PROJECT SUMMARY

Overview

Financial and management controls over financial aid processes at the Texas A&M University System Health Science Center (HSC) generally ensure resources are used efficiently and effectively and in compliance with laws and regulations except in the areas of cash management and the Federal Operations Report and Application to Participate report process. Opportunities for improvement were also noted in the areas of emergency loans, withdrawals and scholarship procedures.

For academic year 2008-2009, 88% of the students enrolled at the HSC received approximately $37 million in some type of financial aid, such as grants, loans or scholarships. The largest program was federal student loans of approximately $33 million.

Summary of Significant Results

Cash Management

The HSC’s cash draw down process for federal financial aid funds did not ensure that draws were made on a timely basis. Thus, the HSC used its local funds to cover federal financial aid disbursements resulting in the loss of interest and use of those funds until reimbursement from the Department of Education was requested. With the passage of recent federal legislation, the HSC will be required to use the federal direct loan program to draw down student loan funds in the same manner as federal grants. Therefore, the HSC will be drawing down a significantly larger amount of funds (over $32 million) in the upcoming academic year.

Fiscal Operations Report and Application to Participate (FISAP)

The process for developing the HSC’s FISAP does not ensure the information reported to the Department of Education is accurate and supported. A review of the 2008-2009 FISAP found discrepancies and inconsistencies between amounts reported in
the FISAP and amounts in the HSC’s records. Reporting inaccurate information to the Department of Education increases the risk of inaccurate future federal funding.

Summary of Management’s Response

The Texas A&M University System Health Science Center (HSC) implemented the BANNER student information system because it was aware of the risk associated with not using an integrated system. BANNER added structure to many processes related to the administration of student records and enhanced the HSC’s ability to remain in compliance with federal and state laws and regulations. This review of our processes by the System auditors drew attention to administrative processes that need the same type of structure that ensures accountability, execution of duties, compliance, and documentation. The HSC is committed to implementing the controls necessary to ensure the efficient and effective use of resources.

Scope

The review of student financial aid at the Health Science Center focused on federal loans, state aid, institutional loans, cash management, reconciliations, verifications, and withdrawals. Activities related to these areas were reviewed for the period from June 2009 through February 2010. Audit fieldwork was conducted in February and March 2010.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Cash Management

Observation

The cash draw down process for federal financial aid funds did not ensure that draws were made on a timely basis. Thus, the HSC used its local funds to cover federal financial aid disbursements resulting in the loss of interest and use of those funds until reimbursement from the Department of Education was requested. Cash draw downs from the Department of Education were done infrequently, usually about twice per year for federal grant funds. With the passage of recent federal legislation, the HSC will be required to use the federal direct loan program for student loans. The direct loan program requires schools to draw down student loan funds in the same manner as the federal grants. The HSC will be drawing down a significantly larger amount of funds in the upcoming academic year in comparison to current amounts of approximately $180,000. Total federal funds to be drawn down from the Department of Education in academic year 2010-2011 are expected to exceed $32 million.

In the current academic year, it took between 9 and 287 days to draw down funds. A draw for the fall of 2009, totaling approximately $20,000, was not completed until the auditors requested to review draw down records in March 2010. Funds were not requested in a timely manner delaying reimbursement to the HSC for financial aid disbursements already made to students. The current draw down process does not have a comprehensive review to ensure all federal aid awarded and disbursed is equivalent to the funds drawn down. With the implementation of the new student information system, Banner, in academic year 2009-2010, the financial aid function was consolidated and new processes had not been fully established and assigned causing confusion about who was responsible for various steps of the draw down process. Establishing a comprehensive process and formally documenting and communicating procedures to all parties is important to ensure that all parties involved understand their responsibilities.
Recommendation

1. Cash Management (cont.)

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<td>Develop a comprehensive draw down process that ensures funds awarded and disbursed are requested from the Department of Education for reimbursement in a timely manner. Establish procedures that clearly communicate responsibilities for all parties involved in the process and monitor to ensure procedures are being followed.</td>
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Management’s Response

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<td>Management has developed a plan that assigns accountability for the notification of when amounts are available to be drawn down from the Department of Education (DOE) and has assigned the responsibility of drawing down funds to the Office of Student Business Services. Funds that are drawn have to be disbursed to students within three days of receipt. To ensure that this federal requirement is met, the Health Science Center will not draw funds until awards have been disbursed to a student’s account and the disbursement record is accepted by the DOE. Funds drawn from DOE using this schedule will arrive at the HSC before any funds are remitted to students as a result of overpayment of their accounts.</td>
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When Student Business Services initiates a draw down, a copy of the request is maintained for reconciliation purposes and forwarded to Finance & Administration so the receipt of funds can be confirmed. This process will be implemented in BANNER Workflow so all steps — notice to draw down funds, request of funds from DOE, and receipt of funds — can be tracked and maintained as a permanent record of the process and compliance with the DOE cash management regulations.

Implementation: The cash management process has been implemented. The target date for implementation of the BANNER Workflow structure is November 30, 2010.

2. Fiscal Operations Report and Application to Participate (FISAP)

Observation

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<th>The FISAP process does not ensure accurate reporting.</th>
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<td>The process for developing the institution’s FISAP does not ensure that the information reported to the Department of Education is accurate and supported. A review of the 2008-2009 FISAP found discrepancies and inconsistencies between amounts reported in the FISAP and amounts in the HSC’s records. Undergraduate tuition and fees were overstated by approximately $55,000. Graduate</td>
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tuition and fees were understated by approximately $887,000. The state grants and scholarships were understated by $1,500.

The annual FISAP reporting process did not include a documented reconciliation and verification of accuracy by both the Office of Student Financial Aid and Financial Services prior to submission. Reconciliations are necessary to identify differences between two or more sets of records or systems. Without a reconciliation to ensure all records and systems are in agreement and verification of final report amounts by all parties involved, the risk is increased that errors or discrepancies would remain undetected and not be corrected before the FISAP is submitted. The FISAP is prepared annually and submitted to the Department of Education to ensure continued funding for several federal programs. If the HSC submits inaccurate information, there is a risk that future federal funding would not be accurate.

**Recommendation**

Develop and implement a formal reconciliation process to ensure the accuracy of the data used to prepare the FISAP is in agreement with official financial records and the student information system. Develop and implement a process to maintain comprehensive records to support the numbers reported on the FISAP.

**Management’s Response**

The main reason for the implementation of the BANNER student information system was so that the HSC would have an integrated system for maintaining records for all students, regardless of location, that was consistent across the Office of the Registrar, Office of Student Financial Aid, and the Office of Student Business Services. Beginning in October of 2010, the Office of Student Financial Aid will prepare the FISAP in BANNER using parameters that meet regulatory guidelines and produce documentation to support all numbers reported.

In addition, reconciliation will be done at a minimum on a monthly basis for all federal and state accounts. Accounts will be reconciled between student awards, disbursements, refunds, posting to the general ledger, and the appropriate draw down of federal funds.

Implementation: The documentation of monthly reconciliations was implemented May 31, 2010 and verification of the process will be stored in the Banner Data Management System.
3. Withdrawal Process

Observation

The student withdrawal process does not ensure that all steps are completed through billing and collection for any student charges resulting from the withdrawal. The Offices of Student Financial Aid and Student Business Services have not established a comprehensive process to include timely notifications to students, proper collection procedures, retention of withdrawal documentation, and communication between the two departments. Documentation is not maintained throughout the withdrawal process to support that students were notified of the return of their financial aid and resulting balances due from the student to the HSC. In addition to implementation of the new student system and related process changes, there has been turnover in personnel involved in the withdrawal and return of funds procedures. Establishing comprehensive procedures for all departments involved, including record retention requirements, ensures that all parties involved understand their responsibilities and that information is communicated between departments and individuals in a timely manner.

Recommendation

Develop a comprehensive withdrawal process that ensures timely notification to students, collections of student receivables, and maintenance of all documentation involved with the process for evidence of its completion.

Management's Response

A formalized process for tracking student withdrawals was already under design in BANNER Workflow at the time of the audit review. The workflow process guides personnel at all levels to ensure that all necessary steps are followed, documented, and preserved. The review resulted in the HSC further enhancing the scope of the withdrawal process to include proper notification to the students of any financial impact the withdrawal may have had on them and their responsibilities related to that impact. Student Business Services is in the process of contracting with additional services for the servicing of past due accounts and has established a due diligence schedule to handle those accounts.

Implementation: The workflow process is in testing currently and targeted to be in production by August 31, 2010.
4. Emergency Loan Management

Observation

Procedures are not in place to ensure reconciling items are cleared in a timely manner.

The reconciliation process for student emergency loan accounts did not ensure that differences between the Financial Accounting Management Information System and the departmental loan records were resolved timely. Financial Services performed the reconciliations and notified Student Business Services if corrections were needed to resolve differences (reconciling items). However, corrections to loan records were not made by Student Business Services in a timely manner as reconciling items posted in August 2009 were still outstanding in January 2010. An effective reconciliation process includes monitoring procedures to ensure that reconciliations are completed and the reconciling items are cleared in a timely manner. Without adequate review and monitoring procedures the risk is increased that errors or discrepancies would not be detected and corrected.

Recommendation

Establish reconciliation processes that ensure that corrective actions are completed in a timely manner and emergency loan records are accurately maintained.

Management's Response

Emergency loans will be reconciled monthly to account for any accrual of interest or other charges and serviced according to the due diligence schedule established to handle these accounts. The HSC is revising its Emergency Tuition Loan promissory note to charge a flat fee of $25.00 for a student to receive an emergency loan. HSC legal counsel is reviewing the promissory note to ensure that it complies with all federal and state laws and regulations.

Implementation: The new promissory note is currently under review by HSC legal counsel. The target date for the revised form to be available for use is August 31, 2010.

5. Scholarship Procedures

Observation

The HSC has not established procedures for retaining documentation to support scholarship awards.

The HSC does not have procedures outlining the type of required documentation to be maintained at the department level for scholarship awards. Departments are responsible for managing and awarding scholarships. Without comprehensive procedures to guide
5. Scholarship Procedures (cont.)

departments the risk is increased that records are not retained to support scholarship awards. The awarding of scholarships is a more subjective process than the awards for grants and loans, which are primarily based upon need. Procedures for consistent documentation and records retention to support scholarship decisions would be a proactive step by the HSC to reduce risk and enhance accountability. Without formal administrative procedures, scholarships may not be made on an objective basis or meet donor intent.

Recommendation

Develop comprehensive procedures that define the type of documentation that departments should maintain to support scholarship awards.

Management’s Response

The HSC has a distributed model of scholarship administration. In this model, the Office of Student Financial Aid only processes awards to students at the request of the awarding department. The HSC is revising an existing internal policy, 13.03.99.Z1.01, Scholarship Compliance Committee, to include the minimum acceptable standards for the promotion of opportunities, collection of applications, review of applications, selection of recipients, and documentation that each department awarding scholarship funds must maintain.

Implementation: The revised Scholarship policy is currently being distributed to departments for comment. The target date to present this policy to the HSC Executive Committee for approval is August 31, 2010.
BASIS OF REVIEW

Objective

The objective of the review was to evaluate the financial and management controls over the Health Science Center’s student financial aid system to ensure resources are used efficiently and effectively and in compliance with laws, policies, regulations, and Health Science Center rules.

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 Code of Regulations and the Federal Student Financial Aid Handbook; the Texas A&M University System Health Science Center’s 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 Texas A&M University System Health Science Center is an assembly of colleges devoted to educating health professionals. The HSC consists of a headquarters office and seven components: Baylor College of Dentistry; College of Medicine; College of Nursing; Graduate School of Biomedical Sciences in Dallas, College Station, and Houston; Institute of Biosciences and Technology; Irma Lerma Rangel College of Pharmacy; and the School of Rural Public Health. Approximately 1,850 students were enrolled at the HSC during academic year 2008-2009. A large percentage of students, 88%, received some type of student financial aid which highlights the importance of student financial aid for this institution and its students. The HSC implemented a new student information system, Banner, during academic year 2009-2010 for more efficient and effective management and delivery of student financial aid.
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