

**An Audit Report on Student Financial Aid
at Four-Year State Universities**

May 26, 1999

Members of the Legislative Audit Committee:

Financial aid offices need to improve the way they deliver aid to Texas students. Based on audit work at two state universities and survey results from 34, financial aid offices may not be prepared for the increasing financial need of students enrolling in Texas universities.

- In one audit we noted inefficient business practices that caused delays in the delivery of funds to eligible students.
- In both audits we noted program accounts that did not accurately reflect the total monies available to students.
- Our survey of 34 financial aid offices at four-year state institutions found varying levels of resources and support for delivering assistance monies to students. These differences indicate that some offices may not have the tools needed to adequately assist students now or in the future.

Currently about 40 percent of Texas students receive approximately \$2.3 billion allocated each year in state and federal student financial aid.

Texas' Need for Financial Aid Is Growing

Since 1985 college tuition and fees in Texas have increased 450 percent. Student tuition and fees accounted for about 14 percent of university revenue in 1986 in Texas. A decade later, the students' portion had risen to 21 percent.

Financial aid to Texas students has increased 38 percent between fiscal years 1992 and 1996. Aid of all types averaged only \$2,700 per enrolled student (about one-fourth the amount a typical full-time student pays at a public university).

Texas enrollment forecasts project a 12.3 percent increase between 1997 and 2010 with about 125,000 to 135,000 new students entering Texas public higher education institutions each fall.

Sources: The Comptroller of Public Accounts and the Higher Education Coordinating Board

How Is the University of Houston - Downtown Performing?

Management of the Office of Scholarships and Financial Aid (Office) at the University of Houston - Downtown (University) does not monitor whether its business activities are effective or efficient. As a result, financial aid funds of \$110,145 for 39 eligible students (56 percent of a sample tested) were delayed an average of 66 days. Delays occurred because of undetected processing backlogs. Monitoring activities are essential given that the Office plans to distribute more than \$12.6 million to over 30 percent of the University's students during fiscal year 1999.

Additionally, complete account data needed to manage financial aid programs was missing three months into fiscal year 1999. Thus, management cannot be sure of the total funds available for students.

How Is The University of Texas at El Paso Performing?

Management of the Office of Student Financial Aid at The University of Texas at El Paso (University) appears to monitor its operations well. However, Scholarships Office management does not know if all funds on hand were awarded. Although \$1.5 million was awarded in scholarships for fiscal year 1998, Office management has not fully reconciled its 350 scholarship accounts since June 1998. While we did not detect inappropriate activity during our audit, the risk of loss or wrongdoing increases greatly when controls over funds are not adequate.

Additionally, the current Scholarships Office has been in place about a year, yet its role is not clear. Both the Scholarships Office and the Office of Student Financial Aid provide scholarships that consider a student's financial need. Also, at the time of our audit, no information about the Scholarships Office or its scholarships was readily available to potential or current students on the University's otherwise comprehensive and informative website.

In contrast, the Office of Student Financial Aid has adopted several business practices to help meet students' needs. The Office's website has comprehensive financial aid information and an on-line financial aid application. The Office also participates in community outreach workshops and has initiated "one-stop" loan counseling sessions in which counselors educate students and process applications at the same time. The Office of Student Financial Aid distributed more than \$29 million to over 48 percent of the University's students in fiscal year 1998.

What Do Financial Aid Offices at 34 Four-Year State Universities Have to Say?

Survey responses from 34 state financial aid offices highlighted that all Texas State universities should evaluate their financial aid functions to find out how they can improve (See Attachment A). Currently, 47 percent of the offices do not evaluate their processes. Also, the documentation of policies and procedures is critical in the State's financial aid offices, in which average turnover for fiscal year 1998 was 24 percent, well above the State's average of 17 percent. The survey responses revealed other areas that need attention:

- Only 64 percent of students have their aid processed by the first day of classes.
- The last official student loan default rate (fiscal year 1996) for Texas is nearly 14 percent compared to the national average of 9.6 percent. Yet, 12 percent of the respondents reported not using processes or activities to help manage loan default rates. Sixty-seven percent of aid offered to Texas students is in the form of loans.
- All respondents reported having mostly automated or a combination of automated and manual processes. Over 68 percent of the respondents indicated that automating a process has made their office more efficient.

How Can Financial Aid Offices Improve Their Business Practices?

The following good business practices will help financial aid offices improve the delivery of funds to students:

- Regularly evaluate and monitor business processes to determine if they are meeting student needs and institution goals. Use self-assessment tools and performance measures (such as 'Time to Process a Completed Student File,' 'Percentage of Students Who Apply and Are Awarded by the First Class Day,' and 'Percentage of Time Spent on Manual Activities') to identify improvements needed in daily operations.
- Determine where automation can help improve the efficiency and effectiveness of disseminating information to students and in processing and administering financial aid. Examples include websites with on-line financial aid instructions, application forms, and common questions and answers; programs that award financial aid packages based on students' information; and automated reconciliations of account data that detect differences between information systems.
- Adopt practices to manage or prevent loan defaults. Analyze the traits of borrowers who default to adjust the awarding process and reduce the risk of future defaults. Improve the

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loan education provided to students to help borrowers better understand their long-term loan obligations. Implement a default management or prevention plan with dedicated resources to help lower default rates.

We provided specific recommendations to the University of Houston - Downtown and The University of Texas at El Paso. (See Attachments B and C). The universities concurred with our recommendations and have agreed to implement them.

We appreciate the universities' cooperation. If you have any questions, please contact Valerie Hill, Audit Manager, at 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachments

cc: Dr. Diana Natalicio, President
The University of Texas at El Paso

Dr. Max Castillo, President
University of Houston - Downtown

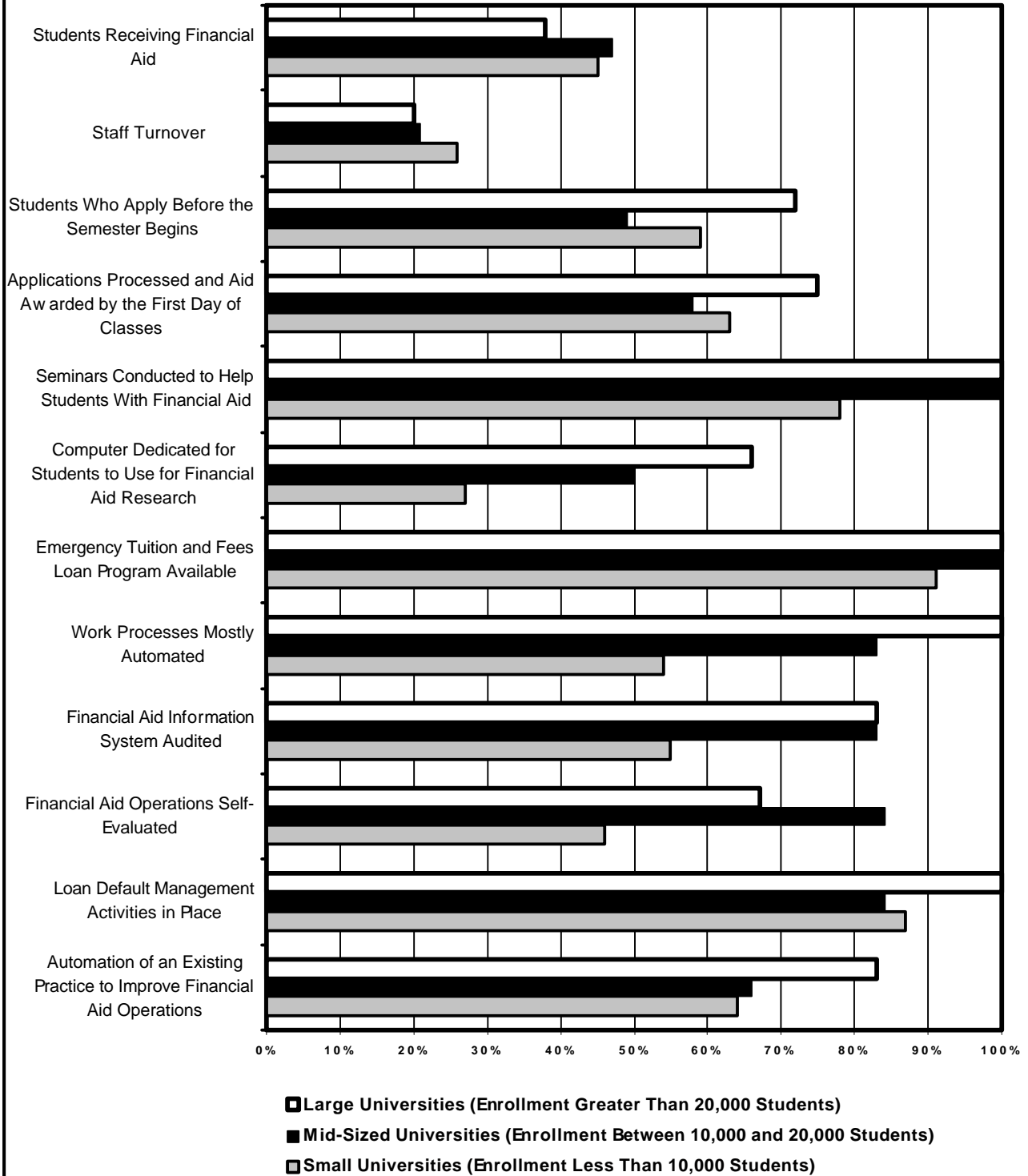
Objective, Scope and Methodology

Our objective was to determine if financial aid offices efficiently and effectively meet the needs of students and the goals of the offices.

Our scope included a review of the processes used by the offices to establish and implement policy, evaluate daily operations and staff, and manage and safeguard information and resources.

We performed our audit work by interviewing staff members, reviewing documents, conducting observations, performing analyses, and testing transactions and management processes. Additionally, we surveyed 34 directors of financial aid offices at four-year state universities and received a 100 percent response. We performed fieldwork between November 1998 and April 1999. All work conducted was in accordance with *Government Auditing Standards*.

Survey Responses from Financial Aid Offices About Fiscal Year 1998 Business Practices at 34 Four-Year State Universities



ATTACHMENT A

Survey Responses from Financial Aid Offices at 34 Four-Year State Universities

Our survey was sent to financial aid offices at all four-year state universities. The purpose of the survey was to gather information about the operations of Texas State financial aid offices. The following list reflects the schools that received and responded to our survey.

Small Universities (Enrollment Less Than 10,000 Students)

Tarleton State University (A&M)
Prairie View A&M University
Texas Southern University
Texas A&M University - Galveston
Texas Woman's University
Texas A&M University - Kingsville
Lamar University - Beaumont
Midwestern State University
Angelo State University
The University of Texas at Dallas
The University of Texas of the Permian Basin
The University of Texas at Brownsville
The University of Texas at Tyler
Texas A&M University - Commerce
Sul Ross State University
West Texas A&M University
University of Houston - Clear Lake
Texas A&M University - Corpus Christi
Texas A&M International University
Texas A&M University - Texarkana
University of Houston - Victoria Center
University of Houston - Downtown

Mid-Sized Universities (Enrollment Between 10,000 and 20,000 Students)

The University of Texas at Arlington
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas at San Antonio
Sam Houston State University
Stephen F. Austin State University

Large Universities (Enrollment Greater Than 20,000 Students)

Texas A&M University - Main
The University of Texas at Austin
University of Houston
Texas Tech University
University of North Texas
Southwest Texas State University

Detailed Audit Findings for the Office of Scholarships and Financial Aid at The University of Houston - Downtown

While the Office of Scholarships and Financial Aid (Office) at the University of Houston - Downtown (University) has activities in place to process and award financial aid, Office management does not monitor whether these activities are effective or efficient. For example, some eligible students did not receive their financial aid in a timely manner due to undetected processing delays. Such monitoring activities are especially important given that the Office plans to distribute more than \$12.6 million in financial aid funds to over 30 percent of the University's student body during fiscal year 1999. Office management needs to improve its oversight of daily operations significantly. Improvements in this area will give management of the Office and the University better assurance that processes are efficient and goals are being achieved.

Oversight Improvements Should Address the Following Audit Concerns:

- The Office has not developed procedures or internal measures to monitor daily processes and operations. For example, the Office does not track how promptly counselors process financial aid. According to an internal work distribution list dated November 24, 1998, 70 students' files had been ready for processing for at least 30 days. Of those files, 26 had been ready for 60 days or more. A single counselor was responsible for at least 65 percent of the files that had been ready for 60 days or more.
- Financial aid funds of \$110,145 due to eligible students were not disbursed in a timely manner as a result of processing delays. Of the 70 students' files that had been ready for processing for 30 days or more, 39 were eligible to receive financial aid awards for the fall semester. However, those 39 eligible students had to wait an average of 66 days for their files to be processed by an Office counselor.
- Financial account data used by the Office to administer state and federal financial aid programs is not always accurate. For example, there was a \$38,424 discrepancy between the amount of an account balance that was provided to the Office by Business Services and the amount reflected in the University's Financial Reporting System. Three months into fiscal year 1999, complete beginning balances, transactions, and adjustments were absent for the Office's accounts in the University's Financial Reporting System. Consequently, Office staff members have developed separate interim tracking systems to monitor account information. Such interim activities are not efficient operational practices. The accounting system also reflected the name of the former Office director as the person responsible for the accounts.

- Office management has not adequately identified and/or addressed risks present in its operations.
 - The University's default rate is close to the level at which federal requirements for default reduction would be triggered. Its last official default rate of 19.6 percent is twice as high as the national average of 9.6 percent for the same time period (fiscal year 1996). Although the Office filled the position of Default Management Clerk two months ago, formal roles and responsibilities had not been established for the position at the time of our audit. The defined goal of the position is to reduce student loan defaults by maintaining a default management plan. However, Office management has not formalized a current default management plan.
 - Office management has not provided staff members with adequate guidelines to ensure that they consistently and appropriately perform their job duties. Audit test work revealed instances of process inconsistencies, as well as incomplete and incorrect information entered by Office staff members into the financial aid information system. The Office does not have a comprehensive set of policies and procedures, and some tasks performed by Office staff members do not have documented procedural steps.
 - The Office is at risk of not complying with federal regulations because of insufficient training. Only four of the seven Office staff members currently processing students' financial aid files reported that they had received professional financial aid processing and regulation training in the past year. With some Office staff members in their present positions for a year or less, and with federal regulations on Title IV Student Financial Aid programs changing frequently, training in the complexity of financial aid processes and regulations can be critical to the effectiveness of the department.
 - Scholarship funds received directly by the Office are at risk because controls are inadequate. One Office staff member is solely responsible for receiving the funds in the mail, receipting the funds, delivering them for deposit, and maintaining all records of the scholarship funds received, disbursed, and on hand.

The objective of our audit was to determine if processes used by the Office of Scholarships and Financial Aid (Office) are efficiently and effectively meeting the needs of the students and the goals of the Office.

The scope of our audit included a review of the processes used by the Office:

- To establish and implement policy
- To evaluate daily operations and staff
- To manage and safeguard information and resources

The methodology used on this audit included interviewing staff members, reviewing documents, conducting observations, performing analyses, and testing transactions and management processes. Fieldwork was performed between November and December 1998. All work was conducted in accordance with government auditing standards.

There were several other issues of lesser significance identified during the audit. A document containing the details of those issues and the ones identified in this letter, along with recommendations, has been shared with the University of Houston System Internal Audit Director, the Office's Director, and other relevant University departments.

Management's Response:

We concur with the recommendations included in your report on the Office of Scholarships and Financial Aid (Office) at the University of Houston - Downtown. The Office has taken action or plans to take action to improve oversight of daily operations in the Office as follows:

The Office has added two new computer fields to store data regarding file review and packaging. Counselors will now enter the date of original file review and the date of original packaging. This will allow for more detailed tracking and follow-up in student applicant data. We plan to establish performance measures for the Office by October 31, 1999.

The Office staff has been trained to use the financial accounting system (FRS), how to research items and how to verify their accounts. The Budget Office has been instructed to enter financial account data at the beginning of the fiscal year and update it throughout the year for projected accounts, such as TPEG, where values are affected by enrollment figures. The Financial Accounting Department has been instructed to provide a final dollar figure for the fiscal year by August 31st when appropriate. The accounting system now reflects the name of the new director.

The Office is drafting new Default Management Plan, which will be completed by August 31, 1999. The Default Management Clerk's job description is also being updated and will be completed by August 31, 1999. We were pleased to recently receive the U.S. Department of Education's draft default rate calculation for fiscal year 1997 which indicates a reduction of the default rate to 14.3 percent.

We have reorganized our office structure to allow for more specialization. For example, the loan department will no longer be responsible for processing student folders due to an already full workload and greater than average student contact. By allowing the counselors to specialize, we should decrease the number of inconsistencies. Our front area supervisor has been assigned the responsibility of investigating possible oversights in file processing, i.e., students whose tracking dates appear out of line with our processing standards. The Office will modify its policies

and procedures manual to address these changes in organizational structure and assignment of duties by August 31, 1999.

The Office plans to conduct on-site training for all full-time and part-time staff. The Office has also requested additional funds to take advantage of off-site training provided by outside entities. We plan to have all Office staff members undergo at least 8 hours of continuing professional education by October 31, 1999.

The Office has implemented a policy of two full-time staff members initialing the receipt of any check received in the office. These procedures now require all checks received in the mail to be delivered immediately to the director or director's designee in order to help ensure proper segregation of duties within the Office.

We appreciate the comments and suggestions made by your staff during this review. Please let me know if you have any questions on the actions we have taken or planned to take in response to audit concerns pointed out in your report. Thanks for your assistance.

Detailed Audit Findings for The Office of Student Financial Aid and the Scholarships Office at The University of Texas at El Paso

The Office of Student Financial Aid and the separate Scholarships Office at The University of Texas at El Paso (University) have processes in place to provide financial assistance to students. The management of the Office of Student Financial Aid appears to monitor its operations well. However, the management of the Scholarships Office does not know if all available funds were awarded because it has not fully reconciled its scholarship accounts since June 1998.

Focus Improvements Efforts on the Scholarships Office

The Office of Student Financial Aid distributed more than \$29 million to over 48 percent of the University's students in fiscal year 1998. In addition to its monitoring activities, management of the Office has adopted several business practices that help meet students' needs. The Office's website has comprehensive financial aid information and an on-line financial aid application. The Office also participates in community outreach workshops and has initiated unique loan counseling sessions aimed at educating students and processing student loan applications in a "one-stop" manner.

Given that the Scholarships Office awarded \$1.5 million from 350 scholarship accounts for fiscal year 1998, Office management should reconcile its accounts. Eight scholarship accounts had a negative balance totaling nearly \$7,000 at the end of fiscal year 1998. As of February 28, 1999, 17 scholarship budget account groups were in overdraft status totaling over \$32,000. Original budget amounts are not used for scholarship accounts, which makes the determination of account status difficult. While we did not detect inappropriate activity, the risk of loss and possible wrongdoing increases greatly when adequate controls are not in place over monetary assets. Thus, management of the Scholarships Office should review the status of its accounts on a regular basis and follow up with documented resolution of overdraft items. University management should also determine whether similar situations are occurring in other departments and strengthen account management practices where appropriate.

The current Scholarships Office has been in existence for about a year, yet its role needs to be more clearly defined. At the time of our audit, no information about the Scholarships Office or its scholarships was readily available to potential or current students on the University's otherwise comprehensive and informative website. Additionally, the Scholarships Office and the Office of Student Financial Aid both provide scholarships that consider a student's financial need. To ensure that students understand where to go to for financial aid, University management should better communicate the existence and the role of the Scholarships Office. We also encourage University management to evaluate the effectiveness of having two separate offices that appear to perform similar activities regarding scholarships for students with financial need. This situation could be confusing to students and could result in missed scholarship opportunities.

The objective of our audit was to determine if processes used by the Office of Financial Aid and the Scholarships Office efficiently and effectively meet the needs of the students and the goals of the offices.

Our scope included a review of the processes used by the offices to:

- Establish and implement policy
- Evaluate daily operations and staff
- Manage and safeguard information and resources

During our audit work we interviewed staff members, reviewed documents, conducted observations, performed analyses, and tested transactions and management processes. Fieldwork occurred in February 1999. All work conducted was in accordance with government auditing standards.

There were other concerns of lesser significance identified during the audit, including two compliance issues. A document detailing of all our concerns, along with recommendations, has been shared with the University's Interim Internal Audit Director, the Vice-President for Student Affairs, the Vice-President for Finance and Administration, the Assistant Vice-President for Enrollment Services, and the Directors of both offices reviewed.

Management's Response:

We appreciate the opportunity to respond to the May 25, 1999 management letter submitted to Dr. Diana Natalicio. We agree with the audit concerns stated in the letter and offer the following:

Recommendation:

Given that the Scholarships Office awarded \$1.5 million from 350 scholarship accounts for fiscal year 1998, Office management should reconcile its accounts.

Management's Response:

In March 1999, a part-time employee was hired to assist with the Scholarships Office manual account reconciliation process. While some scholarship accounts have been reconciled, given the volume of transactions involved, all scholarship accounts will not be fully reconciled until August 31, 1999. The Scholarships Office is working with the Financial Services and Information Technology Services Departments to develop an automated reconciliation process. This will greatly facilitate the reconciliation of Scholarship accounts.

Recommendation:

Management should review the status of its scholarship accounts on a regular basis and follow up with documented resolution of overdraft items. University management should also determine whether similar situations are occurring in other departments and strengthen account management practices where appropriate.

Management's Response:

The University uses the UT Austin accounting system for all financial processes. This system contains a fund availability checker that will not allow transactions to process if they will create an overdraft. This feature provides sufficient controls to ensure that an overdraft will not occur during the normal course of business. However, the system does allow authorized accounting personnel (i.e.: Comptroller, Associate Comptroller, and Budget Manager) to override the hard audit on an exception basis.

Scholarship accounts are deliberately allowed to overdraft, in anticipation of endowment earnings and gifts pledged, so that student enrollment is not negatively affected. This is critical, because the vast majority of our students require financial assistance in order to pursue their educational endeavors. In an effort to provide stronger controls in this area, we will budget expenditure authority for endowed and gift scholarship accounts effective September 1, 1999.

While the need to authorize overdrafts on an exception basis will continue, in August 1999, an internal policy, outlining general overdraft procedures, will be distributed to affected personnel. Effective August 31, 1999, the Budget Office will also develop a monthly report identifying overdraft balances and will follow up with departments for documented resolution.

Recommendation:

University management should better communicate the existence and the role of the Scholarships Office. We also encourage University management to evaluate the effectiveness of having two separate offices that appear to perform similar activities regarding scholarships for students with financial need.

Management's Response:

A separate Scholarships Office was created to expand customer service efforts by fostering closer relationships with scholarship recipients. Equally important in the decision to create a separate Scholarships Office was the desire to strengthen relationships with scholarship donors. The University places great value on its relationship with donors. Collaboration between the Scholarships Office and the Office of Development has been enhanced through the reorganization. A mission statement, goals and objectives, budget requests and other related documents pertaining to the reorganization have now been assembled and are on file with the Assistant Vice President for Enrollment Services.

Strategies to better communicate the existence and role of the Scholarships Office have been implemented. They include signage, participation in University-wide events and an updated and more readily accessible Scholarship website. The development of a separate Scholarship brochure and publication in the student newspaper are in progress. We will continue to monitor and evaluate the effectiveness with which the Financial Aid and Scholarships Offices achieve their goals and objectives.