements exceeds or exceeded the amount of

allowable charges the institution assessed the student, the institution must pay that balance directly to the student as soon as possible but within 14 days of the later of:

a. the date that balance occurs,

b. the first day of classes of a payment period/period of enrollment as applicable, or

c. the date the student rescinds his or her authorization to hold funds.

This also applies to cases where the institution posts State Grant disbursements to the student's account prior to receipt of State Grant funds from the Agency.

An auditor must keep this requirement in mind when reviewing a student's account during an audit. There are additional nuances that require an auditor to consult the MSG manual.

"Standard Credit Balance"

A student may have a credit balance due to them but the credit balance does not rise to the level of either a Title IV or Minnesota Credit Balance.

This type of credit balance occurs when there is a mixture of sources of financial aid, possibly including institutional scholarships, outside scholarships, tribal funding, or other aid and payments that exceed the student's charges for the term or payment period. This type of credit balance may also be created as the result of a student changing enrollment level up to and including full withdrawal from school during a term or payment period. After all required calculations and any associated required refunds of aid to the source programs have been completed, any remaining credit balance belongs to the student.

Possible Issues and Audit Findings

An institution chooses to return additional credit balance funds to a student's lender (including OHE via SELF) with the good intention of reducing a student's outstanding student loan debt. No refunds beyond those required by statute, regulation, policy, law, etc. may be initiated by an institution without first obtaining written and signed (email is permissible) instructions from a student.

Policies for Reductions in Tuition, Fees, and other Charges

The following refers to "refund policies." In practice, they are policies relating to whether and how an institution reduces charges when a student adjusts enrollment level including fully withdrawing during a term or payment period. The term "refund" can be misleading. In some cases, after all of the refund and return of aid calculations are completed, a student may still owe a balance to the institution.

Each institution that participates in federal and/or state aid programs must have an institutional refund policy. This policy addresses what, if any, reductions are made to a student's charges if the student adjusts their enrollment level including fully withdrawing from school during a term or payment period.

OHE either licenses or registers schools (sometimes only certain programs) which allows the schools to operate. Each of the two types of institutions are subject to different refund policy requirements.

Registered institutions may create their own refund policy; neither ED nor OHE may impose minimum requirements.

A licensed institution is one that does not offer at least a two-year degree program. Licensed institutions **must** use OHE’s statutory refund policy. The policy and requirements are under [2024 MS 136A.827](#).

Most clock-hour institutions in Minnesota fall under the licensed category and are, therefore, required to use OHE’s refund policy under MS 136A.827. Auditors must read and be able to implement the OHE refund policy in order to audit student withdrawals from clock-hour programs. OHE’s Audit Unit also serves as a resource for institutions to consult for questions related to the OHE refund policy.

Some clock-hour programs use enrollment agreements under which a student agrees to pay a program’s full charges as opposed to being charged and responsible only for charges for a payment term or a payment period. OHE refers to these programs as those that “charge up front” as the student incurs an obligation for the full program charges even if they withdraw before completing the program. OHE provides a version of its OHE Refund Calculation Spreadsheet specifically for use by institutions that charge up front for its programs.

Required Audit of a Sample of Students that Fully Withdrew during a Term or Payment Period

References

- 2024-25 FSA Handbook-Volume 5—for R2T4 information
- 2024 MS 136A.827—for statutory refund policy required for licensed institutions
- Minnesota Financial Aid Handbook—Minnesota State Grant Program
- Minnesota Financial Aid Handbook—SELF Loan Program

When a student fully withdraws from an institution without completing the academic term or payment period, it can trigger up to three separate processes for an institution to complete.

The three processes are:

- Institutional refund policy-see “Policies for Reductions in Tuition, Fees, and other Charges”.
- Return of Title IV Funds (R2T4)—only applicable if the student was considered a recipient of Title IV aid other than Federal Work Study.
- OHE Refund Calculation—only applicable if the student was a recipient of aid from an OHE program other than State Work Study. **NOTE:** In some cases, an institution may determine that based on the results of the first two bullet points above, there is no possibility of any funds being returned to OHE. In that case, an institution does not need to complete the OHE Refund Calculation process but must at least **make a note in the student’s file**. An auditor seeing this note then knows that the institution was aware of the OHE refund process requirement.

The order in which an institution completes the three processes is important. The OHE Refund Calculation process must be completed last as the results of the first two processes flow into the OHE process.

OHE provides Excel spreadsheets to assist institutions with the OHE Refund Calculation process. However, institutions are not required to use OHE’s forms and may use their own as long as the results are the same.

An auditor must be familiar with all of the processes and related forms. Reviewing a student's file to verify the accurate completion of the various refund processes may require an auditor to consult one or more of the references listed above. There are too many nuances and exceptions, especially within the R2T4 and the OHE processes, to cover in the Guide.

Special Audit Requirements for Clock-Hour Programs including Programs that Charge Up Front for Full Program Cost

This section explains certain requirements and issues that while not unique to clock-hour programs, they are quite different from those associated with term-based programs. Most of the information in this section originates from Title IV requirements. However, OHE began to conform more of its programs' requirements to Title IV beginning with aligning payment periods for Pell with MSG. Additional conformity work occurred during and after the 2024-25 aid year. These additional/proposed changes are mentioned in this section, but an auditor may not cite a school for violations.

Certain requirements related to auditing clock-hour schools that charge in full for their programs at the beginning of the program result in changes to auditing processes.

The following subsections are arranged in a rough chronological order. Each subsection provides references to the 2024-25 FSA Handbook. Auditors are encouraged to read the referenced materials to gain further understanding of the process.

An auditor should by this point know what programs at a school to be audited and which ones are eligible to participate in Title IV and/or OHE programs.

Determine Academic Year Definition and Number and Length of Payment Periods (PP)

Reference: FSA Volume 3, Chapter 1

Confirm with the school how they define their academic year. The minimum allowable parameters are 900 clock hours AND 26 weeks of instruction.

Note that "weeks of instruction" is a Title IV term and is not necessarily the same as the number of calendar weeks. Schools should have determined their weeks of instruction for each program and for each program start date in advance to ensure aid funds are disbursed at the appropriate times.

Review how the length of the program being audited compares with the school's academic year definition. If one or both of the parameters of the program are less than that of the academic year, a student will not qualify for a full Scheduled Pell Award. Pro-ration of a Scheduled Pell Award can occur if the program is less than one academic year in length OR in a program that is more than one academic year but less than two full academic years.

Payment Periods

If a program is one academic year or less (in either clock hours OR weeks of instruction), then PP1 is the period during which a student completes half of the clock hours AND half of the weeks of instruction in the program. PP2 is the remainder of the program.

If the program is more than one academic year in length then:

If remaining portion of program is half of an academic year or less, then PP3 is the remaining portion of the program.

If remaining portion of the program is MORE than half of an academic year, then PP3 is the period during which a student completes half of the clock hours AND half of the weeks of instruction in the remaining portion of the program. PP4 is the remaining portion of the program.

Determine if a student's program will have a crossover payment period. If so, then OHE might need ISIRs for two separate aid years and, as discussed later, would need separate Pell COA calculations for each aid year.

Further, if a cosmetology or barber program will be completed within a single aid year (the program begins after July 1 but is completed on or before the next June 30), need to be aware that students may lose some eligibility for Pell, MSG, and possibly MISP because the amounts for an aid year are capped at 150% of the base award.

Determine if Charges for Kits, Supplies, and Books Meet the Definition of Institutional Charges

Reference:

Volume 3, Chapter 2

Volume 4, Chapter 2

Volume 5, Chapter 1 "Institutional Charges"

Are the charges considered as institutional charges or noninstitutional charges per Title IV regulations? Depending on all of the factors, this may need to be determined at the student level (cannot include kit, etc. in COA if not an institutional charge), but in most cases it will be clear on a general basis.

In most cases, the charges will be institutional charges. The overriding guidance is that this type of charge must be considered as an institutional charge if a student does not have a real and reasonable opportunity to purchase them elsewhere.

"Real and reasonable opportunity" is if a student could have received a disbursement of Title IV funds 10 days before the beginning of a payment period, and if the disbursement would have created a credit balance, then by the seventh day of the payment period the school must provide a way for eligible students to obtain or purchase the books and supplies for the payment period.

The following are questions an auditor needs to consider when determining if a charge is an institutional charge:

- Are the charges itemized in the student’s enrollment agreement?
- Are the charges included within the amount charged for tuition and fees?
- Are the charges placed directly on the student’s account or not? Even if the charges are not placed directly, they may have to be considered institutional charges depending on other factors.

If the school does ONE of the following, then the charge must be considered an institutional charge:

- School demonstrates that there is a compelling health or safety reason why it must provide the kit, books, etc.
- School demonstrates, on a current basis (not two years ago), that the kit, books, etc. are not available elsewhere or accessible by students other than at sources provided by the school/school affiliates or authorized by the school.
- School demonstrates that has an arrangement with a book publisher or other entity that enables it to make the materials available to students below competitive market rates AND provides a way for a student to obtain the materials by the seventh day of the payment period AND offers a student the ability to opt out of the way the school provides the materials. NOTE: If a school meets the requirements of this paragraph, then it must reduce the tuition and fees by the amount associated with the books, supplies, kit, etc. for a student that opts out.

This type of charge can be classified as a non-institutional charge if the following conditions are present:

- No upfront charge on the student’s ledger account.
- Student’s act of signing the enrollment agreement does not bind them to a financial obligation for the charges, but only acknowledges that they will need the materials to complete the program AND a real and reasonable opportunity exists for students to purchase the kit from a source other than the school (a place not affiliated with the school) AND the school did not maintain practices (e.g. mandatory book vouchers only good at the school’s bookstore) that discourages or prevents a student from purchasing the materials from another vendor AND the school did not restrict the availability of financial aid funds to purchase the materials AND the school gets written authorization from a student who opts to purchase the kit from the school to apply Title IV funds on the student’s ledger account toward the kit charges.

Determine the COA Used for Pell Grant

Reference

Volume 7, Chapter 3

The COA for Pell that is reported via the COD system must be for a full-time student enrolled for a full academic year.

In general, students enrolled in clock hour programs are always considered to be at 100% enrollment intensity. The one caveat comes with calculating a student’s Pell COA. If a student is enrolled less than half-time (less than 12 hours per week), then certain elements of the COA must or may be adjusted.

- The allowance for miscellaneous personal expenses **must** be deducted from the COA.
- The allowance for food and housing is generally not included in the COA for less than half-time students. However, a school may choose to include the allowance for food and housing for up to three semesters with no more than two of those semesters being consecutive.

Pro-rating COA if Program Is Shorter or Longer than an Academic Year

Program shorter than an academic year (two calculation options):

Option 1: Multiply the COA of the entire program by the lesser of clock hours in academic year/clock hours in program OR weeks of instruction in academic year/weeks of instruction in the program.

Option 2:

- Multiply the total of the following COA elements (tuition and fees, books, supplies, loan fees) by clock hours in academic year/clock hours in program.
- Multiply the total of the following COA elements (housing, food, miscellaneous, disability expenses, transportation, dependent care, study abroad, etc.) by weeks of instruction in an academic year/weeks of instruction in the program.
- Add the results of the two steps together to determine the full-time, full-year Pell COA.

Program longer than an academic year

Multiply the total program COA by the lesser of clock hours in the academic year/clock hours in the program OR weeks of instruction in the academic year/weeks of instruction in the program.

NOTE: This is the same formula used to pro-rate COA for programs shorter than an academic year. You have the choice of using Option 2 from above.

Calculate Pell Grant Scheduled Award by Aid Year

Reference

Volume 7, Chapters 2, 4, and 7

Pell Grants are considered the first source of aid. A correctly determined Pell Grant is never adjusted to take into account other forms of aid.

There may be cases when a student's SAI exceeds the COA. Even though there appears to be no financial need, a student may still qualify for a calculated Pell Grant or a minimum Pell Grant. However, the amount of the Pell Grant itself may not exceed the COA.

Students may receive up to 150% of their Scheduled Award during a single award year (not academic year).

Obtain the following information from a student's ISIR:

Is Pell Eligibility Flag set to "Y", if "Y", then,

Is the Max Pell Indicator set to “Y”, if “Y”, stop, otherwise,

Is the Minimum Pell Indicator set to “Y”, if “Y”, stop, otherwise,

Must calculate the Pell Scheduled Award amount by:

Maximum Pell amount for the aid year less the SAI and round result to nearest \$5. If the calculated Pell amount is greater than the Minimum Pell amount for the aid year and the calculated amount is less than the Pell COA, then the calculated amount is the Scheduled Award.

If the above calculation results in an amount greater than the Minimum Pell, but also greater than the Pell COA, the Scheduled Award amount is capped at the COA amount.

If the above calculation results in an amount less than the Minimum Pell, then the student is not eligible for Pell.

Determining Actual Pell Disbursements by Payment Period

Reference

Volume 7, Chapter 4

Using the payment periods previously determined for the program, the amount of Pell per payment period must be calculated. Be aware that programs can cross aid years (crossover term) and the appropriate ISIR must be used to match the aid year from which Pell funds will be drawn.

In the case of a crossover term, Pell may be drawn for either aid year, but the school must maximize a student’s Pell awards over the two-year period.

If a program is less than an academic year in length (in either clock hours or weeks of instructional time), students enrolled in the program won’t receive a full Scheduled Award.

As in the case of the other formulas, you must perform comparable prorations of the award for each payment period in the student’s program. The calculation for the payment period prorates a student’s Scheduled Award based on either (1) the number of clock hours in the payment period compared to the clock hours in the defined academic year or (2) the number of weeks of instructional time in the payment period compared to the weeks of instructional time in the academic year.

To determine the payment for a payment period, multiply the student’s Scheduled Award **by the lesser of:**

Number of clock hours in the payment period ÷ Number of clock hours in the program’s academic year

OR

Number of Weeks in the payment period ÷ Weeks in the program’s academic year.

Prorating Institutional Charges When A School Charges for Full Program Up Front and Determining if a Refundable Credit Balance Exists

Reference

Volume 4, Chapter 2

Institutional charges for Minnesota clock-hour programs (as noted previously) are, in general, tuition and fees and possibly kits, equipment, books, etc.

While a student's ledger account may show the entire program charged at the beginning of the student's enrollment, for Title IV purposes, the institutional charges must be apportioned or prorated across the entire length of the program.

If the program has substantially equal payment periods (e.g. 1,800-hour program with 900 clock hours in an academic year), the institutional charges would be divided equally between four payment periods.

Otherwise, multiply the total institutional charges by the fraction: number of clock hours in the payment period/total clock hours in the program.

This process is repeated for each payment period.

Special Case: While it may not occur in Minnesota clock-hour schools, it must be noted that the amount for the kit, books, supplies, etc. may be classified as an institutional charge even if it is not charged directly to a student's account. In that case, the amount of the kit would have to be pro-rated just as if the charge was on the student's account. Then the total of the prorated tuition/fees and the prorated kit would be added together and compared with the amount of Title IV aid credited to the student's account for the payment period. There is also the possibility that the school had advanced some funds to a student with which to purchase a kit, but the situation did not meet the "real and reasonable opportunity" standard. Again, the amount of the kit must be pro-rated as stated above. However, if the total of Title IV aid credited for the payment period is greater than the total of the prorated tuition/fees and kit, that credit balance must be reduced by the amount the school had already advanced the student for the payment period to determine the current credit balance due to the student.

In the FSA Handbook, only Title IV funds (Pell and FDL) are matched by payment period against the apportioned charges to determine if a Title IV credit balance is present and must be disbursed to the student. OHE will also include OHE grants, scholarships, and SELF Loans into the calculation. While not as likely to be present, OHE will also encourage schools to include outside scholarships and institutional grants/scholarships in the calculation. OHE's financial aid unit will be providing guidance to clock hour schools to add OHE's aid program disbursements to the Title IV disbursements for Pell, SEOG, and FDL to determine if a credit balance is due to a student. This guidance will likely go into effect for students whose enrollment begins on or after July 1, 2027. However, the plan is to allow early implementation after OHE sends updated guidance to the schools.

The process is then:

Take the apportioned institutional charges that are charged to the student's account (or possibly not charged to the account in the case of a kit/books/equipment (see "Special Case" above)), deduct the Title IV aid (Pell, SEOG, FDL) and also the OHE grants, scholarships, and SELF Loan amounts to determine if there is a combined credit balance due to the student. If there is a credit, the school must refund the amount to the student to be used for living expenses even though the student's ledger account might still show a balance due because the full program was charged upfront. If there is not a credit balance, then the analysis ends at that point.

Determining Standard COA Components and Completing a Student's Award Package

The COA used from this point on, is the usual Title IV COA used for campus-based and FDL aid. OHE must understand how the school arrived at the allowances for living expenses and how they prorated amounts down for a program less than academic year or for the second academic year of the program if it is not a full academic year.

For training purposes, the Agency must stress the need for a school to gather information about the cost of local childcare, housing, and food costs. A school must be able to show how it arrived at its COA especially for clock hour programs where few to no students live in school-owned housing and may live at home with parents. We noted a COA issue with a cosmetology school that is based in another state in its most recent audit. The school is based in a mid-Atlantic state and had been using COA estimates from the College Board from the Northeast region of the United States even for programs in other states like Minnesota.

This COA less the SAI shows the financial need. Any Pell Grant is then subtracted from the calculated need to arrive at remaining need.

The FSA Handbook example only includes Title IV aid in its examples so only Pell and FDL appear. However, for Minnesota residents, one must include MSG, MISP, and any other grants/scholarships (including outside and institutional scholarships) to determine if there is any unmet need and/or COA.

Clock hour schools in Minnesota have not participated in SWS, so SWS should not be deducted from remaining need.

Determining Eligibility for and Amounts of Federal Direct Loans (Subsidized and/or Unsubsidized)

Reference

Volume 8, Chapters 3, 4, 5, and 6

If there is remaining need and/or COA, then FDL sub and unsub must be calculated.

Loan period is generally the length of the program if the program is less than an academic year or for remaining portions of a program (second year of cosmetology program).

It is possible a school with an 1,100-clock hour program that defines its academic year as 900 clock hours could choose to allow one annual loan limit for the entire 1,100 clock hour program. In that case, the loan period would be the program length even if in excess of the academic year definition.

Similarly, a school may choose to define its academic year as longer than the required minimum of 900 hours and 26 weeks of instruction. If so, the school's standard, not the statutory minimum, determines whether a program or a final period of study is shorter than an academic year.

Loan amounts must be pro-rated (reduced) if a program is less than an academic year or if the period of study remaining in a program is less than academic year.

If a program is less than an academic year, you must multiply the loan amounts noted below by the lesser of the fractions: clock hours in program/clock hours in academic year OR weeks of instruction in program/weeks of instruction in academic year.

Determine the maximum annual combined sub and unsub loan limit. For a first-year dependent student, the total limit is \$5,500 of which no more than \$3,500 can be subsidized.

Multiply the smaller of the fractions against the total loan amount (\$5,500).

Then multiply the same fraction against the total subsidized amount (\$3,500).

The first calculation provides you with the maximum total FDL the student may receive, and the second calculation provides the maximum amount of the total FDL that can be subsidized.

If a remaining period of study is less than an academic year (for programs longer than one academic year), only one fraction must be calculated. Clock hours in program/clock hours in academic year.

The rest of the calculation is the same as above, determine how much total FDL and how much subsidized FDL a student is potentially eligible for.

Clock hour programs must use a borrower based academic year (BBAY) for FDL, specifically, BBAY 3. There are a lot of issues associated with this and hopefully OHE will not need to deal with them. If needed, information can be found in the 2024-25 FSA Manual, Volume 8, Chapter 6.

Creating an OHE Version of a Student's Account Record

It is highly likely that a student's ledger account record from the school will be inadequate for auditors to use if the school charges up front for a program. Therefore, the auditor will need to create an OHE version of the student account to verify that refunds to students were issued at the appropriate times.

One tab of the clock-hour template is to be used to create the student's account record.

Title IV regulations require that Pell Grants are calculated first and are considered to be the first aid applied to a student's charges/COA. The calculated Pell Grant may exceed the COA. In some cases, the Pell amount may be capped at the COA.

Title IV regulations state that Title IV aid is always considered to pay first. Pell is always the very first program to pay. However, other Title IV programs including FDL are considered to pay before other sources of aid. The amounts of FDL and any split between subsidized and unsubsidized are calculated after Pell. However, when Agency programs enter the calculation, it becomes more difficult. A school could calculate Pell and FDL before adding Agency programs to the mix. Depending upon a student's need, adding an MSG, MISP, etc. could reduce or eliminate the subsidized loan amount. It is possible that the unsubsidized loan amount could be impacted as well. No matter how the calculations are done (initially determine FDL before Minnesota programs vs. package Minnesota programs before determining FDL amounts), the end result should be the same.

Specific Program Requirements to Review for 2024-25 Compliance Audits of Minnesota Aid Programs

Minnesota State Grant (MSG)

Regulatory and Other References

- 2024 MS 136A.101 and 136A.121
- MN Rules Chapter 4830.0100-4830.0700
- April 2022-State Financial Aid Manual-Common Definitions (SFA-CD)
- December 2021-State Financial Aid Manual-Minnesota State Grant Program (SFA-MSG)

NOTE: OHE's Financial Aid Division was in the process of creating an updated SFA-MSG for 2024-25 at the time this Guide was initially prepared. Due to the many changes required to update the SFA-MSG, the page number references from prior years in this Guide were to become outdated. Therefore, in this Guide, all references to the SFA-MSG will be to section headings and/or sub-headings that should still allow an auditor to find the information even in the December 2021 version of the SFA-MSG. An auditor must still exercise caution as there were many changes implemented during 2024-25 and they may need to use other resources as cites.

Important Changes for the 2024-25 Aid Year

- The method of calculating Federal Pell Grants was revised resulting in the elimination of Pell Grant tables. Auditors must review the 2024-25 FSA Handbook, Volume 7 to understand the changes.
- OHE changed how certain elements of the MSG calculation process pro-rated amounts based on enrollment levels under 15 credits.
- MS 136A.121 was amended to change the parameters for how long a student could receive MSG. The old limit of postsecondary attendance (LPA) was replaced with 180 credits or the equivalent of RECEIPT of MSG. OHE took over the tracking of this parameter from the institutions.
- The minimum enrollment level to qualify for MSG was reduced from three credits to one credit.
- The deadline for a student to file their FAFSA was changed from 30 days after the beginning of the term to June 30 at the end of the aid year (e.g. June 30, 2025 for 2024-25).

Mid-year 2024-25 Changes Necessitated to Avoid Overspending the Biennial MSG Appropriation:

OHE announced changes to the 2024-25 MSG program in a memo sent November 18, 2024 to MSG campus administrators. These changes supersede other statutory changes:

- No MSG awards for the summer 2025 terms. An institution may have elected to pay for a summer crossover term from the 2025-26 aid year. Auditors must verify that the institution applied the Pell requirement for crossover terms under which the institution must maximize the student's Pell awards over the two award years. If Pell must be paid from 2024-25, then **NO** MSG or similar Dream Act awards for students. This change did not impact summer 2024 crossover terms paid from the 2024-25 aid year.

- Students who initially filed their 2024-25 FAFSAs or State Aid Applications (MN Dream Act) on or after December 1, 2024 were not eligible for MSG awards or similar Dream Act awards.

Eligible institutions

OHE’s Financial Aid Division using established criteria annually creates a list of MSG-eligible institutions. Each institution must sign a participation agreement that covers most OHE programs with the exception of SELF. The Audit Unit does not participate in the process. Only institutions approved by OHE to process MSG awards will be subject to MSG compliance audits.

Student Application Process

- Submit FAFSA or State Aid Application (MN Dream Act)
- Institution must obtain additional information from a student to verify Minnesota residency and prior postsecondary attendance via a State Grant Student Eligibility Questionnaire or by other acceptable methods. See the SFA-MSG “State Grant Student Eligibility Questionnaire”.

Student Eligibility Requirements

An institution that receives a student’s ISIR must first take steps to ensure that it is a valid ISIR (see previous section). Then, using the valid ISIR and other application documents, it must determine if a student is eligible to be considered for an MSG award. The following table shows the basic requirements and the additional references needed to determine student eligibility.

It is important for an auditor not to assume answers to eligibility questions based solely on the review of a student’s ISIR. Each of the eligibility requirements has nuances and exceptions to consider and that is why an auditor must become familiar with and refer often to the items in the reference columns in the table.

MSG Eligibility Requirements

Eligibility Requirement	State Financial Aid Manual Reference	Statutes and/or Rules Reference
Minnesota resident	SFA-CD beginning on page 9	MS 136A.101 Subd 8 MS 136A.121 Subd 2 (1)
Graduate of a secondary school OR received GED OR at least 17 years of age at time of disbursement of MSG	SFA-MSG-“Student Eligibility”	MS 136A.121 Subd 2 (2)
Undergraduate student	SFA-MSG- “Further Information on Selected Eligibility Requirements”	MS 136A.121 Subd 9
FAFSA received by June 30 at the end of the aid year (superseded by November 18, 2024 memo to institutions excluding FAFSAs received on or after December 1, 2024	N/A	MS 136A.121 Subd 13 (superseded by November 18, 2024 memo to institutions)
Not exceeded 180 credits or equivalent of receipt excluding courses taken at MN school not participating in MSG and not transferred in and developmental education courses taken on or after July 1, 2021	N/A	MS 136A.121 Subd 9
Not in default on a student educational loan	SFA-MSG “Student Loan Default”	MS 136A.121 Subd 2 (4)
Not more than 30 days in arrears for child support payments (unless complying with a written payment plan)	SFA-MSG- “Child Support Arrears”	MS 136A.121 Subd 2 (5)
Enrolled at a MN institution for at least one credit while pursuing a program that apply to degree, diploma, certificate at any eligible MN institution, credit equivalencies assigned by school that are applicable to Pell Grant calculations shall be counted for MSG	N/A	MS 136A.101 Subd 7

Eligibility Requirement	State Financial Aid Manual Reference	Statutes and/or Rules Reference
Making SAP on date of disbursement	SFA-CD-beginning on page 17 SFA-MSG- "Satisfactory Academic Progress"	MN Rules 4830.0400 Subp 5
Does not owe an MSG overpayment to OHE	SFA-MSG- "State Grant Overpayment"	N/A
Not receiving tuition reciprocity benefits from another state while attending a MN institution	SFA-MSG- "Tuition Reciprocity Restriction"	N/A

Awarding MSG

For more details, refer to the SFA-MSG "Award Process and Formula".

After an institution has validated a student’s eligibility per the previous section, it may then determine if it should award an MSG to a student.

MSG awards are calculated using Minnesota’s Shared Responsibility Formula. There is one formula for two-year or less institutions and one for four-year institutions. The basic structure of the formula appears in the SFA-MSG appendices.

Each institution must submit State Grant Files to OHE’s MNAid system to calculate and verify MSG awards. This includes being able to accurately pro-rate MSG awards based on a student’s enrollment level for each term of enrollment during the aid year.

The Minnesota legislature (with minor exceptions granted to OHE) determines the annual parameters to be used in the Shared Responsibility Formula.

The parameters used for the 2024-25 aid were:

- Annual tuition and fees cap for two-year institutions: \$6,679
- Annual tuition and fees cap for four-year institutions: \$17,370
- Annual living and miscellaneous expense (LME) allowance: \$12,990
- Expected student share: 52.8%
- For dependent students, factor to multiply against the nine-month Parent Contribution (PC): 100%
- For independent students without dependents, factor to multiply against the nine-month SAI: 100%
- For independent students with dependents, factor to multiply against the nine-month SAI: 100%
- The 2024-25 Federal Pell Grant awarding requirements with the maximum Pell Grant set at \$7,395 and the minimum Pell Grant set at \$740 (no Pell tables beginning with 2024-25 aid year)

An auditor must verify the accuracy of MSG awards calculated by MNAid based on the information submitted by the institution . As mentioned earlier in “Materiality”, it is very common for term awards to be off by \$1 or \$2 and this is not an audit exception.

GENERAL NOTE: The tuition and fees amount used is the lesser of the actual amounts reported by an individual institution to OHE or the cap for the type of school (2 or 4 year). There are several MN State institutions that have actual tuition and fees that are less than the cap. An auditor must be aware of this in order to avoid entering inaccurate tuition and fee amounts into MSG calculations.

Parent Contribution (PC) for Dependent Students Impacted by FAFSA Simplification

OHE’s Financial Aid Division along with several schools found that many ISIRs being produced under the new federal needs calculation did not include an important intermediate value that had previously been present. The PC was no longer being calculated by FPS if certain Pell fields contained specific values. This was a major issue since the calculation of MSG for dependent students uses the PC as one of the inputs.

The FA Division sent guidance on May 2, 2024 to schools to address this issue. The following is an excerpt and explains how to determine the PC:

In addition to the corrected 25SGCalculator, we wanted to provide some guidance on the blank Parent Contribution and SAI Formula Type ISIR fields that OHE and schools are seeing in their ISIR records. When a student is identified on the FAFSA as being eligible for Maximum Pell Grant Type 1,2, or 3 a full calculation isn’t performed, resulting in both the Parent Contribution and SAI Formula Type ISIR fields being left blank or Null. These two ISIR fields are especially important for the MN State Grant, because Parent Contribution is used in the State Grant formula for dependent students and because the SAI Formula Type identifies whether an independent student has dependents or not, which determines the correct pro-ration in the State Grant formula. OHE and the MNAid system will be using the logic provided below, when calculating and checking 2024-2025 MN State Grant awards for students with blank or Null values for either Parent Contribution or SAI Formula Type ISIR fields. Most users won’t need to know the logic below, but it is important to share this logic with your IT and anyone who is working on awarding the MN State Grant.

If Dependency Status = D (Dependent Students):

- *If Parent Contribution is not NULL, use the Parent Contribution value*
- *If Parent Contribution is NULL:*
 - *If Max Pell Indicator = 1, set the PC = -1500*
 - *If Max Pell Indicator = 2 or 3, set the PC = SAI*
 - *If Max Pell Indicator is NULL = set the PC = 0*

If Dependency Status = I (Independent Students):

We will determine which SC Factor to use in the payment calculation based on the SAI Formula:

- *If SAI Formula = B, Independent Students without Dependents Other than a spouse, use SCFactorWithoutDependents*
- *If SAI Formula = C, Independent Students with Dependents Other than a Spouse, use SCFactorWithDependents*

- *If SAI Formula is NULL:*
 - *If Max Pell Indicator = 1, use the SAI (it will be -1500). It won't matter which SC Factor we use, because if SAI is negative, we don't multiply by the SC Factor.*
 - *If Max Pell Indicator = 2 or 3, use the SAI (it will be between -1500 and 0 inclusive). It won't matter which SC Factor we use, because if SAI is negative, we don't multiply by the SC Factor and if SAI is zero, zero multiplied by either SC Factor is still zero.*
 - *If Max Pell Indicator is NULL, set the SAI = 0. If SAI is zero, zero multiplied by either SC Factor is still zero.*

Auditors need to be aware of this issue and will need to, at a minimum, spot check some ISIRs from the MSG sample to confirm the process worked as intended.

MSG Review Process

Process or attribute to review	What to review	State Grant Manual Reference
Date FAFSA received by FPS	FAFSA must not have been received by FPS on or after December 1, 2024.	N/A—OHE Special Guidance Memo
MSG budget	Budget used to calculate MSG for each term matches the student's program length (2 or 4). Other special circumstances impacting budget accurately handled.	SFA-MSG "State Grant Budget"
Attended multiple institutions during same term	Student may not receive awards for more than 15 credits per term	SFA-MSG "Tuition, Fees and LME Used for Students Attending Multiple Schools for Same Term"
Consortium or contractual agreements	Did "home" school accurately calculate award with correct budgets.	SFA-MSG "Treatment of Study Abroad Courses"
Total MSG credits paid for aid year	MSG maximum per year is 60 quarter credits or 45 semester credits, was there a partial award for remaining credits in final term	SFA-MSG "Period of Award/Awards for Fourth Quarter/Third Semester"
Attended multiple institutions during same aid year	Maximum MSG credits, credits translated if schools do not operate on same academic terms (quarter/semester)	SFA-MSG "Transfer Students"

Process or attribute to review	What to review	State Grant Manual Reference
Summer term awards	Institution may not require additional student request for summer awards—must occur automatically if enrolled— <u>no summer 2025 awards to be paid unless paid from 2025-26 as a crossover term and all requirements are met</u>	SFA-MSG “Awards for Summer or Non-Standard Terms”
Crossover terms	If academic term begins before July 1 and ends after July 1, was the MSG calculated and paid using only one year’s data based on institution’s choice—Pell requires the institution to maximize a student’s eligibility over the two award years.	SFA-MSG “Origination of Funding”
Minimum term award	\$50 for semesters and \$33 for quarters	MS 136A.121 Subd 5

Monitoring During an Academic Term/Payment Period

An institution may complete the awarding process months before it can disburse the MSG funds to a student. While a student may have been eligible to receive an MSG award at the time of award processing, a student’s situation may have changed before an institution is permitted to disburse MSG funds. An institution must determine if a student has a valid ISIR and continues to meet the student eligibility requirements (see Student Eligibility Requirements) before a disbursement may occur. See the SFA-MSG “Disbursement Process”.

When an Institution may disburse MSG funds

An institution must establish academic terms or payment periods as part of its annual MSG set-up with OHE’s Financial Aid Division. A term-based school must either use quarters with three terms or semesters with two terms covering a nine-month academic year. A student may be eligible for a fourth quarter or third semester disbursement if the student is enrolled year-round. Total annual awards are capped at 60 quarter credits or 45 semester credits.

- An institution may choose to disburse MSG funds even before an academic term begins. A student must be registered for classes before an MSG disbursement may be made for a term.
- An institution may disburse MSG funds during an academic term.
- An institution may, in some cases, be able to disburse MSG funds after the end of an academic term.

Date of disbursement

An institution must be able to record the date on which it disbursed MSG funds to a student. This date is reported to OHE and is the date that auditors use to determine a student's enrollment level to confirm accurate disbursement amounts.

Auditors must look for any pattern of disbursements within academic terms that suggests an institution is deliberately delaying MSG disbursements until after the date an institution "locks" awards for the term. Delaying all MSG disbursements to avoid re-calculating some awards is neither a student-friendly nor an ethical practice.

Methods of disbursement

OHE allows multiple methods of disbursing MSG funds but prefers that all institutions disburse only to a student's account at the institution. This allows for a complete audit trail for the MSG funds and for the student account record to include all transactions.

Other acceptable methods and related requirements are described in the SFA-MSG "Method of Disbursement to Students".

Overawards of MSG Due to Exceeding Cost of Attendance

Per MS 136A.121 Subd 16 controls how an MSG disbursement must be applied. The order is: tuition, fees, books, supplies, and other expenses. Unpaid portions revert to the grant account. This statute must be considered in tandem with Title IV requirements. Federal Pell Grants are always considered to be the first source of payment. Title IV aid in general is considered the first source of payment. Presumably, an MSG award could be substituted for a Federal Direct Loan amount even if Title IV aid is considered to pay first. If the combined total of Pell and MSG exceeds a student's COA, then the MSG must be reduced to avoid an overaward.

Interim Reporting Required

Each eligible institution must have the ability to report MSG data via a web portal that interfaces with OHE's MNAid system.

Each institution must submit a State Grant File containing records for both State Grant recipients and no-need students on at least a monthly basis. The first State Grant File for a new aid year must be submitted by June for an institution using a leading summer term and by August 1 for institutions that begin reporting with fall term.

The disbursement date(s) reported to OHE must match the date(s) on a student's account.

Cash Management Requirements Prior to and during an Academic Term

Institutions have various cash management requirements. Some requirements relate to individual student account balances. Other requirements relate to the flow of funds between the institution and OHE.

As noted in “Disbursement Process” above, an institution has flexibility as to when it disburses MSG funds to a student’s account. An institution assumes various levels of risk depending on when it chooses to disburse.

If an institution has submitted its initial State Grant File for the new school year, made a disbursement to a student’s account labeled as MSG up to 10 days before the first day of the term, and has refunded any excess aid funds to the student before the start of the term, then the institution is liable for returning the MSG funds to OHE if that student does not actually begin attending classes.

If an institution elects to use summer term as a header or leading term, the term may begin as early as May and end in July or August (a crossover term). Just like the example above, an institution may disburse MSG using institutional money to a student’s account and potentially refund excess funds to the student. The difference here is that the institution cannot reimburse itself by immediately drawing MSG funds from OHE. Since those MSG funds are coming from the next aid year, those funds are not available until at least July 1 (the first day of the State’s fiscal year). So, if a student has already received a refund, but they change their enrollment level, withdraw from school, etc. before July 1, the institution will only be able to draw the adjusted amount of MSG for that student. The institution will be liable to collect any remaining amount of its own money that it previously refunded to the student.

Institutions may request cash draws from OHE based on its most recently accepted State Grant File submission to OHE. The goal is to minimize excess cash on hand at any time throughout the aid year after the institution has drawn enough cash to pay all of the currently accepted awards and disbursements to students.

State Credit Balances and Required Refunds to Students

Whenever an institution credits funds from **any** Minnesota financial aid program to a student’s account, it must make a determination if a state credit balance has been created.

A state credit balance occurs when the total of all Minnesota financial aid disbursements made during an academic term exceeds the amount of a student’s direct charges on their account for that term. Direct charges are tuition and required fees plus any charges for housing and food. This is true even if an institution uses its own funds to disburse State aid in anticipation of drawing State funds to reimburse itself. State aid is identified by the label used in a student’s account (e.g. MN State Grant, MN Indian Scholarship, MN SELF Loan, etc.).

Once a state credit balance is identified, an institution must pay the credit to the student no later than 14 days after certain benchmark dates. A student may allow an institution to retain the credit balance under certain circumstances, but the student’s instructions must be in writing. Auditors should refer to the SFA-MSG “Method of Disbursement to Students” for more information.

Separate General Ledger Account Required

Each institution is required to have a separate general ledger account for MSG funds to aid in the year-end reconciliation process. OHE should be able to track cash draws sent to the institution, amounts disbursed to students, any funds returned due to changes in student enrollment including withdrawals, and any refunds sent by the institution to OHE.

End of Term Monitoring for Enrollment Changes

There are several reasons an institution may change a student's MSG award and disbursement after the end of an academic term.

Late disbursement

An institution may not be able to award and/or disburse MSG funds to a student during a payment period because the student has not provided required information so the institution can complete verification or resolve conflicting information. The following is from the SFA-MSG:

A student is eligible to receive retroactive payment for a past term, even if the student is not currently enrolled in a subsequent term, provided the student currently meets all of the program eligibility requirements as of the date of disbursement. If payment is for a term that has already been completed, the disbursement must be based on the student's enrollment status as of the end of the term.

Backdated or Retroactive Withdrawal Date

The following is from the SFA-MSG "Backdated Withdrawal Date":

A student who withdraws from a class or classes and is granted a retroactive withdrawal date back to the start date of the term will be treated as if the student never attended the class or classes. The award must be recalculated to exclude credits granted a retroactive withdrawal and the overpayment returned to the State Grant program.

An auditor must be careful as the federal Pell Grant requirements for this topic do not match the State's.

End of Financial Aid Year Close-out Processes

Reconciliation

Each institution is required to annually perform a reconciliation of its MSG records at the end of the aid year in preparation for closing out the year. The reconciliation must be documented in a manner that can be provided to auditors as part of a compliance audit.

Disbursement amounts must be reconciled for each student. Each student's MSG award and actual disbursements reside in multiple places. The following must all be reconciled to each other at a student level:

- MSG award in the institution's financial aid system
- MSG award reported to OHE via the State Grant File system
- MSG disbursements on the student's account at an institution
- MSG disbursements reported and accepted by OHE via the State Grant File system

The movement of cash between OHE and an institution must also be reconciled using a report generated from the MNAid system

The result of the above reconciliations will be one of the following:

- The institution neither owes cash to OHE nor does it need to draw cash from OHE to close the aid year.
- The institution has excess cash on hand that must be returned to OHE to close the aid year.
- The institution has a cash deficit and must request funds from OHE to close the aid year.

Reporting

Each institution must submit to OHE a final State Grant File for the ending aid year. An institution must continue to submit final Files until all exceptions are resolved and OHE accepts the final File.

The institution and OHE's State Grant File records must be balanced by no later than August 31 each year for the prior year's MSG funds. **Note for 2024-25:** OHE requested institutions to complete their MSG reconciliations as soon as possible with a deadline of May 30, 2025. This was possible because OHE did not allow for any summer 2025 trailing term MSG awards.

Cash Management

An institution will find itself in one of three cash positions at the end of an aid year. These three positions are described above under "Reconciliation."

- If an institution ends the aid year with excess cash, it must return that cash to OHE by no later than August 31. Again, this date was accelerated in 2024-25 to determine actual MSG spending as quickly as possible.
- If an institution ends the aid year with a cash deficit in the MSG program, the institution must draw cash from OHE in order to balance its position. Institutions must draw funds from OHE prior to a deadline set each year that fits within the State of Minnesota's annual fiscal year requirements. The deadline usually occurs in the first 15 days of August.
- After OHE accepts an institution's final State Grant File and if applicable, receives the institution's refund of excess cash, OHE informs the institution that it is closed out for the prior aid year.

MSG Issues and Possible Audit Exceptions

- Institution awarded/dispensed MSG based on an invalid ISIR including improper tax filing status for parents/students.
- Institution dispensed MSG at an incorrect enrollment level.
- Institution awarded MSG to a student with a FAFSA application receipt date after OHE's deadline.
- Institution incorrectly identified student as a Minnesota resident.
- Institution did not submit monthly State Grant Files to OHE.
- Institution did not fully and/or accurately complete year-end reconciliation.
- Institution submitted incorrect disbursement dates in its State Grant Files.
- Institution failed to close out the prior aid year by August 31 including making a late refund of excess cash—2024-25 close out process was accelerated to May 2025.
- Institution improperly required students to file additional forms in order to request MSG for a summer term.
- Institution unable to provide auditor with all requested documentation to support the awarding of MSG to one or more students.

- Institution awarded MSG and other MN aid to a student who was coded in the institution’s records system as being eligible for tuition reciprocity benefits; occurs when a student had left school and then returned several years later after they had established Minnesota residency. A Minnesota public institution may be able to grant resident tuition to a student, but that does not make the student a Minnesota resident for Minnesota aid purposes.
- OHE’s MNAid system does not generate an exception report if a disbursement reported by an institution is less than the regularly calculated amount. This was designed to handle situations like a partial refund of MSG due to a student’s withdrawal from school during a term, a student only being eligible for MSG at a lower enrollment level than the actual enrollment level (could be approaching maximum 45 or 60 credits paid within an aid year), or some other unusual circumstance.
- Institution did not complete a consortium or contractual agreement for students studying away or for concurrent enrollment but did pay MSG based on combined credits.
- Refund issues (see “Refunds” earlier in this guide).

Minnesota Dream Act

Overview and Regulatory References

The Minnesota Dream Act (Dream Act, also known as the MN Prosperity Act) was signed into law in May 2013. The statutory reference is MS 135A.043.

The Act opened up access to both in-state tuition rates and access to various OHE-administered financial aid programs for undocumented students meeting certain criteria. The Dream Act itself did not create any new financial aid programs.

Information about the Minnesota Dream Act is on OHE’s website at: <https://ohe.mn.gov/mn-dream-act>

Institutions eligible to participate in MSG are also eligible to disburse MSG to qualified Dream Act students. Institutions that participate in other OHE programs may include Dream Act students in those programs as well. Only the SWS program has an additional restriction that is discussed below.

Student Application Process

An undocumented student who wants to access benefits under the umbrella of the special Dream Act provisions must apply for aid. However, these students are not able to file a FAFSA.

OHE provides a State Aid Application (MN Dream Act) on its website. Dream Act students complete this application that is then routed directly to OHE staff. OHE staff act as the “FPS” to calculate SAI, PC, etc.

Every Dream Act application is selected for “verification”. This means that each Dream Act applicant must also provide additional documents (high school transcript, copies of student’s and/or parents’ or spouse’s income tax returns, W-2s, other college transcripts if applicable, etc.). OHE uses this additional information to verify the

information provided on the student's Dream Act application that was used to calculate the equivalent of an SAI and PC, if applicable.

Auditor's Role to this Point in the Process

OHE Financial Aid Division staff complete the review and verification of each Dream Act student's application before any aid eligibility is determined. Therefore, an auditor does not need to verify that the equivalent of a "valid ISIR" has been used to award aid.

Administration and Review of each OHE Program under the Dream Act

MSG

OHE emails estimated awards to students after applications are reviewed and follows up with final awards after the Minnesota legislative session has ended. Students are informed that the amount of MSG will vary based on their enrollment level. OHE generates a certification roster for each institution with eligible students, institutions are then required to verify enrollment level and eligibility before funds can be sent. Funds are sent to each campus after the end of the add/drop period to minimize the need for adjustments.

Institutions may be able to send State Grant Files for Dream Act students via MNAid. An institution must still complete a reconciliation of awards and cash for Dream Act MSG students.

An auditor must review and validate some of the same items as for MSG including:

- Student's enrollment level on each date of disbursement.
- Student's SAP status.
- The correct amount of MSG based on enrollment level was disbursed.
- Refund calculations and return of funds (if applicable) were completed correctly.
- The reconciliation of disbursements by student and total cash received/disbursed.

See the "Minnesota State Grant (MSG)" section of the Guide.

SWS

A Dream Act student who is also a Deferred Action for Childhood Arrivals (DACA) student with work authorization may request SWS from the institution if that institution participates in SWS. No new DACA work authorizations were approved during 2024-25, however, students with existing DACA authorizations were eligible to apply for renewal. In addition, there are other student statuses that allow them to request and obtain a work permit. The institution must review all work authorizations (and DACA status, if applicable) in addition to the other SWS requirements before a student may begin working.

A student authorized to work may only work through the end date of the authorization unless it is renewed and then the institution must again verify the authorization. Beyond this extra validation step, Dream Act students attending institutions participating in SWS must follow the same application process for SWS as any other student. The institution's end-of-year report must list Dream Act students just like any other student. An auditor

must use the guidance in the “State Work Study (SWS)” section of the Guide in addition to reviewing the additional work authorization documents.

SELF

A student applying for a SELF Loan does not need to be a U.S. citizen. However, under the Dream Act, a student could be eligible for grant/scholarship aid (e.g. MSG). Therefore, a student under the Dream Act must file a State Financial Aid Application (MN Dream Act) in order to meet the maximum effort test under the SELF program.

Public Safety Officer Survivor Grant (SOS)

Regulatory References

- 2024 MS 299A.41 through 299A.47 under the Office of Public Safety. OHE administers only the education benefit under MS 299A.45 and MN Rules 4830.8000 to 4830.8040.
- 2016-2017 State Financial Aid Manual-Public Safety Officer’s Survivor Grant Program (SFA-SOS)
- 2024-25 Public Safety Officer’s Survivor Grant Application and Instructions

Eligible Institutions

Any institution that is eligible to participate in the MSG program **must** participate in SOS.

Student Application Process

- Does **not** have to submit a FAFSA.
- Obtains a Public Safety Officer’s Benefit Fund Certificate from the Office of Public Safety.
- Completes the student portion of OHE’s current year SOS application form and returns the form with a copy of the Benefit Fund Certificate to the institution’s financial aid office.
- Institution’s financial aid office completes its portion of the application and submits it **each** term with the student’s enrollment level to OHE for processing. The institution must attach a copy of the Benefit Fund Certificate if the student is applying for the first time.

Student Eligibility Requirements

The Office of Public Safety uses its own statutes and rules to determine who qualifies as a public safety officer survivor. A survivor can be a spouse and/or a dependent child.

SOS Eligibility Requirements

Eligibility Requirement	State Financial Ad Manual Reference	Statutes and/or Rules Reference
NOT required to be a Minnesota resident	N/A	N/A

Eligibility Requirement	State Financial Aid Manual Reference	Statutes and/or Rules Reference
Enrolled in an undergraduate or graduate program leading to a degree or certificate at an eligible MN institution	SFA-SOS pdf page 7	MS 299A.45 Subd 1(2)
Not exceeded 10 semesters or 15 quarters of receiving SOS (not unit driven—actual terms of receipt)	SFA-SOS pdf page 8	MS 299A.45 Subd 4
Student’s application must be received at OHE no later than the last day of classes of the academic year for which grant funds being requested.	SFA-SOS pdf page 8	MN Rules 4830.8030 Subp 2
For dependent student survivor, must be under the age of 23 on the first day of academic year (see exception below)	SFA-SOS pdf page 7	MS 299A.45 Subd 1 (4)
Exception to age 23: increased to age 30 if student had served on active military duty for at least 181 consecutive days and honorably discharged or released to the student’s reserve or National Guard unit.	SFA-SOS pdf page 7	MS 299A.45 Subd 1 (4)

Awarding SOS Grants

After an institution has validated a student’s eligibility per the previous section, it may then award an SOS grant.

OHE processes the application submitted by the institution and determines the SOS award amount.

The award amount is calculated using information gathered as part of the institution’s annual MSG budget questionnaire. The SOS grant amount is the lesser of the institution’s average full-time tuition and mandatory fees or the applicable tuition and fee maximum established in law.

The annual tuition and fees maximum amounts for 2024-25 were:

- \$6,679 for two-year institutions
- \$17,370 for four-year institutions (this is also used for graduate level SOS awards)

The award must be pro-rated based on term (semester or quarter).

The term award must be prorated by enrollment level. Full-time enrollment for undergraduate programs is 15 credits and for graduate programs is eight credits. See MS299A.45 Subd 2 (d).

Disbursement Process

OHE notifies an institution of the approved SOS recipients and associated term award amounts. An institution must not adjust a recipient's eligibility for an MSG based on the receipt of an SOS grant.

An institution must verify that a recipient continues to meet the eligibility requirements for the SOS award on the date of disbursing the funds to the student's account (or via any other method allowed under the MSG program).

Cash Management Requirements

OHE will send the SOS term funds to an institution within 30 days of receipt of a student's application but not before July 1 of the academic year. An institution must return SOS funds for an academic term if a student fails to enroll or reduces enrollment level so that a refund must be calculated.

End of Financial Aid Year Close-out Processes

An institution must reconcile its SOS records with OHE each term; there are no additional year-end close out processes.

SOS Issues and Possible Audit Exceptions

- Institution disbursed award at the incorrect enrollment level.
- As a result of disbursing at the incorrect enrollment level, the institution failed to return SOS funds to OHE during a term.
- **NOTE:** OHE Financial Aid Division stated that most institutions send in the SOS applications after their drop/add periods. However, an SOS recipient would be eligible for additional funds if they originally registered for less than 15 credits and subsequently added courses. Institutions should work with OHE financial aid staff to increase award and obtain cash.
- Refund issues (see "Refunds" in the Guide)

Minnesota Indian Scholarship Program (MISP)

Regulatory References

- 2024 MS 136A.126
- July 2021 State Financial Aid Manual-MISP (SFA-MISP)
- April 2022 State Financial Aid Manual—Common Definitions (SFA-CD)
- December 2021 State Financial Aid Manual-Minnesota State Grant (SFA-MSG)

Eligible Programs/Institutions

The definition of an eligible institution for MISP is expanded relative to MSG. (see MS 136A.126 Subd 2 and SFA-MISP pages 1 to 2).

OHE adopted the internal position that an institution that is eligible to participate in MSG must do so within one year of its first MISP award/payment to continue in MISP.

Student Application Process

- Submit FAFSA.
- Institution must obtain additional information from a student to verify Minnesota residency and prior postsecondary attendance via a State Grant Student Eligibility Questionnaire or by other acceptable methods. See the SFA-MSG.
- Student must submit documents to OHE’s Financial Aid Division to verify they are at least one-fourth American Indian ancestry or they are an enrolled member or citizen of a federally recognized American Indian or Canadian First Nations tribe.
- Complete student portion of MISP application online (preferred).
- Institution completes its portion of the application on MNAid including student budget sheet.
- A paper application is available, but all information from a paper application received by OHE is entered manually by OHE staff into MNAid.

MISP Eligibility Requirements

Eligibility Requirement	State Financial Aid Manual Reference	Statutory Reference
Minnesota resident	SFA-CD beginning on page 9	MS 136A.126 Subd 1 MS 136A.101 Subd 8
At least one-fourth of American Indian ancestry or an enrolled member or citizen of a federal recognized American Indian or Canadian First Nations tribe (expanded beginning in 2021-22)—documentation obtained and determination made by OHE financial aid division prior to awarding so not audited	SFA-MISP page 5	MS 136A.126 Subd 1(1)
Making SAP on date of disbursement	SFA-CD beginning on page 17 SFA-MISP page 2	MS 136A.126 Subd 1(3)
Not in default on a federal or state student educational loan or if in default, has regained eligibility for federal or state aid	SFA-MISP page 2	MS 136A.126 Subd 1(4)
Undergraduate only—eligible or would be eligible to receive either Pell or MSG—as defined in the SFA-MISP	SFA-MISP pages 2 to 3	MS136A.126 Subd 1 (5)

Eligibility Requirement	State Financial Aid Manual Reference	Statutory Reference
Undergraduate only—enrolled for at least nine credits per term (3/4 time) using same standard as for MSG (for clock-hour programs, student must be attending at least 18 hours per week)	SFA-MSG	MS 136A.126 Subd 1(5)
Graduate students only—enrolled at least ½ time as defined by the institution	SFA-MISP page 3	MS 136A.126 Subd 1(6)

Awarding MISP

Institutions may award MISP based on their internal packaging process. However, the OHE Financial Aid Division is more involved in the day-to-day awarding and disbursing of MISP than for some other programs. The OHE Financial Aid Division determines prioritization of applications and creates a student waiting list if needed.

OHE places a student award on a school’s award roster only after reviewing a completed MISP application.

A MISP application is considered initially complete after OHE has received all of the following:

- Documentation of a student’s at least one-fourth American Indian ancestry or enrolled member or citizen of a federally recognized American Indian or Canadian First Nations tribe.
- A completed student section of the MISP application.
- A completed institutional section of the MISP application including a student applicant’s budget and gift aid amounts for the academic year. Institutions have been asked not to submit an initial budget sheet until it has a valid ISIR that has been verified (if applicable) and has had all conflicting information resolved.

The OHE Financial Aid Division uses the budget worksheets to verify award amounts for each term of attendance indicated on the most recent budget worksheet.

IMPORTANT NOTE: Institutions are responsible for updating budget worksheets anytime a student’s COA and/or total grant/scholarship aid changes for one or more academic terms. Institutions must submit an updated budget worksheet through MNAid or contact the OHE Financial Aid Division directly as changes occur.

MISP awards are calculated by term by subtracting a student’s SAI and all grant/scholarship aid (excluding Federal veterans education benefits if they are also excluded from other financial assistance (OFA) for federal aid calculations) from a student’s COA. An auditor must be aware of an on-going issue that was not yet resolved at the date of issuance of this version of the audit guide. While the instructions above state that calculations are performed “...by term...”, this language is not in the relevant statute. Auditors have relied on guidance from program managers to allow for uneven disbursements of MISP such that, for example, one semester might receive \$1,500 while the second semester receives \$2,500. While the total MISP does not exceed the maximum

annual undergraduate award, equal disbursements were not made as required in most of OHE's programs. This situation arises when a student receives an unbalanced amount of other aid (e.g. a tribal scholarship applied to only one term, etc.). This practical application is to the benefit of the student, but it should be codified in the MISIP manual.

NOTE: Scholarships to be deducted include the Minnesota Indian Teacher Training Scholarship administered by the Minnesota Department of Education (MDE) as well as other State of Minnesota and private aid programs. OHE has found that some schools have not been deducting all of the gift aid programs when calculating their MISIP awards resulting in some students being awarded over their need and even their COA.

Annual and Lifetime MISIP Award Limits

Annual award maximums:

- Undergraduate-\$4,000 per academic year
- Graduate-\$6,000 per academic year

Minimum annual award is \$100.

Per SFA-MISIP page 8:

Awards for students with eligible enrollment for less than an academic year will be pro-rated based on the number of eligible terms of enrollment. For example, a student in a semester-based program with eligible enrollment in a fall semester only, will be awarded their fall semester remaining need or \$2,000, whichever is less.

Eligible students may receive a third semester or fourth quarter or equivalent within the same award year. An auditor must watch for crossover terms.

If the extra term is a crossover term, any amount of Pell Grant, MSG, or other gift aid must be actual amount awarded even if it is awarded from a different award/fiscal year (see SFA-MISIP page 5).

Maximum years of receipt per student per SFA-MISIP pages 3 to 4:

- In general, an annual award equals an award received by the student in 2 semesters, 3 quarters, or the equivalent.
- Undergraduate students enrolled in programs below a bachelor's degree (certificate, diploma, and associate degree) must not have previously received three or more annual awards.
- Undergraduate students enrolled in bachelor's degree programs must not have previously received five or more annual awards.
- Graduate students must not have previously received five annual awards at the graduate level or ten annual awards at any academic level.
- All students must not have previously received 10 annual awards and may only receive awards to complete one academic program per level and one terminal degree program.

Maximum years of receipt per student is monitored by OHE's Financial Aid Division. An auditor should report any concerns or questions to the MISP Program Manager for resolution during the audit process.

Disbursement

Many of the disbursement requirements mirror those in the MSG program including, but not limited to:

- Determination of disbursement date.
- Acceptable methods of disbursement (OHE preference is directly to a student's account).
- Student authorization for EFT transactions.

Disbursement must be based on a student's status at the later of:

- Date of disbursement, or
- Add/drop date for the term as stated in an institution's catalog.

An auditor needs to be aware of further nuances related to disbursement and must refer to SFA-MISP pages 9 to 11.

Clock-hour institutions must schedule disbursements based on payment periods defined using Title IV standards. For example, an institution that defines its academic year as 900 hours and 26 weeks of instructional time must disburse the second disbursement of an academic year only after the student has completed both the 450 hours and the 13 weeks of instruction in the first payment period. Institutions must follow the standard guidance for crossover terms if applicable.

Monitoring During an Academic Term/Payment Period - Interim Reporting

Institutions must update a student's budget sheet anytime a student's COA or grant/scholarship changes as this could impact a student's MISP need. Institutions must update OHE's Financial Aid Division by either uploading adjusted budget sheets or by directly contacting the Financial Aid Division to work through the changes.

Cash Management

Unlike the MSG program that requires a separate general ledger account, an institution is strongly encouraged to use a separate general ledger account to track its MISP fund activity. If MISP funds are co-mingled with other OHE program funds (e.g. SWS), the institution must be able to identify the entries by program and explain the activity to auditors if requested.

OHE's Financial Aid Division prepares MISP award rosters for each institution using information from the most recent versions of student budgets. An institution may view these rosters online. Institutions must review each student on its roster for any changes due to COA or grant/scholarship aid verify each student's continued eligibility. Institutions must update OHE on changes prior to receiving MISP funds.

OHE generates MISP award and payment rosters that include payment dates and amounts. These rosters may be viewed online. OHE sends MISP funds via EFT to each institution with an approved payment roster. Institutions may not retain any excess cash for any reason unless its request is approved by the MISP Program Manager (e.g. hold unused fall term funds for spring term use).

Reconciliation

Institutions required to reconcile MISP at least once at the end of the fiscal year. OHE's recommendation is to reconcile MISP at the end of each academic term/payment period.

Must reconcile:

Individual student awards in institution's financial aid office to actual disbursed amounts on student accounts AND with final payment records from OHE.

The movement of cash between OHE and an institution must also be reconciled. As previously stated, OHE strongly encourages each institution to use a separate general ledger account to document movements of MISP funds. This reconciliation must show that:

- Each allocation sent by OHE can be traced as a cash receipt at the institution.
- Each refund of cash sent by the institution to OHE can be traced in OHE's records.
- The net cash received by an institution equals the reconciled total amount of all individual student disbursements.

MISP Issues and Possible Audit Exceptions

- Institution does not update budget sheet throughout the whole aid year.
- Institution only updates its internal aid records but does not report updates to MISP Program Manager.
- Overawards that are many times tied directly to not updating the budget sheet.
- Institution fails to reconcile at year-end resulting in MISP cash not being returned on a timely basis to OHE.
- Institution understood MISP program, but still did not deduct all grant/scholarship from COA due to guidance from outside scholarship.
- Refund issues (see "Refunds" earlier in the Guide).

State Work Study (SWS)

Regulatory References and Overview

- 2024 MS 136A.231 through 136A.233
- MN Rules 4830.2000 through 4830.2600
- 2023-2024-Minnesota Financial Aid Manual-State Work Study Program (SFA-SWS)

SWS is a need-based work program. While SWS has many similarities to the Federal Work Study program (FWS), SWS does not follow all of the federal requirements and allowances. A comparison of SWS versus FWS appears in the SWS Manual Appendix 6.

Eligible Institutions

Institutions approved to participate in the MSG program are also eligible to apply to participate in the SWS program.

Institutional Application Process

An eligible institution must annually submit an Institutional Request for Participation to OHE by OHE’s deadline in order to participate in the SWS program in the next aid year.

Student Application Process

- Submit FAFSA or State Aid Application (MN Dream Act)
- Institution must obtain additional information from a student to verify Minnesota residency and prior postsecondary attendance via a State Grant Student Eligibility Questionnaire or by other acceptable methods. See the SFA-MSG.
- Student follows their institutional process for requesting a work position.

Student Eligibility Requirements

SWS Eligibility Requirements

Eligibility Requirement	State Financial Aid Manual	Statutes and/or Rules Reference
Minnesota Resident	SFA-CD beginning on page 9	MS 136A.101 Subd 8 MS 136A.233 Subd 2 (a)(b)
Undergraduate minimum enrollment status of half-time (six credits or equivalent)—exception discussed under “Awarding SWS” below	SFA-SWS pdf pages 7 to 8	MS 136A.233 Subd 2 (a) and (g)
Graduate minimum enrollment status of half-time as defined by the institution—exception discussed under “Awarding SWS” below	SFA-SWS pdf pages 7 to 8	MS 136A.233 Subd 2 (a) and (g)
Pursuing a degree, diploma, or certificate at an eligible MN institution—awarding institution does not have to be the same one	SFA-SWS pdf page 7	MS 136A.233 Subd 2 (a)
Making SAP during the time while receiving SWS funds	SFA-SWS pdf page 8	MN Rule 4830.2300
Students with authorized work permits—may be prior DACA recipients—no new DACA being processed—or other special cases.	Refer to the “Minnesota Dream Act” section of this Guide	Dream Act
Not receiving tuition reciprocity benefits from another state while attending a MN institution	SFA-SWS pdf page 9	MN Rule 4830.2300

Awarding SWS

- Need-based award that follows the same packaging model as FWS.
- SWS usually awarded after all other aid has been packaged.
- Portion of non-need-based loans (e.g. PLUS, FDL-Unsub, SELF, etc.) that exceeds student's SAI subtracted from COA as part of calculation to determine SWS need. See SFA-SWS page 12 for a calculation template.
- Priority to students enrolled for at least 12 credits or equivalent (OHE does not test for this).
- Total awards to graduate students cannot exceed graduate students' percentage of total enrollment at an institution (OHE does not test for this).
- Institution limited to using up to 30% of initial SWS allocation for student internship positions in the for-profit sector. Position must be documented to show direct relationship to student's field of study, etc.
- **IMPORTANT NOTE:** OHE auditors have identified schools that do not differentiate the source of work-study payments in a student's aid offer. Title IV requires that students be notified prior to disbursement of the source of funds. OHE follows the same standard. Schools may certainly re-classify a student's source of funds during or at the end of the aid year in order to balance expenditures against available FWS and SWS funding.

Exception to Minimum Student Enrollment Eligibility Requirement

References: SFA-SWS page 13 and MN Rules 4830.2300.

A student may work and be paid from SWS during one term per aid year in which they are either enrolled less than half-time or not enrolled at all. Institution must verify student's intention to re-enroll on at least a half-time basis in the next academic term. Institution must document and retain enrollment documentation showing that it either:

- Checked the student's registration for the next academic term, or
- Obtained a signed, written statement from the student stating their intent to enroll at least half-time in the next academic term.

Student may NOT be paid from SWS during a LOA. Institution expected to take earnings during an exception term into consideration for awarding SWS for subsequent terms and may deduct work-related expenses (per FWS).

Additional Institutional Requirements to Administer SWS

Validate Student's Eligibility to Work

- Each student employee must complete the Federal I-9 and W-4 forms before they can begin working.
- **Student's ISIR flagged for verification:** OHE has adopted the federal policy that a student who is otherwise eligible to work, but for whom verification has not been completed, may work for the first 60 consecutive calendar days after enrolling. There are institutional reclassification requirements if verification has not been completed within the 60 days.

Reference: 2024-25 AVG Chapter 4 "Interim Disbursements" and SFA-SWS Appendix 6.

Child Support Reporting

- Employers (including institutions) doing business in Minnesota are required to report the hiring or re-hiring of any employee who resides or works in Minnesota to the Minnesota Department of Children, Youth, and Families.
- Must be reported within 20 days of hire.

Reference: 2024 MS 142A.29

Minimum Wage Compensation

Institution must pay SWS employees at least the highest of the following minimum wage rates:

- Federal
- Minnesota
- Local

These rates may be further broken down by types of employer (large versus small based on number of employees), age of employee (e.g. under 18), and/or immigration status (e.g. working under a J visa, etc.).

Reference: SFA-SWS Manual pages 10. MS 136A.233 Subd 3 (c), (d), and (e)

Eligible Employers

Institutions primarily employ SWS-awarded students at:

- The institution itself (or another eligible postsecondary institution),
- A non-profit, non-sectarian agency located in Minnesota, or
- A private, for-profit employer for student internships (subject to constraints listed in the “Awarding SWS” section above)

There are other permitted types of employers listed in the SFA-SWS pages 9-10.

On-campus Employment

OHE encourages, but does not require, institutions to have work contracts with each student who works in an on-campus position. If contracts are used, they must be signed by both the student and school before the student begins working. These contracts must be available to auditors for audit purposes. Reference: SFA-SWS page 12.

Off-campus Employment

Institutions are required to make, document, and retain documentation of efforts to place SWS students in eligible off-campus positions. Public institutions may not reduce hours or otherwise replace a regular employee with an SWS student.

Reference: SFA-SWS pages 9 to 11 and MS 136A.233 Subd 3 (f).

Contract required: Institution must have a written and signed contract with each prospective eligible off-campus employer. Contents of contract may vary based on type of position. See SFA-SWS pdf pages 14 to 15 and sample contract in SFA-SWS Appendix 4. Off-campus employer contract must state that the employer agrees to pay at least 25% of student’s gross compensation in addition to any required FICA, worker’s comp, or other insurance requirements.

Reference: SFA-SWS page 11 and MN Rules 4830.2400

Unlike FWS, institution not required to spend a minimum percentage of SWS for community service positions.

Supervision of SWS Employees

All SWS employees must be supervised consistent with the employee’s position and other needs. Off-campus contracts must contain the details related to employee supervision.

Reference: SFA-SWS page 11

Eligible SWS Employment Positions

Follow FWS guidance related to work on campus, work for proprietary schools, and work for non-profit or governmental agencies.

References:

- 2024-25 FSA Handbook, Vol 6, Chapter 2
- Proprietary Schools
- Off-campus at non-profit or governmental
- Off-campus at private for-profit companies
- SFA-SWS Appendix 6
- Internships-SFA-SWS page 9
- Tutoring with local K-12 schools—SFA-SWS page 10

Calculation and Disbursement of SWS

Institution must pay each SWS employee based on actual hours worked multiplied by the hourly rate. While not encouraged, institutions may pay overtime with SWS funds. All hours worked must be compensated time. SWS employees may not receive compensation for sick leave, vacation, or holiday pay.

Reference: SFA-SWS pages 10 to 11

Institution **may not** use SWS funds to pay a student employee whose position is paid by the job or on a salary basis. An institution must retain and be able to provide documentation of its payroll process.

An auditor must be able to see:

- The actual hours worked per pay period for each SWS employee. The actual hours, not simply totals, worked per day and by a.m. or p.m. should be shown.

- A record of both the SWS employee and one or more supervisor’s signature or electronic approval of hours worked for each pay period.
- The pay period begin and end dates and the actual payroll disbursement dates.

SWS wages are subject to garnishment including for child support. An auditor must be provided the documentation and calculations related to any garnishments. Institution must disburse SWS wages at least once per month.

Institution may disburse SWS wages by one or more of the following:

Reference: SFA-SWS pdf page 13:

- Issuing a physical check made payable to the employee.
- Initiating an EFT or ACH transaction to transfer wages directly to a bank account identified by the employee.
- Crediting wages directly to the student employee’s account at the institution to pay charges.

An SWS employee must provide written authorization to allow for EFT/ACH payment and for payroll deductions to be applied to their student account.

Monitoring During an Academic Term/Payment Period

An institution must monitor several items after each pay period for each SWS employee:

- Changes in an SWS employee’s financial need due to changes in their financial aid award (e.g. change in SAI, receipt of additional aid previously unknown to the institution, etc.).
- SWS earnings for the aid year (or other award period) compared with the SWS employee’s SWS award amount.
- Changes in a student’s enrollment level to less than half-time enrollment unless already covered by the exception discussed under “Awarding SWS” above.

There is an annual \$300 overaward tolerance, but this is only for **inadvertent** overawards. An institution may not include this tolerance in an initial SWS award. Institutions must monitor each SWS employee’s earnings to avoid overawards. OHE strongly encourages institutions to notify SWS employees and/or their supervisors when an employee’s earnings are approaching their SWS award. OHE will require institutions to return the State share of SWS payments associated with overawards determined to have been avoidable.

Reference: SFA-SWS page 19

Interim Reporting and Cash Management Requirements

OHE determines the annual allocation of SWS funds for each institution that timely completes the annual request for participation. OHE sends the allocation in three unequal disbursements with 15% sent in July, 35% in October, and 50% in December.

OHE sends refund requests/requests for reallocation to participating institutions in November, February, March, and May. The November request is also used to obtain feedback from institutions about the upcoming December final 50% distribution of their original allocations (e.g. no change requested, no change requested and

request additional reallocation, reduce December allocation, eliminate December allocation and indicate a refund coming to OHE). Each institution is required to reply to each request by the deadline set by OHE.

Unlike the MSG program that requires a separate general ledger account, an institution is strongly encouraged to use a separate general ledger account to track its SWS fund activity. If SWS funds are co-mingled with other OHE program funds (e.g. MISP), the institution must be able to identify the entries by program and explain the activity to auditors if requested. The institution must have an internal process by which the business office and financial aid office regularly monitor the amount of SWS funds spent and remaining to spend. OHE recommends this process be performed at least monthly and using historical trend analyses as part of this process.

Reference: SFA-SWS page 19

This process allows the financial aid office to project the institution's annual SWS disbursements and take appropriate actions as follows:

- If an institution's annual projected SWS spending will not use its full annual SWS allocation, then excess cash must be returned to OHE during the reallocation/refund requests that occur several times each year. OHE may also require an institution to return excess cash at any time OHE determines that an institution will not be able to spend its annual SWS allocation.
- If an institution's annual projected SWS spending is at least its initial SWS allocation, then the institution may request reallocation of funds from OHE during the reallocation/refund requests that occur several times each year.
- In either above case, an institution may also be able to carry forward or carry back SWS funds to a different aid year. This must also be factored into the SWS projections to estimate an institution's SWS cash position. There is no administrative expense allowance. For more information, see the SFA-SWS page 19.
- An institution must also consider the interaction of SWS and FWS spending. In some cases, it is possible to reclassify one or more employee's source of funding from one to another in order to balance out spending versus allocations in both programs. If this is done, the institution must be able to show an auditor that this was done and that year-end reports to both OHE and ED are accurate. Reference: SFA-SWS page 19.

Each participating institution must report its SWS spending once per month to OHE using an online portal. SFA-SWS page 20.

Each participating institution must timely complete and respond to each reallocation/refund request from OHE during an aid year.

State Credit Balances and Required Refunds to Students

Whenever an institution credits funds from **any** Minnesota financial aid program to a student's account, it must make a determination if a state credit balance has been created. A state credit balance occurs when the total of all Minnesota financial aid disbursements made during an academic term exceeds the amount of a student's direct charges on their account for that term. Direct charges are tuition and required fees plus any charges for housing and food. This is true even if an institution uses its own funds to disburse State aid in anticipation of drawing or receiving State funds to reimburse itself. State aid is identified by the label used in a student's account (e.g. MN Child Care Grant, MN State Grant, MN Indian Scholarship, MN SELF Loan, etc.).

Once a state credit balance is identified, an institution must pay the credit to the student no later than 14 days after certain benchmark dates. A student may allow an institution to retain the credit balance under certain circumstances but the student's instructions must be in writing. Auditors should refer to the SFA-SWS pages 13 to 14 for more information.

Unclaimed Property Requirements

SWS payments are wages and therefore subject to Minnesota's unclaimed property statutes.

Reference: 2024 MS 345.39 Subd 3 and 2024 MS 345.41.

If a payroll check or EFT/ACH is returned or rejected, the institution must follow the requirements under the statutes listed above. The institution must follow the unclaimed property statutes including performing additional attempts to locate the payee if the property has a value of at least \$100.

Reference: SFA-SWS page 14. An auditor may request from the institution documentation showing that it is following the unclaimed property statute.

End of Financial Aid Year Close-out Process

Reconciliation

Year-end reconciliation of SWS funds is not required by OHE. However, OHE strongly encourages each institution to perform and document reconciliations. Without a formal reconciliation, there are many possibilities for errors in both reporting and cash management.

SWS funds present unique reconciliation issues due to the possible reclassification between SWS and FWS at the student level.

Both SWS and FWS require that allocations be used only for hours worked during the aid year. For 2024-25, the dates were July 1, 2024 through June 30, 2025.

As soon as the final hours worked in June 2025 have been paid, an institution may begin the reconciliation process to balance out its annual SWS, FWS, and institutional work (if applicable) spending. The result will be a list of SWS recipients to use to prepare the OHE end-of-year report. This process should also assist with preparing the FISAP later in the year.

The movement of cash between OHE and an institution must also be reconciled. As previously stated, OHE strongly encourages each institution to use a separate general ledger account to document movements of SWS funds. This reconciliation must show that:

- Each allocation sent by OHE can be traced as a cash receipt at the institution.
- Each refund of cash sent by the institution to OHE can be traced in OHE's records.
- The net cash received by an institution equals the reconciled total amount of all individual student disbursements plus any allowable carry-forwards.

Reporting

OHE sends an end-of-year report with some values pre-filled to each institution. The institution must accurately complete the report and submit it to OHE by no later than the first working day after August 9th of the current year. An exception has been given to Minnesota State member institutions allowing for an additional two weeks for reporting submission.

OHE auditors have identified multiple schools that are not following OHE's end-of-year reporting requirements. A school's report should not show even dollar amounts of earnings for all or the majority of its SWS recipients. The same is true for hours worked. If a student earned more than their award amount or need, then the school must determine the appropriate pay period during which the student reached their cut-off. The school must then determine the exact number of hours worked to correspond with the earnings. For example, a student is working multiple jobs for a school with differing rates of pay, etc. A school may not simply take the total earnings and divide it by one of the pay rates or an average of the pay rates. Another example is when a student's SWS award is \$3,000, but the school did not properly monitor or tell the student to stop working as they approached the cut-off. The school must report the nearest exact earnings (e.g. \$2,997.32) and the exact number of hours worked associated with the earnings amount.

Cash Management

If an institution has accurately monitored its SWS spending and managed its cash position throughout the year, then it should not have a material amount of excess cash on hand at year-end. Any remaining excess cash on hand must be returned to OHE by July 31.

After OHE accepts an institution's SWS end-of-year report and receives the institution's refund of excess cash (if applicable), OHE informs the institution that it is closed out for the prior aid year.

SWS Issues and Possible Audit Exceptions

- Awarded and paid SWS based on an invalid ISIR.
- Paying SWS to a non-resident of Minnesota.
- Institution paid SWS to a student enrolled less than half-time and did not obtain/retain documentation to authorize the exception.
- Institution did not report spending to OHE on a monthly basis.
- Institution failed to pay its students the appropriate minimum wage rate.
- End-of-year report submitted to OHE contained inaccurate data (e.g. all earnings amounts rounded to nearest dollar, imputed information used to "back in" to hours worked based on earnings and wage rate, etc.) This could be due to failure to reconcile at year-end.
- Institution did not provide need calculation for a period ending on June 30; award year used crossed over July 1.
- Institution did not stop an SWS student from continuing to work even after earnings reached the student's award amount and/or did not reclassify excess earnings to FWS or institutional funds.
- Paid stipends using SWS funds that were not calculated as actual hours worked multiplied by an hourly wage rate.

- Paid SWS to a student who was not making SAP.
- Institutions did not reply to OHE’s reallocation requests.
- Institution filed end-of-year report and/or returned year-end excess cash late, sometimes by a month or more.
- Institution does not have a policy and plan to deal with unclaimed property.
- Institution signed up to participate in SWS, received allocated funds, spent \$0, carried forward up to 10%, and then repeated process in subsequent years. Even the utilization rate control does not fully stop this from occurring.
- Institution did not perform a year-end reconciliation prior to submitting its end-of-year report to OHE. Discovered in next fiscal year that there was an error, but it was too late for the school to draw the funds from a closed fiscal year.
- Institution did not award SWS up front nor pay from SWS funds during the aid year. All funds assigned to students after the end of the aid year.

Student Educational Loan Fund (SELF)

Regulatory References

- 2024 MS 136A.15 through 136A.1701
- Rules Reference: 4850.0010 through 4850.0024
- August 2024 State Financial Aid Manual-SELF Loan Program Manual (SFA-SELF)

Eligible Institutions

Institutions Located in Minnesota

- Minnesota institutions that are eligible to participate in OHE-administered aid programs under MS 136A.103.
- Some institutions may qualify to participate in only SELF and no other Minnesota programs (e.g. due to length of program offered).

Institutions Located in States Other Than Minnesota

Public or private institutions approved by ED and determined by OHE to maintain academic standards substantially equal to Minnesota institutions. MS 136A.155

Eligible Programs and Related

Length of program: at least 12 quarter credits, 12 semester credits, or 300 clock hours. Clock-hour programs count only actual teaching hours, not homework, lunch breaks, holidays, or other closed days.

Credential being earned: in general, a degree or certificate. However, there are many exceptions covering pursuing a second major, repeating coursework, etc. Refer to SFA-SELF page 5.

Program level: may be at either the undergraduate or graduate/professional level. Some variables like annual and lifetime loan limits vary depending on program level.

Student Eligibility Requirements

SELF Eligibility Requirement

Eligibility Requirement	State Financial Aid Manual Reference	Statutory/Rules Reference
Minnesota resident- more narrowly defined than for MSG-- reference this for next two rows	SFA-SELF page 8	136A.15 Subd 9
Minnesota residents only—enrolled in an eligible MN institution or an eligible institution in another state	SFA-SELF page 6	136A.15 Subd 8
Non-Minnesota residents only—includes international students-enrolled for at least one course of at least 30 days in length during an academic year at an eligible institution in Minnesota—see statute for study abroad exception	SFA-SELF pages 6 to 7	136A.15 Subd 8
Enrollment level—at least half time in courses applicable to the degree or certificate—requires institution to have a written policy defining full-time and half-time with federal standards as a minimum	SFA-SELF pages 6 to 7	MR 4850.0011 Subp 15 (B)
Making SAP at time of loan certification and disbursement—based on most recent SAP review prior to beginning of term for which SELF disbursement was certified—see SELF manual for full description	SFA-SELF page 7	MR 4850.0011 Subp 15 (C)
Not in default on any federal, state, institutional, or private education loan	SFA-SELF page 7	MR 4850.0011 Subp 15 (D)
Not delinquent on current outstanding SELF Loans—interest and/or principal— auditor does not need to audit —done by loan servicer or in conjunction with OHE SELF staff	SFA-SELF page 7	MR 4850.0011 Subp 15(E)

Eligibility Requirement	State Financial Aid Manual Reference	Statutory/Rules Reference
Credit-worthy co-signer-- auditor does not need to audit —done by loan servicer or in conjunction with OHE SELF staff	SFA-SELF pages 7 to 8	MR 4850.0011 Subp 7b and 9

Student Application Process

- Submit FAFSA subject to exceptions below:
 - Maximum Effort Test: Requires student applicant to submit FAFSA each year for the purpose of allowing institutions to award any need-based grant/scholarship aid prior to certifying a SELF Loan. However, if a student’s FAFSA filed during year one demonstrates that the SAI and other factors preclude the student from receiving more than immaterial amounts of need-based grant/scholarship aid AND the student’s financial situation in subsequent years has not materially changed, then the student may sign a form Waiver of SELF Maximum Effort Test. This signed form must be retained in the student’s financial aid file. **NOTE: A student’s and/or parent’s refusal to submit a FAFSA does not meet this exception. See SFA-SELF page 8 and AR 4850.0011.**
 - Dream Act students must file the State Aid Application (MN Dream Act) application that functions as the Minnesota version of the FAFSA.
 - International students are not eligible to file a FAFSA.
 - Graduate and/or professional level students that would not be eligible for any need-based grants/scholarships requiring the filing of a FAFSA.
- Submit student section of SELF Loan application online.
- Co-signer completes their section of the SELF Loan application online. If credit approved, student needs to complete loan entrance counseling online. **NOTE: Auditor does not have to audit this step.**

Institution Certification and Award Processes

In addition to verifying the items in the “Student Eligibility Requirements” and “Student Application Process” sections, an institution must also review additional items needed for it to certify a SELF Loan.

Determining Amount of Loan to Certify

- Must ensure three items are synchronized prior to certification in order to properly calculate SELF Loan eligibility: the loan period, the COA for only the loan period, and OFA for the loan period.
- Verify the type of program the student is enrolled in: certificate, associate degree, bachelor’s degree, graduate degree, graduate certificate, professional program.
- Check prior SELF borrowing at all institutions including itself to calculate remaining SELF eligibility based on annual, grade level, and cumulative maximums. See description of this issue below.
- Compare calculated SELF eligibility with maximum annual limits as well as minimum loan limit of \$500.

Annual, Grade Level, and Cumulative Loan Maximums

OHE began the new SELF 7 phase on February 1, 2024. OHE, at the same time, increased some of the annual and cumulative loan maximums. An auditor must read, familiarize themselves with, and refer to the guidance in the SFA-SELF on pages 18 to 22. While many of the issues discussed seem straight forward, there are a number of unique requirements that must be audited (e.g. grade level three sometimes allowed for associate's or certificate program, number of years a student is permitted to borrow for vocational programs, lower annual limit for short programs, etc.). The information on the referenced pages remains in effect, but the stated loan maximums were only in effect through loans originated by January 31, 2024.

An auditor must refer to the "Loan Limit Table" on page 19 of the SFA-SELF to find annual and cumulative loan amounts in effect for 2024-25.

OHE has identified two issues related to the SELF processing flow that may arise during an audit.

- The SELF Program Manager confirmed that some institutions may need to certify SELF loans without having any access to see prior years' SELF borrowing for a student. However, institutions did have some access to see a student's current principal balance (CPB) at the time of certification. This access did not allow institutions to see application or delinquency. The SELF Division also implemented plans to catch this issue at the approval stage. Alternatively, if an institution is concerned about this, they can contact the SELF staff. This above was true through January 31, 2024. Institutions began to have similar access at Aspire sometime during July 2024. An auditor should not create a finding for this issue unless it occurred in September 2024 or later.
- Audit determined that institutions that do not participate in Title IV aid programs do not have a way to check for federal student loan defaults because they do not receive ISIRs. While these institutions must collect FSSs from students, an FFS does not contain the federal loan history. The SELF Program Manager stated that asking the student to confirm that they are not in default will be sufficient evidence.

Scheduling SELF Disbursements

- Institution may not request a SELF disbursement more than 10 calendar days before the start of the loan period. For clock-hour institutions, may schedule the first disbursement of the first academic year of a student's program up to 10 days prior to the student's first date of attendance. Subsequent disbursements may not be scheduled to anticipate a 10 day lead time as a student is not eligible for subsequent disbursements until after they have completed the hours and weeks of instruction in the prior payment period.
- Institution should schedule one disbursement per pay period within the certified loan period. An institution that certifies a loan for an entire aid year but not until after the beginning of, for example, a second semester, may request a single disbursement for the loan.
- Disbursement amounts should be equally divided by number of payment periods in certified loan period. OHE SELF Program Manager may grant exceptions if COA for one term is materially more than other terms (e.g. study abroad). See SFA-SELF page 23 for more information.
- Clock-hour institutions must schedule disbursements based on payment periods defined using Title IV standards. For example, an institution that defines its academic year as 900 hours and 26 weeks of

instructional time must generally schedule two equal disbursements with the second disbursement to occur after the student has completed the first payment period of 450 hours and the first 13 weeks of instruction.

Disbursement

From OHE to an Institution

Most institutions receive SELF funds via EFT with an associated roster of student names and related amounts. Some institutions may still receive paper checks made payable jointly to the institution and the student. Auditor does not audit this specifically, but it could eventually be related to a finding about no or improper reconciliation and cash management.

From an Institution to a Student

For paper checks, both student and institution must sign the check and credit to student's account (OHE preferred method) within 30 days of the date of the check. For EFT transfers to an institution, it must credit the SELF amount to the student's account (OHE preferred method) within 30 days of the EFT transfer date.

Many of the disbursement requirements mirror those in the MSG program including, but not limited to:

- Determination of disbursement date.
- Acceptable methods of disbursement (OHE preference is directly to a student's account).
- Student authorization for EFT transactions.

SELF does have some additional and unique disbursement requirements:

- Institution must check SAP and verify at least half-time enrollment on the date of disbursement. Refer to the row about SAP in the table in the "Student Eligibility Requirements" section above.

Auditor needs to check the specific guidance in the SELF Manual on the pages listed for each of the following situations:

- Student on LOA when SELF funds arrive. (pages 14 and 16)
- Student withdrew or dropped to less than half time enrollment during a payment period prior to an institution crediting SELF to student's account. (pages 12 and 17)
- Student completed a loan period and a SELF disbursement arrives after the last date of the period. (page 14)
- Use of power of attorney to endorse a SELF check in the absence of the student (study abroad, internship, etc.). (page 14)

State Credit Balances and Required Refunds to Students

Whenever an institution credits funds from **any** Minnesota financial aid program to a student's account, it must make a determination if a state credit balance has been created.

A state credit balance occurs when the total of all Minnesota financial aid disbursements made during an academic term exceeds the amount of a student's direct charges on their account for that term. Direct charges

are tuition and required fees plus any charges for housing and food. This is true even if an institution uses its own funds to disburse State aid in anticipation of drawing State funds to reimburse itself. State aid is identified by the label used in a student's account (e.g. MN State Grant, MN Indian Scholarship, MN SELF Loan, etc.).

Once a state credit balance is identified, an institution must pay the credit to the student no later than 14 days after certain benchmark dates. A student may allow an institution to retain the credit balance under certain circumstances but the student's instructions must be in writing. Auditors should refer to the SFA-SELF on page 15 for more information.

Reconciliation and Cash Management

Institution is strongly encouraged to have a systematic way of reconciling EFT disbursement rosters to actual disbursements made to student accounts. Institution must be aware of each roster's 30-day deadline for disbursement or return to the loan servicer.

Required return of cash to SELF loan servicer:

- Institution is not able to credit a SELF disbursement (check or EFT) to student's account within the 30-day deadline.
- Student does not enroll for the term and SELF funds have already arrived before determination is made.
- Certain of the special disbursement requirements listed previously have required cash returns associated with them.
- Student requests an institution to return some or all of a disbursement for one of several possible reasons.

Enrollment Reporting

A small number of institutions in the SELF program do not participate in reporting their students' enrollment status to the Clearinghouse. The loan servicer periodically sends Enrollment Verification Reports to those institutions. The institutions must review, correct, and return each completed Report to the loan servicer within two weeks of receipt. An auditor can refer to SFA-SELF page 18 for more information.

NOTE: Auditor should request a sample of copies of completed enrollment verification requests from an institution during an audit. Auditor may need to work with SELF Program Manager or research within the servicer's system to determine if completed enrollment verification requests were returned on time.

SELF Issues and Possible Audit Exceptions

- Student whose SAI seemed to make them eligible for MSG, did not receive MSG.
- Institution certified a SELF at grade level five even though the student was in a four-year program. Grade level five to be used only if the program itself is a five-year program.
- Institution unilaterally did not release a SELF disbursement to a student because the student did not need the loan to cover costs. Institution cancelled the disbursement. Institution must have written permission from the student to change a SELF unless total aid exceeds COA.
- Refund calculation errors resulting in either a return of too much or too little to the SELF servicer.

- The loan period, COA, and OFA do not match the numbers in effect at the time the institution certified a SELF Loan. This resulted in overawards, underawards, and/or other issues.
- Institution certified a SELF Loan for a student without an ISIR and who had never filed a FAFSA while enrolled at that institution. Violation of Maximum Effort Test.
- Institution did not properly identify the type/length of a student's academic program and certified a SELF Loan for more than the annual maximum amount associated with the academic program. Occurs primarily at institutions that offer multiple types of programs: certificates, associate degree, bachelor's degree, graduate degree, etc. At clock-hour institutions, the issue is the length of the program versus the maximum SELF amount. Programs of less than 900 hours and that are scheduled to be completed in less than eight to nine months may only receive a maximum SELF of \$3,500 with a \$7,500 aggregate maximum to allow for taking multiple short-term programs. Clock-hour programs of at least 900 hours that are scheduled to take more than eight to nine months of full-time attendance may receive an annual SELF amount up to \$10,000 based on COA, etc.
- Institution certified a SELF Loan for a student using a lower grade level than actual resulting in a student not being advised of the correct maximum eligibility.
- Institution disbursed subsequent loan disbursement prior to student completing the clock hours and weeks of instruction of their previous payment period.

Appendix A: Abbreviations, Acronyms, and Terms Used in This Guide and Other Related Documents

Abbreviations, Acronyms, and other Terms

Abbreviation/Acronym for a Term	Full Term	Additional Definition or Website
AICPA	American Institute of Certified Public Accountants	https://www.aicpa.org/
AVG	Application and Verification Guide	https://fsapartners.ed.gov/knowledge-center/fsa-handbook/pdf/2024-2025
AR	Minnesota Administrative Rules	Minnesota statutes and laws take precedence over rules.
Auditor		Usually refers to an OHE employee within the Audit Unit. In some cases, may refer to an external CPA/auditor hired by an institution to perform its Minnesota compliance audit.
CAP	Corrective Action Plan	
COA	Cost of Attendance	May refer to different amounts depending on which Title IV or MN aid program one is reviewing.
CPS	Central Processing System	Usage ended after 2023-24
DACA	Deferred Action for Childhood Arrivals	Relates to SWS and ability of some undocumented Minnesota students to be able to work for a period of time.
DCL	Dear Colleague Letter	One in a series of official guidance issued by ED to financial aid and other related professionals.
DCYF	Minnesota Department of Children, Youth, and Families	Executive agency formed from combining pieces of existing agencies with similar missions
DREAM ACT	Minnesota Dream Act	Also referred to as MN Prosperity Act https://ohe.mn.gov/mn-dream-act
ED	U. S. Department of Education	https://www.ed.gov/
EFA	Estimated Financial Assistance	Usage ended after 2023-24

Abbreviation/Acronym for a Term	Full Term	Additional Definition or Website
EFC	Expected Family Contribution	Usage ended after 2023-24
EFT	Electronic Funds Transfer	
FAFSA	Free Application for Federal Student Aid	
FSA	Federal Student Aid	Usually used in context of referencing the FSA Handbook.
FPS	FAFSA Processing System	Replaced Central Processing System (CPS)
FSS	FAFSA Submission Summary	Replaced Student Aid Report (SAR)
FWS	Federal Work Study Program	
Guide	Guide for Compliance Audits of Programs Administered for 2024-25 Aid Year for Clock-Hour Programs	This guide
HOH	Head of Household	A filing status that may be used by a taxpayer when filing federal income tax return.
Institutions	Postsecondary Institutions	
ISIR	Institutional Student Information Record	
LDA	Last Date of Attendance	Follows Title IV unless otherwise specified in MN programs
LME	Annual Living and Miscellaneous Expense	One of the two components of the COA for the MSG program.
LOA	Leave of Absence	
LPAR	Limit on Postsecondary Attendance Review	
MDE	Minnesota Department of Education	
MISP	Minnesota Indian Scholarship Program	https://ohe.mn.gov/outreach-professional-resources/campus-resources/campus-financial-aid-administrator-resources-12
MNAid		OHE's web-based aid system that is used for multiple programs and is accessible to both schools and OHE staff.

Abbreviation/Acronym for a Term	Full Term	Additional Definition or Website
MS	Minnesota Statute	https://www.revisor.mn.gov/statutes/info
MSG	Minnesota State Grant Program	https://ohe.mn.gov/outreach-professional-resources/campus-resources/campus-financial-aid-administrator-resources
OHE	Minnesota Office of Higher Education	https://www.ohe.mn.gov
PC	Parent Contribution	
R2T4	Federal Return of Title IV Aid Funds	
SAI	Student Aid Index	Replaced Expected Family Contribution (EFC)
SAP	Satisfactory Academic Progress	MN follows the Title IV definition with minor differences for SELF.
SAR	Student Aid Report	Usage ended after 2023-24
SELF	Student Educational Loan Fund (or SELF Loan)	https://selfloan.mn.gov/selfloan
SFA	State Financial Aid Manual	SFA-where the letters after the dash designate which chapter of the SFA is being referenced (e.g. MSG, CD, etc.)
SOS	Public Safety Officer Survivor Grant	https://ohe.mn.gov/outreach-professional-resources/campus-resources/campus-financial-aid-administrator-resources-4
SWS	Minnesota State Work Study Program	https://ohe.mn.gov/outreach-professional-resources/campus-resources/campus-financial-aid-administrator-resources-2