

March 1, 1995

Dr. Samuel A. Kirkpatrick, President
The University of Texas at San Antonio
6900 N. Loop 1604 West
San Antonio, TX 78285

Dear Dr. Kirkpatrick:

The University has established a system to ensure compliance with most federal regulations for its *Federal Family Education Loan* (\$17.7 million) and *Federal Pell Grant* (\$5 million) programs, and this system is generally working. The system helps ensure that the University properly administers the programs and will continue to receive federal funding. However, a control environment weakness exists in the Student Financial Aid Office. The University should improve internal controls to address the nine issues included in this report. This includes revising the satisfactory academic progress policy and separating the duties of processing and receiving loan checks.

Additionally, the prior year data processing issue involving access controls has not been completely resolved. The University should improve controls to adequately restrict access to the student records system.

The attached findings and University responses will appear in the *1994 Financial and Compliance Audit Results* report. This report contains the audit results of all agencies and universities we audited during the statewide financial and compliance audit.

When this report is published in May 1995, copies will be distributed to the board chairperson and executive director or chancellor and president of each agency and university included. Additional copies can be obtained from Production Services at (512)479-4700.

A copy of this letter has been sent to each board member. If you have any questions, please call me at (512)479-4700.

Sincerely,

Brenda Thompson, CPA
Project Manager

cc: Mr. J. Richard Dawson, CPA, Director of Internal Audit
The University of Texas at San Antonio
Mr. Charles Chaffin, CPA, Director of Internal Audit
The University of Texas System

SAO Report No. 95-074

Key Points of Report

The University of Texas at San Antonio 1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The University is generally complying with the federal regulations relating to its *Federal Family Education Loan* (\$17.7 million) and *Federal Pell Grant* (\$5 million) programs. However, a control environment weakness exists in the Student Financial Aid Office. The University should improve internal controls to address the nine issues included in this report data processing.

Key Facts And Findings

- A control environment weakness exists in the Student Financial Aid Office. Nine significant issues, as well as other contributing factors, were identified. The University received a total of \$22.7 million in federal funds for its Federal Family Education Loan Program (FFELP) and Federal Pell Grant Program for fiscal year 1994.
- The University's student records system is not adequately restricted. Passwords for access to the student records system are not required to be changed regularly. Also, the notification procedures in place do not consistently ensure that access capabilities of a departing employee are immediately removed.
- The University's student financial aid satisfactory academic progress policy should be revised. The incremental progress standard does not ensure that a student's progress is sufficient to obtain a degree within the maximum time frame. During fiscal year 1994, 5,391 students received FFELP loans and 3,569 received Pell Grants.
- The University's Student Financial Aid Office should not receive loan proceeds from the lenders. Student Financial Aid personnel could process loans and retain the loan proceeds. In fiscal year 1994, the University processed \$17.7 million in FFELP loan checks.

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Internal Control Issues

Internal Control Issue 1:

Strengthen the Control Environment of the Student Financial Aid Office

A control environment weakness exists in the Student Financial Aid Office at the University. Vacancies in the Director and Assistant Director positions, high turnover rates, and outdated policies and procedures are all contributing factors to the control environment weakness. During the audit, 16 issues were identified, 9 of which were significant enough to be included in this report. The control environment reflects the overall attitudes, awareness, and actions of management concerning the importance of and its emphasis on controls. A weakness in the control environment increases the risk that unintentional mistakes and intentional improprieties could occur and go undetected within the department.

Title 34 of the Code of Federal Regulations (CFR), section 668.14, states that for an institution to continue to participate in any federal financial aid programs, the institution must demonstrate that it is capable of administering the federal programs. A strong control environment within the department is essential to ensure that the financial aid programs are properly administered. Management is responsible for establishing and maintaining control systems which provide reasonable assurance regarding compliance with state and federal regulations.

Recommendation: We recommend that the University strengthen the control environment of the Student Financial Aid Office by hiring a financial aid director and by updating policies and procedures to ensure compliance with federal regulations.

Management's Response: *The Assistant Director was away from the office for six weeks due to a family medical emergency. The Assistant Director has returned to full time work since the audit was completed. An Associate Director with many years of financial aid experience was hired and reported for work the week of the audit. The search for a Financial Aid Director was opened three times in the last two years. An offer was made but was rejected. A search for a Director of Financial Aid for UTSA will be opened in February with an aim to hire in late Spring. These actions will give the stability and oversight required to operate a strong and efficient Financial Aid Office.*

This past year we worked with GTE to install an Imaging System, but they were unable to fulfill their contract. We will once again this year begin working with an outside contractor to install an Imaging System that will function throughout the whole financial aid process from application to awarding. We have made significant progress in the procedures and operational policies of the Financial Aid Office and will continue to monitor and improve on the procedures and policies of the operation of the office to provide assurance that we are in compliance with State and Federal regulations.

The university's internal auditor will monitor all areas in which Findings were noted and will work closely with Financial Aid administrators to improve and monitor all functions within the office.

Internal Control Issue 2:

Restrict Access To Student Records System

(Prior Audit Issue)

Although progress has been made since the 1990 fiscal year statewide audit, access to the University's student records system is still not adequately restricted. Passwords for access to the student records system are not required to be changed regularly, and the notification procedures in place do not consistently ensure that access capabilities of a departing employee are immediately removed. Since access is not adequately restricted, if a user were to secure another's password, it would be possible to gain access to the update capabilities of that second user.

Progress has been made in resolving the prior finding by the installation of RACF, an access security software package, and by the restriction of programmer update access to the student records system. RACF requires passwords for the initial access to the computer system to be changed in a timely manner.

Because the system stores confidential student information, strong access restrictions are essential to prevent corruption of information. In addition, access capabilities should be removed immediately after an employee leaves the University.

Recommendation: We recommend the further restriction of access to the student records system by instituting required password change intervals. In addition, the University's employee exit procedures should include prompt notification to the computer security administrators.

Management's Response: *The programming necessary to enforce periodic changes of ISIS passwords has been completed. It will be implemented in the production system at the end of this calendar year and the parameters will be set to require a change of password every 45 days. The change will be on the same schedule as the required change of the RAC-F password.*

The Office of Information Technology is informed when an employee leaves the University or is assigned to a different department, but there is frequently a delay of a week before this information is made available to the computer security administrators. We will work with the Human Resources department to make it possible to get this information at the time of the exit procedure. We will also request that the personnel in the employee's home department inform us by electronic mail as soon as it becomes clear that the employee will be leaving so that we have the first possible notice and can adjust the security in a more timely manner.

Federal Compliance Issues

Recommendations addressed in other sections of this report impact controls over federal funds, especially for the University's most significant federal programs which are funded by the U.S. Department of Education.

Federal Compliance Issue 1:

Revise Satisfactory Academic Progress Policy

The University's student financial aid satisfactory academic progress policy should be revised. The policy's incremental progress standard does not ensure that a student's progress is sufficient to obtain a degree within the maximum time frame.

Title 34 of the Code of Federal Regulations (CFR), section 668.16, states that the policy must include a schedule that designates the minimum amount of work that a student must successfully complete at the end of each increment to complete an educational program within the maximum time frame.

Recommendation: We recommend the University revise its student financial aid satisfactory academic progress policy to comply with federal regulations. The policy's incremental progress policy should designate the amount of work that a student must complete for each increment in order to successfully finish the program within the maximum time frame.

Management's Response: *The University's policy stated a requirement of 10 hours per long semester to comply with Federal Regulations for the purpose of monitoring grade point average and successful completion of graduation requirements. While the policy did not specifically state so, it was assumed that additional hours would be accumulated through summer enrollment. In response to the Finding, the University will revise its stated policy to fully comply with Federal regulations, and will implement procedures that ensure that students receiving financial aid complete their degree program within the stated maximum time frame.*

The revised policy will specify that a full-time student must complete 24 semester credit hours per academic year (adjusted accordingly for other categories of enrollments).

Federal Compliance Issue 2:

Student Financial Aid Office Should Not Receive Loan Proceeds From Lenders

The University's Student Financial Aid Office should not receive loan proceeds from the lenders of the *Federal Family Education Loan Program (CFDA 84.032)*. The office both processes the loan applications and receives the loan proceeds from the lenders. This increases the risk that office personnel could process unauthorized loans and retain the loan proceeds when they are received.

Title 34 of the Code of Federal Regulations (CFR), section 668.14(d)(1)-(2), requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

Recommendation: We recommend that the Student Financial Aid Office not receive loan checks. All loan checks should be delivered directly from the lenders to the Bursar's Office, which should continue disbursing these checks to borrowers.

Management's Response: *The University concurs with State Auditor's recommendation that Federal Family Education Loan Program (FFEL) checks should be received by the Bursar's office and not the Financial Aid Office. Implementation of this new procedure will begin immediately by notifying the many lenders that submit FFEL checks to the University. It is not known at this time how quickly these various institutions can change the mailing/delivery address for UTSA, and until that time, checks will continue to be received in the Financial Aid Office. There is a concern that changing our present procedure may have a negative impact on customer (student) service, and this new procedure must be evaluated over the next six months.*

Federal Compliance Issue 3:

Award Proceeds May Not Be Withheld

The University may not withhold award proceeds from *Federal Pell Grant Program (CFDA 84.063)* and *Federal Family Education Loan Program - FFELP (CFDA 84.032)* recipients for payment of noneducational university obligations. Current University check disbursement procedures inappropriately require payment of any outstanding university obligations before a student may receive his or her loan proceeds.

Institutions may not withhold award proceeds from *Federal Pell Grant Program* and *FFELP* recipients who meet the eligibility requirements as set forth in *Title 34 of the Code of Federal Regulations (CFR), sections 682 and 690*. Payment of outstanding university obligations is not one of the eligibility requirements for distribution of award proceeds.

Recommendation: We recommend that the University not withhold federal award proceeds from students who have outstanding university obligations. There are alternatives that the University may utilize for the collection of student's outstanding obligations. These alternatives include restricting registration, withholding grades, or notifying a collection agency.

Management's Response: *The University concurs with the State Auditor's recommendation that only educational costs can be collected from Federal Financial Aid programs. University obligations such as parking fines and library fines shall be collected separately from the Disbursement of Federal financial aid program funds. The holds presently entered on a student's account will not*

be liquidated using proceeds from federal programs unless the student voluntarily offers to pay at that time. This may cause students unnecessary delays in the advance registration process if these obligations are not cleared at the time of disbursement, but then that should encourage the voluntary payments.

Federal Compliance Issue 4:

Maintain Student Files

The University is not adequately maintaining student files to support the disbursement of federal financial aid. Several documents could not be located during the audit, other documents had not been properly filed, and the disbursement date of financial aid to the students is not recorded. Inadequate filing practices make it difficult to determine compliance with federal program requirements and could result in disbursements of funds which are not properly supported.

Twelve percent (3 of 25) of the entrance counseling forms requested could not be found, and 30 percent (6 of 20) of the exit counseling forms could not be found. There were also six instances in which no date was recorded on the check authorization form, and one instance in which a check release form was not located. Many documents related to the *Federal Family Education Loan Program* (CFDA 84.032) for the 1993-1994 award year, which ended in May 1994, had not been properly filed as of November 1994. In addition, the University does not record the date that financial aid is disbursed to the students.

Title 34 of the Code of Federal Regulations (CFR), section 668.23 (f)(1)-(3), requires institutions administering federal financial aid programs to establish and maintain, on a current basis, adequate student records. Section 682.610 (b) requires the university to maintain the date of transmittal of Federal Family Education Loan proceeds by the school to the student. In addition, section 690.81 requires financial records to reflect all Federal Pell Grant Program transactions, which includes the date of each payment to the student.

Recommendation: We recommend the University maintain student files on a current basis to support the disbursement of federal financial aid. All unfiled documents relating to financial aid recipients should be filed, and all filing should be kept current. In addition, the University should implement procedures to record the date that students actually receive their financial aid.

Management's Response: *It is the policy of the Financial Aid Office to file all documents pertaining to a student in the student's folder with the exception of the disbursement release forms. The frequency in which these forms are accessed made it necessary to keep them separated from the files temporarily. Although this is not a violation of the Department of Education regulations, in order to more efficiently serve students and the University we have filed the release forms in the students' files and will continue this practice. As discussed in [Federal Compliance Issue 5] the disbursement release forms*

will be initialed and dated by the Bursar's Office as of the date the check is delivered to the student.

The Exit Counseling Forms could not be located in some cases due to weak procedures sighted in [Federal Compliance Issue 6]. We have instructed the front line to ensure that all students who withdraw from the University complete the exit process, then front line personnel will appropriately document the file. We have already strengthened the exit interview process for students graduating from the University and will document the students' files accordingly. Each semester Exit Interview Packages will be mailed and documented to all students who cease to be enrolled at least half-time. We believe the new procedures developed in response to [Federal Compliance Issue 6] will adequately document the students' files.

Regarding reference to Entrance Counseling Forms, eighteen months ago we changed the way we receipted documentation at the front counter. For most documents received we enter the document received date on our document tracking system and print a copy of the screen and give this to the student as a receipt. This procedure was apparently being used for documenting the completion of entrance counseling. This has been corrected and the front desk staff has been reinstructed on proper procedure which should eliminate further occurrence of not completing the Entrance Counseling Form.

Federal Compliance Issue 5:

Distribute Loan Proceeds At Prescribed Times

The University is distributing *Federal Family Education Loan Program (CFDA 84.032)* proceeds to students earlier than ten days before the first class day. Twenty-four percent (6 of 25) of the student files tested did not indicate that loan proceeds were not released to the student prior to ten days before the first class day. In five of the six files, the date recorded on the check release form was earlier than ten days before the first class day. For one of the six files, the release date was not recorded on the check release form. Early distribution of loan proceeds increases the risk of payment to ineligible students.

Title 34 of the Code of Federal Regulations (CFR), section 682.604 prohibits an institution from delivering loan proceeds to a registered student earlier than ten days before the first day of classes.

Recommendation: We recommend the University distribute loan proceeds at prescribed times. The University should not distribute loan proceeds earlier than ten days before the first class day. In addition, procedures should ensure that release dates are recorded on check release forms.

Management's Response: *Loan proceeds will not be released sooner than 10 days before the first day of class effective immediately. The loan release form will be initialed and dated as of the day the student picked up the check.*

Federal Compliance Issue 6:

Provide Exit Counseling Information

The University is not providing exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loan Program (CFDA 84.032)*. Forty-five percent (9 of 20) of the student files tested did not contain documentation of exit counseling. In addition, procedures are not sufficient to identify students who do not re-enroll the following semester, and as a result require exit counseling. Inadequate exit counseling procedures could result in an increased loan default rate.

Title 34 of the Code of Federal Regulations (CFR), section 682.604, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half time. This includes students who withdraw, drop classes, graduate, or simply do not re-enroll at the University. If a student does not attend a counseling session, this information must be mailed within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation: We recommend the University provide exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the students' files. Procedures should be developed to identify students who require exit counseling because they do not re-enroll.

Management's Response: *For those students who withdraw during the semester we have had a procedure established where they must come to the financial aid office, and we then require they complete the exit interview process which is documented and placed in their student file. For those students who graduate we have instituted a formal exit interview session (as of Spring 1994) where bankers are present to answer questions and provide guidance. Their participation has been documented and placed in their student file. For those students who do not re-enroll we will institute a procedure where they are identified at the time the SEVR tapes are run and an exit interview packet will be mailed and documented. UTSA has a very low default rate of 6.4% which has stayed steady over the last four years.*

Federal Compliance Issue 7:

Report Enrollment Changes In A Timely Manner

The University is not reporting all enrollment changes for the *Federal Family Education Loan Program (CFDA 84.032)* in a timely manner. Enrollment changes occur when a student graduates, withdraws, drops a class, or is expelled. Forty-five percent (9 of 20) of the students tested were not reported within the required time frames. Noncompliance with this requirement may result in delayed loan repayment to lenders.

Title 34 of the Code of Federal Regulations (CFR), section 682.610, requires the institution to report enrollment changes to the guaranty agency within 60 days. If

an institution does not expect to report enrollment changes on the student status confirmation report within the next 60 days, that institution must notify the guaranty agency or lender by letter within 30 days.

Recommendation: We recommend the University report enrollment changes to the guarantors or lenders in a timely manner. Timely reporting of students who graduate can be achieved by submitting a list of confirmed graduates to the guarantors.

Management's Response: We have already taken steps to strengthen this procedure. The student enrollment verification report (SEVR) tapes were run on a timely basis in Fall of 1994 and will continue to be run on a timely schedule to meet our reporting requirements to the lenders and guarantors. We sent the exit interview forms for Spring 1994 graduates to the lenders and guarantors on a timely basis, and will continue to do so in the future. We will improve documentation by including the date exit interview forms are mailed. We believe the changes we have implemented over the last year will satisfy the reporting requirements for enrollment changes.

Audit Scope

The primary focus of our audit was on the University's two largest student financial aid programs: the *Federal Family Education Loan Program* (\$17.7 million) and the *Federal Pell Grant Program* (\$5 million). We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal requirements. Follow-up work was performed to determine the status of a prior year data processing issue.