PROJECT SUMMARY

Overview

Tarleton State University’s financial and management controls over financial aid processes generally ensure resources are used effectively and efficiently and in compliance with laws and regulations. Control weaknesses were noted in the University’s scholarship and short-term loan processes. Opportunities for improvement also exist in the areas of reconciliations between the University’s accounting system, student information system, and the Department of Education’s cash management system and student appeals process.

During fiscal year 2008, approximately 5,600 of the 11,539 (49%) undergraduate and graduate students enrolled at Tarleton State University received about $48 million in financial aid including grants, loans or scholarships of which approximately $5.5 million represented scholarships alone.

Summary of Significant Results

Scholarship Management

The Scholarship Office is in the process of developing a formal, written procedures manual to provide guidance in daily operations and enhance consistencies among selection committees and departments involved in the scholarship process. Sixty-nine scholarship selection committees are in use; committee member names are not retained to ensure scholarship requirements are adhered to or to review for obvious instances of conflicts of interest. Certain committee members have full access (read/write access) to scholarship databases where applications and scholarship requirements are maintained. Confidential student information is currently distributed to selection committees in an unsecure manner. In addition, official pre-numbered receipts are not used to record donations received through the Scholarship Office and reconciliations of scholarship financial data maintained by the department to the official University accounting system (FAMIS), student information system (Banner), and award
documentation are not performed. Improved documentation, records retention, and security of student data would be a proactive step by the University to reduce risk and enhance accountability.

**Short-Term Loan Management**

Controls related to management of short-term loans require improvement. Interest charges for tuition and fee loans and late fee charges for short-term loans are not being applied as detailed in loan agreements. In addition, alternative payment arrangements established between the University and students who have delinquent loans are not formally documented.

**Summary of Management’s Response**

Management concurs with the observations and recommendations in this report. As noted in our responses, many of the items have been implemented with others in process.

**Scope**

Our review of financial and management controls over the student financial aid system focused on general eligibility for all major aid programs and scholarships. To test for compliance of selected controls, computer-based audit techniques were used to increase audit effectiveness and efficiency and test for specific attributes of one hundred percent of the general eligibility requirements. We also reviewed financial management controls associated with financial aid. Transactions and activities related to these areas were reviewed for the period of September 1, 2007 through October 31, 2008. Fieldwork was conducted from May 2009 through July 2009.

Our audit did not include a review of Pell grants or other federal financial programs as the Texas State Auditor’s Office was covering these areas as part of its A-133 Federal Single Audit for the State of Texas.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Scholarship Management

Observation

Improvements are needed in the Scholarship Office to ensure processes are performed consistently and data is secured and monitored on a regular basis.

Documentation of scholarship procedures and maintenance of scholarship data needs improvement to ensure processes are performed consistently, in compliance with donor requirements, and within budgeted limits. The following exceptions were noted during our review of scholarships awarded in fiscal year 2008:

- The Scholarship Office is in the process of developing current, comprehensive written procedures to provide guidance for scholarship award processes and standardized documentation for all parties involved in awarding scholarships. Without formally documented procedures the risk of inefficient and ineffective operations increases should either of the two full-time Scholarship Office employees have extended or permanent absences. Training of new staff members would also prove to be difficult without documented procedures.

- Approximately sixty-nine scholarship selection committees are involved in determining scholarship recipients. Listings of these committee members are not maintained to prove committees are comprised as stated in scholarship requirements and obvious instances of conflict of interest between committee members and recipients cannot be monitored. Additionally, certain committee members have full read/write access to scholarship databases where applications and scholarship requirement data is maintained, increasing risks associated with data integrity. Our sample of thirty scholarships tested did not reveal any instances of scholarships issued to students who did not meet required criteria. Retaining and monitoring committee member listings helps ensure scholarships are issued in accordance with donor criteria and that obvious conflict of interest concerns are not overlooked. Limiting scholarship database access to a read only format for those without authority to input data reduces the risk of lost data integrity.

- Confidential student information was distributed to scholarship selection committees in an unsecure manner. Student information, including student identification numbers, grade point averages and test scores, were emailed in spreadsheet format to
1. Scholarship Management
(cont.)

selection committee members. Email is not a secure method of transmitting confidential information. Without a secure method to transfer student information, the risk is increased that confidential student information will become exposed.

- Scholarship funds received by the Scholarship Office are not recorded on official pre-numbered receipts with sufficient copies to provide a copy to the payer, a copy to the fiscal office cashier, and a copy to be filed in numerical sequence as required according to System Regulation 21.01.02 Receipt, Custody, and Deposit of Revenues. The Scholarship Office received approximately $1.67 million in scholarship funds in fiscal year 2008.

- No formal reconciliation is performed between scholarship account data maintained internally by the Scholarship Office to the official University accounting system (FAMIS), student information system (Banner), and selection committee documentation to verify scholarship beginning and ending balances are accurate and awards were made to selected recipients in the appropriate amounts. In addition, no formal reconciliation is performed to verify deposits of scholarship funds agree between internal Scholarship Office records, Banner, and FAMIS. Without reconciliation, there is an increased risk that scholarship deposits, balances and awards are not correctly recorded in the University’s accounting and student systems which could lead to incorrect scholarship balances, deficits within scholarship accounts and over- or under-awarded aid.

The awarding of scholarships is a more subjective process than awarding of grants and loans, which are primarily based upon need. Improved documentation, records retention, and security of student data would be a proactive step by the University to reduce risk and enhance accountability, particularly if a scholarship award is challenged.

Recommendation

Strengthen scholarship management by performing the following:

- Complete and make available to all necessary individuals the written procedures manual to allow for consistency, effectiveness, and efficiency in operations within the Scholarship Office as well as among selection committees and departments involved in the scholarship process. The manual should include items such as location of scholarship guidelines, process for obtaining listings of eligible students, documentation required to be submitted to the Scholarship Office from selection
1. Scholarship Management (cont.)

Committees, required criteria for form letters such as award and acceptance letters, awareness of conflicts of interest and records retention policies.

- Consider reducing the number of selection committees to allow for greater management of committees. Retain documentation to verify that committees are comprised as required according to scholarship requirements and that potential conflicts of interests have been investigated. Limit access to the scholarship database for those without authority to read-only access.

- Provide access to confidential student information through a secure means such as encrypted files or shared directory access for committee members/coordinators responsible for obtaining this information.

- Record scholarship funds received by the Scholarship Office on official, pre-numbered receipts with sufficient copies for all parties as required by System Regulation 21.01.02.

- Perform periodic, formal reconciliations between scholarship balances and awards tracked in the Scholarship Office’s internal documents to Banner, FAMIS, and selection committee documentation. Ensure an appropriate separation of duties is adhered to.

- Perform periodic formal reconciliations for deposits of scholarship funds received through the Scholarship Office between the Scholarship Office’s internal documents, Banner, and FAMIS. Ensure an appropriate separation of duties is adhered to.

Management’s Response

A Disaster Recovery manual was completed in June 2009 which documents all procedures and work processes within the Office of Scholarships. This manual will be updated with policy/procedure changes as they occur. The Director of Scholarships will create a manual for all personnel involved in the scholarship awarding process. The manual will be created by March 2010 for use during the 2010-2011 awarding period. Committee members will be informed of documentation requirements.

Based on the wording of existing scholarship and endowment agreements, the University is not in a position to reduce the number of selection committees. However, in working with donors on developing new agreements, it is suggested that the donors utilize
1. Scholarship Management (cont.)

The existing University Scholarship Committee in lieu of naming other individuals to serve in that capacity.

The scholarship database was made read-only for personnel using it for scholarship selections.

A secure drive has been established for personnel (scholarship committees) to access information on students who are eligible to receive scholarships. Access is limited to the Scholarship Office and those personnel serving on the scholarship committees.

Immediately after the audit, the Office of Scholarships began receipting private scholarship checks, using a pre-numbered, multi-copy receipt book provided by Business Services.

The Administrative Assistant in the Office of Scholarships will begin performing account reconciliations from Scholarship Committee recommendations to Banner to FAMIS. This process will be complete by the spring 2010 term. The Administrative Assistant has received login information for FAMIS and is scheduled to attend FAMIS training during the last week of October 2009. Reconciliations will be performed on a sample of scholarship accounts each long semester, sometime after the 20th class day.

2. Short-Term Loan Management

Improvements are needed in controls over the management of short-term loans to ensure loan requirements are adhered to, alternative payment arrangements are formalized, and written-off loans are managed according to best business practices.

2a. Tuition and Fee Loan Interest

Observation

Interest for tuition and fee loans is not applied in accordance with loan terms.

Short-term loan requirements state tuition and fee loans are issued at a 5% simple interest per annum. Six of seven (86%) tuition and fee loans tested only had interest applied in the first month the loan was active, not each month the loan was active. This results in noncompliance with short-term loan requirements and loss of loan revenues. Students are not being charged interest for use of tuition and fee loans. Thus, the incentive for students to pay off tuition and fee loans as quickly as possible is reduced. The Banner system will not allow an automated application of interest per month. A manual application would have to be performed to all active short-term tuition and fee loans to have the interest applied each month.
Recommendation

2a. Tuition and Fee Loan Interest (cont.)

Determine if an automated application could be developed within the Banner system to apply interest rates on a monthly basis or if a flat one-time fee should be assessed in place of the monthly interest charge. Until this determination is made, comply with short-term loan requirements by applying interest of 5% per annum to all active tuition and fee loans by performing a manual processing of interest applications each month.

Management’s Response

Management evaluated both options recommended (developing an automated application within the Banner system to apply interest rates on an annual basis or the assessment of a flat one-time fee). The decision was made to change the business process, rather than make changes to Banner, and to begin charging an origination fee of 1.25% on all tuition and fee emergency loans as allowed by Section 56.053 of the Texas Education Code. This became effective with the fall 2009 semester.

2b. Short-Term Loan Late Fees

Observation

Late fees are not being appropriately applied to delinquent loans. Late fees are not being applied to short-term loans as detailed in the loan guidelines. The Short Term Loan Application indicates that loans five days past due are subject to a $10 late fee or 10% interest per annum until paid, whichever is greater. The late fee of $10 is being applied to book and room/board loans without consideration of which is greater, the $10 late fee or 10% per annum. In addition, no late fees are applied to tuition and fee loans. Delinquent tuition and fee loans comprise 74% ($400,730/$540,714) of the total balance of delinquent loans on the loan aging report as of August 31, 2008.

Incentive for students to pay off short-term loans, particularly tuition and fee loans, as quickly as possible is reduced since late fee charges are either not applied or potentially not applied appropriately. The Banner system will not allow an automated application of interest per month. A manual application would have to be performed to determine which fee should be applied and, if the interest is greater, the fee would have to be manually applied each month.
Recommendation

2b. Short-Term Loan Late Fees (cont.)

Determine if late fees should be applied to tuition and fee loans as they comprise the majority of the outstanding delinquent loan balance as of August 31, 2008. Determine how late fees should be applied, whether in a flat fee, interest charge, or consideration of both and apply the fees as determined appropriate.

Management’s Response

Management discussed and evaluated the matter of applying late payment fees to tuition and fee loans, and the decision was made to begin assessing a $10.00 flat late payment fee on past due tuition and fee loans. This became effective with the start of the fall 2009 semester.

2c. Alternate Payment Arrangement Agreements

Observation

No formal agreement is signed between the student and the University to document alternative payment terms put into effect for delinquent loans. In addition, no written guidelines are in place for the transfer of delinquent accounts to a collection agency should the alternative payment arrangements not be met. The need for a more formalized process for alternative payment arrangements of delinquent loans had not been recognized. Three of the fifteen (20%) loans included in our sample were on an alternative payment arrangement. Disagreement may arise between the student and University on the established alternative payment terms as currently arrangements are verbally agreed to and then recorded in the student information system. Without a formal agreement, students may claim not to know their account could be transferred to a collection agency should they default on the payment plan.

Best practices indicate having formal, signed agreements between contracting parties with potential consequences outlined, such as transfers of delinquent accounts to collection agencies, reduces the risk of potential disagreements of terms and further litigation.

Recommendation

Develop and implement the use of a formal agreement to be signed by both the student and a University representative for alternative payment plans established for delinquent loans. Include information on the consequences of not meeting the arrangements, such as the transfer of the delinquent loan to a collection agency.
Management’s Response

2c. Alternate Payment Arrangement Agreements (cont.)

Using the agreements in place at two A&M System institutions as a guide, Tarleton developed a formal agreement to be used for alternative payment plans, which includes the consequences of not meeting the arrangements. This agreement went into effect fall 2009.

2d. Management of Written Off Short-Term Loans

Observation

Written off short-term loans are currently managed within the active accounting system. Delinquent loans greater than four years old are written off from FAMIS at the end of each fiscal year by the Business Office to allow for an accurate reflection of active short-term loans in the Annual Financial Report (AFR). However, the written off loans are re-activated in FAMIS via a journal-entry at the beginning of the next fiscal year to maintain the accounts in the event a student begins making payments. Although the short-term loan balance in the AFR is correct, re-entry of the loans in the active accounting system causes them to appear to be active during all other points of the year.

Best practices indicate that written off loans should be managed outside the unit’s active accounting system to eliminate potential confusion in true account balances at any time period. Discussions with other Texas A&M University System members have indicated that written off loans can be maintained in the student information system (Banner) rather than the active accounting system.

Recommendation

Consider other methods of managing written off loan balances outside the active accounting system such as through the student information system or a separate loan management system. Contact other A&M System members to obtain information on these other methods for managing written off loans.

Management’s Response

Tarleton considers its current practice to be in compliance with A&M System financial reporting requirements. Tarleton will explore available options for managing written-off loan balances outside of the active accounting system. The benefits of changing the current practice will be weighed against computer programming time and effort necessary to accomplish the change in methodology.
3. Reconciliations

Observation

<table>
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<th>Periodic, formal reconciliations are not performed between the Department of Education, Banner and FAMIS to verify accuracy of draw downs and disbursement of funds.</th>
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Formal reconciliations between the Department of Education’s (DOE) cash management system, FAMIS, and Banner are not performed to ensure the accuracy of draw downs and expenditures. Reviews of reports from each system are occurring, but there is no regular comprehensive reconciliation identifying all differences between the systems and their dispositions increasing the risk that differences would not be identified and resolved in a timely manner.

Reconciliations are performed to identify differences between two or more sets of records or systems so that appropriate actions can be taken to resolve outstanding items. Monitoring reconciliations needs to include procedures to ensure all reconciliations are completed and reconciling items are cleared in an appropriate timeframe. Without adequate review and monitoring procedures, the risks are increased that errors or discrepancies will remain undetected and therefore not addressed and corrected in a timely manner.

Recommendation

Establish formal periodic reconciliation procedures between the DOE cash management system, FAMIS, and Banner. Resolve reconciling items in a timely manner.

Management’s Response

Reconciliation procedures will be coordinated between the offices of Student Financial Aid and Business Services, with additional reconciliations to occur either once or twice during each long semester. This process will be defined by the end of December 2009. Tarleton has been performing formal reconciliations as required for FISOP reporting to the U.S. Department of Education.

4. Outdated Student Appeal Procedures

Observation

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<th>Student Academic Progress appeals procedures are outdated.</th>
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Student Academic Progress (SAP) appeals requests tested did not include required information outlined in the University SAP policy and Student Financial Aid procedures manual resulting in noncompliance. Required information excluded from the appeals requests included data such as student ID, address, phone number, signature, and date of submission. According to
management, this information is available and kept current through the student information system and is no longer necessary for inclusion in student appeals. Also, two of sixteen (13%) appeals reviewed were submitted in email format rather than letter format as required by the procedures manual.

**Recommendation**

Update the University SAP and procedures manual to address current, acceptable requirements for appeals requests. Ensure information in the SAP correlates with information presented on the University Financial Aid webpage.

**Management’s Response**

The Office of Student Financial Aid has updated both the student appeal procedures and Financial Aid Office procedures manual as recommended.

The Student Financial Aid University web page has been updated with the current Satisfactory Academic Policy and the current acceptable requirements for student appeal requests. The appeal request policy now includes the acceptance of the appeal request in either paper form or by email. In addition, we are no longer requiring the student to provide student ID, address, phone number, signature, and date of submission on the appeal request since this information is readily available and current in the student information system.

Current verbiage for student appeals requirements can be viewed at the following web address:

http://www.tarleton.edu/finaid/policies/satisacademicprog.html

BASIS OF REVIEW

Objective

The purpose of this audit was to evaluate the financial and management controls over the University’s student financial aid system to ensure resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, the Federal Student Financial Aid Handbook; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control—Integrated Framework (COSO); Tarleton State University Rules and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Office of Student Financial Aid is responsible for awarding financial aid and ensuring compliance with regulations and requirements. The Business Office provides financial management services for financial aid funds including short-term loans and scholarships while the Scholarship Office oversees receipting of scholarship funds, acceptance of applications and processing of scholarship awards. In addition, several academic departments throughout the campus are involved in awarding scholarships.

The University provides a variety of grants, scholarship, loans and other means of financial assistance to aid students in meeting their higher education goals. During fiscal year 2008, 11,539 students were enrolled at the University. The total amount of financial aid awarded was over $48 million; students and their parents received...
approximately $46 million from federal loan programs. The largest student financial aid programs in actual dollars are the Federal Family Education Loans, Pell Grants and Texas Grants, respectively.
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