**PROJECT SUMMARY**

**Overview**

Significant improvements are needed in financial controls over student financial aid management and scholarship management at Texas A&M University – Commerce. Financial Services is responsible for the financial management of student financial aid funds. The Office of Student Financial Aid and Scholarships (Student Financial Aid) is responsible for awarding financial aid and scholarships. In addition, many of the departments throughout the campus are involved in awarding scholarships. Communication and coordination between these departments is essential and needs improvement for successful University management of student financial aid and scholarships.

Student Financial Aid has established formal goals and objectives to enhance performance, ensure compliance with federal, state and university regulations and promote a positive customer service atmosphere on campus. Computerized data analysis of all financial aid records for compliance with federal regulations found immaterial error rates, all of which were less than four percent.

For fiscal year 2008, 56% of the students enrolled at Texas A&M University – Commerce received approximately $46 million in some type of financial aid, such as grants, loans, or scholarships. The three largest aid programs are Federal Direct Student Loans ($31 million), Federal Pell Grants ($6.7 million), and scholarships ($4.7 million).

**Summary of Significant Results**

**Financial Management**

Improvements are needed in controls related to financial aid reconciliations, cash drawdowns, and segregation of duties. Reconciliations were not performed on a regular, periodic basis increasing the risk that discrepancies would not be identified and resolved in a timely manner. In addition, all reconciling items were not researched and resolved within a reasonable timeframe. The
University's cash drawdown process was not performed regularly. Cash drawdowns were infrequent and did not ensure that the University was reimbursed for financial aid awards on a timely basis. Lack of segregation of duties related to Perkins Loans management increases the risk that discrepancies would not be detected in a timely manner.

Scholarship Management

The University's processes for selecting and awarding scholarship recipients lacks documented support within the departments across campus. All departments do not use scholarship committee reviews and established approval processes. Without a formal and complete scholarship monitoring process, there is a risk that scholarship awards may not be made on an objective basis or meet donor intent. This observation was also made in the University's prior student financial aid audit report issued in the fall of 2002.

Summary of Management's Response

Management concurs with the observations and recommendations in this report. Controls and monitoring processes will be implemented for financial management and scholarship management purposes.

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 information security and financial controls associated with the processing of financial aid and scholarship transactions. Transactions and activities related to these areas were reviewed for the period of September 1, 2007 to August 31, 2008. Fieldwork was conducted from October 2008 through January 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Financial Management

Improvements are needed in controls related to financial aid reconciliations, cash drawdowns, and segregation of duties for the efficient and effective financial management of student financial aid funds.

1a. Reconciliations

Observation

Reconciliations were not performed on a regular, periodic basis increasing the risk that discrepancies would not be identified and resolved in a timely manner. In addition, all reconciling items were not researched and resolved within a reasonable timeframe. The following was noted:

- A documented reconciliation of the amounts reported on the FISAP (Fiscal Operations Report and Application to Participate) to the U. S. Department of Education was not prepared. Student Financial Aid prepared the report using the student information system (Banner) information. A reconciliation of the FISAP report amount back to the Financial Accounting and Management Information System (FAMIS), the University’s official accounting record, was not performed and documented. The annual FISAP reporting process did not include documented reconciliations and verification by both Student Financial Aid and Financial Services for report accuracy prior to submission. At the auditors’ request, Financial Services prepared a reconciliation to determine that the amounts on the FISAP agree with FAMIS.

- Monthly reconciliations between FAMIS and Banner were not regularly performed for Pell Grants. In addition, the Pell Grant reconciliation that was reviewed contained an unexplained reconciling amount ($8,100) that has been outstanding for over a year.

- Monthly reconciliations were not performed between all FAMIS Perkins Loan accounts and the Perkins Loan management system. The Perkins Loan cash account is reconciled monthly;
Reconciliations are performed to identify discrepancies 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 misappropriations could occur and remain undetected from month to month.

Recommendation

Develop a schedule of reconciliations to be performed and document procedures and departmental responsibilities for the reconciliation processes. Monitor to ensure that reconciliations are performed and that reconciling items are cleared in a timely manner.

Develop and implement a process by which Student Financial Aid and Financial Services collaborate to complete a documented reconciliation of FISAP report amounts back to Banner, FAMIS, and the federal Grant Administration and Payment System (GAPS) prior to issuing the FISAP report to the Department of Education.

Management’s Response

A schedule of reconciliations to be performed on a monthly basis has been developed. This includes Pell, Direct Loans, LEAP, SLEAP, SEOG, ACG, SMART and TEACH as well as all Perkins Loan account details. A process has been put in place to ensure that the Office of Financial Aid and Scholarships and Financial Services communicate and collaborate on a monthly basis to complete reconciliations of the information found in FAMIS to that of BANNER, GAPS and, ultimately, the information to be reported on the FISAP. Detailed written procedures outlining this reconciliation process, including communication between the Office of Financial Aid and Scholarships and Financial Services, reconciling between all systems, assuring the resolution of outstanding reconciling items, and review of FISAP prior to its submission to the Department of Education, have been developed and were in effect by May 31, 2009. Separate procedures documenting the process for the monthly reconciliation of the Perkins Loan accounts were developed and were in effect by May 31, 2009, as well.
1b. Cash Management

Observation

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<th>Pell grant and Direct Loan drawdown processes need improvement.</th>
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Cash drawdown processes for Pell grant and Direct Loan funds were not consistently and routinely performed resulting in lost interest income to the University. Cash drawdowns were infrequent and did not ensure that the University was reimbursed for financial aid awards on a timely basis. In 2006, cash drawdowns were made on a fairly consistent (weekly) basis as needed during the semester. In 2007 and 2008, Pell grant and Direct Loan drawdowns were not made as frequently or routinely.

As of September 30, 2008, the University had a negative $2 million balance for the Federal Direct Loan program year ending on July 31, 2008. This means the University had not drawn down Federal Loan funds to reimburse the University for loans made to students. A letter received on October 14, 2008 from the U. S. Department of Education stated that the University was 68 days past the latest reported Direct Loan Award (Loan Period) end date and had an outstanding balance of $2.2 million due to the University. The University drew down the funds on October 16, 2008.

Financial Services has experienced turnover of personnel responsible for cash drawdown and related reconciliation duties. When the individual who performed the cash drawdowns for a number of years left the University, much of the knowledge of how and when to perform these duties left with them. Without standardized, documented procedures to direct activities, the risk is increased that important procedures and guidelines will be bypassed, incompletely performed, or inappropriately handled. This is particularly true when there are changes in personnel. Documented procedures provide management with a tool to ensure that adequate controls and supervisory oversight are in place, and assist with continuity should employee turnover occur.

Recommendation

Develop and implement documented procedures for the cash drawdown process. Ensure that adequate controls and supervisory oversight and approval are in place.

Management’s Response

Texas A&M University – Commerce has developed written procedures to document the weekly cash drawdown process that has already been implemented. The procedures address
1b. Cash Management (cont.)

The University’s processes for Perkins Loan program management lack segregation of duties between record-keeping and custody. One individual prepares and sends billing statements, receives payments, posts payments, makes deposits, and collects past due accounts. Lack of segregation of duties related to the management of the Perkins Loan program increases the risk that errors or misappropriations could occur and not be detected in a timely manner. The University issued approximately $372,000 in Perkins Loans during fiscal year 2008.

Recommendation

Segregate the collection duties from the record-keeping and reconciliation processes related to loan management.

Management’s Response

Texas A&M University - Commerce will ensure the segregation of duties between the collection and record-keeping duties for the Perkins Loan functions. The collection function will be reassigned to staff independent of the data input process. Written procedures were formulated concerning the Perkins Loans area and the proper segregation of duties. These procedures were completed and in effect by May 31, 2009.

2. Scholarship Management

Observation

The documentation and maintenance of scholarship files and records needs improvement to ensure adequate support for scholarship awards. We noted the following exceptions in our review of 19 scholarships awarded by six University departments during fiscal year 2008:
2. Scholarship Management  
(cont.)

- Three of seven (43%) departments reviewed did not have written procedures for the selection of scholarship awards. Documented procedures provide guidance to ensure a fair and unbiased selection process is followed in ranking applicants and making awards.

- Fourteen of 19 (74%) scholarship awards reviewed did not have documentation of the selection and approval of the scholarship awards in agreement with departmental scholarship procedures.

- Nine of 19 (47%) scholarships reviewed did not have documentation of award offer and acceptance.

- One of 19 (5%) awards did not meet scholarship criteria. Scholarships have specific criteria that must be met in order to receive the scholarship award in accordance with donor intent.

Although the University has made progress in improving scholarship management, further improvement is needed. While the departments reviewed generally described an applicant ranking process and gave consideration to the award criteria established by the donor, these processes were not consistently documented. Scholarship candidate identification, awards selection, award notification, and documentation differ from department to department. Several departments stated that scholarship award decisions were often verbally communicated and not documented. The University does not have current, comprehensive procedures to provide guidance and standards for scholarship award processes and documentation throughout the University.

This same issue of not having documented processes to guide the awarding of scholarships was included in our prior audit report on the University’s student financial aid processes issued in the fall of 2002. Management responded that “A Scholarship Handbook is being developed and will be in use at the University no later than November 1, 2002.” Although a scholarship handbook was created in 2002, it was not kept current and was not readily available for the departments to access. Since the prior audit and scholarship handbook development, scholarship responsibilities have been reorganized and processes are currently being updated. These responsibilities have also moved to Student Financial Aid.

The awarding of scholarships is a more subjective process than the awards for grants and loans, which are primarily based upon need. Therefore, the University should clearly document the scholarship decision-making process to better defend its position in the event it is challenged. Improved documentation and record retention would be a proactive step by the University to reduce risk and enhance
accountability. Without formal administrative monitoring and procedures, scholarship awards may not be made on an objective basis or meet donor intent.

**Recommendation**

Establish formal administrative and university-wide scholarship procedures for an objective process to award scholarships. These procedures should address the need for:

- Developing and disseminating procedures for the scholarship award process.
- Documenting the evaluation and ranking of scholarship applicants.
- Documenting who participated in the application evaluation and their concurrence with the list of scholarship awards.
- Documenting the acknowledgement of those participating in the applicant review process and consideration of any conflicts of interest with applicants.
- Retaining the documentation for the length of time required according to the Texas A&M University System records retention schedule.

Establish monitoring processes to ensure departmental compliance with university-wide scholarship procedures.

**Management's Response**

A Scholarship Policy and Procedures Manual will be developed and readily available to all departments responsible for selecting scholarship recipients. This manual will contain comprehensive guidelines and standards for the formal administration of university-wide scholarships. Selecting and awarding procedures along with required documentation processes will be addressed in the manual. The Scholarship Policy and Procedures Manual will be developed and distributed to all departments by November 30, 2009. Subsequent to implementation, the Office of Student Financial Aid and Scholarships will monitor for compliance with the manual.
3. Audit Trail

Observation

Changes posted in the Banner financial aid module are not recorded; therefore, an audit trail is not maintained. One employee in Student Financial Aid who has access to make changes to student financial aid records in Banner is also a student that receives financial aid. Without an audit trail of changes made to the financial aid screens, anyone with Banner access rights could not demonstrate that they did not make inappropriate changes to student financial aid accounts.

The Texas Administrative Code requires the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or affect the release of confidential information. Student financial aid screens within Banner contain confidential information. The risk exists that management cannot identify potential conflicts of interest or unauthorized access to student financial aid information. In addition, management cannot identify the source of errors in Banner to provide training to the employees making the mistakes.

Recommendation

Maintain an audit trail of changes posted in the Banner financial aid module.

Management’s Response

An audit trail is currently being maintained. The audit trail functionality in the Banner Financial Aid Module was activated on December 8, 2008.
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 Texas Administrative Code (TAC) 202; the Federal Code of Regulations and the Federal Student Financial Aid Handbook; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control – Integrated Framework (COSO); Texas A&M University - Commerce 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 University facilitates students in meeting their higher education goals through a variety of grants, scholarships, loans and other means of financial assistance. During fiscal year 2008, 9,071 students were enrolled at the University. The total amount of scholarships and grants awarded was over $13 million. In addition, students and their parents received approximately $33 million from federal loan programs. The largest student financial aid programs in actual dollars are Federal Direct Student Loans, Pell Grants, and scholarships, respectively.
AUDIT TEAM INFORMATION

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