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Memorandum

DATE: August 15, 2003

TO: Theresa S. Shaw
Chief Operating Officer
Federal Student Aid

FROM: J. Wayne Bynum **s/J. Wayne Bynum**
Regional Inspector General for Audit
Region IV

SUBJECT: **Final Audit Report**
Alcorn State University's Administration of Title IV Student Financial Assistance Programs Needs Strengthening
Control Number ED-OIG/A04-B0018

You have been designated as the action official responsible for the resolution of the findings and recommendations in the attached final report. We have also provided a copy to the auditee and to your Audit Liaison Officer.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Please provide these documents for review, electronically if you wish or by mail, to:

J. Wayne Bynum
Regional Inspector General, Region IV
U.S. Departmen of Education
Office of Inspector General
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In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any report unresolved afer 180 days from the date of issuance will be shown as overdue in our reports to Congress.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Attachment

Alcorn State University's Administration of Title IV Student Financial Assistance Programs Needs Strengthening

FINAL AUDIT REPORT

ED-OIG/A04-B0018
August 2003

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

U.S. Department of Education
Office of Inspector General
Atlanta, Georgia

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

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EXECUTIVE SUMMARY

Alcorn State University (ASU) in Lorman, Mississippi, is a State-supported university that was founded in 1871. The purpose of this audit was to determine whether ASU administered the student financial assistance programs in accordance with Title IV of the Higher Education Act of 1965, as amended (HEA), and applicable regulations. Specifically, we determined whether ASU administered the student financial assistance programs in compliance with the Title IV regulations regarding (1) the calculation and payment of William D. Ford Federal Direct Loan (Direct Loan) and Federal Pell Grant (Pell) program refunds; (2) Direct Loan cash management, reporting, and reconciliation; (3) student credit balances; (4) student eligibility; and (5) commissioned sales. Audit coverage generally included school fiscal years 1998-1999, 1999-2000, and 2000-2001. ASU received $39.6 million in FSEOG, Pell, and Direct Loan funds during these school years.

When students who receive Title IV financial aid withdraw from school, institutions are required to calculate and return any refunds due to the Department of Education (Department). ASU did not identify and calculate refunds for 39 students who officially withdrew from school, and it did not calculate refunds correctly for 103 of the 110 students who were identified as officially withdrawn from school.

ASU also did not always send refunds to the Department, and the refunds that were returned were not always returned in a timely manner. Of the 114 refunds we reviewed, 39 were not returned and 73 were not returned within the required timeframe. In addition, ASU did not determine the withdrawal date and process refunds for students who unofficially withdrew (dropped out of school).

Direct Loan funds are to be disbursed to students within three business days following the date the funds are received from the Department, and any excess cash (funds not disbursed within three business days) is to be promptly returned to the Department. Over 60 percent of the disbursements we reviewed were issued more than three business days after the drawdown of funds, and excess cash was not promptly returned to the Department.

ASU also did not maintain Title IV funds in an interest-bearing account, reconcile Direct Loan funds on a monthly basis, or remit all Title IV credit balances to students.

Institutions must demonstrate that they are capable of administering the Title IV programs. Based on the problems identified during this audit, we concluded that ASU did not always meet the Title IV administrative capability standards. We attributed the problems identified primarily to the lack of adequate policies, procedures, and controls.

Among other recommendations, we recommend that the Chief Operating Officer for Federal Student Aid (FSA) require ASU to develop and implement policies, procedures, and management controls to ensure that—

- Students who withdraw or drop out are identified, and refunds are accurately calculated and returned to the Department;
- Direct Loan funds are disbursed within three business days, and any excess cash is promptly returned to the Department; and
- Direct Loan funds are reconciled on a monthly basis.

We also recommend that the Chief Operating Officer of FSA require ASU to—

- Return $34,970 in refunds for the 39 students for whom ASU did not calculate a refund;
- Return $48,416 in refunds which ASU did not pay as a result of inaccurate refund calculations;
- Calculate and pay applicable refunds to the Department for students who received Title IV funds and withdrew unofficially, during and after award year 1998-1999;
- Pay imputed interest costs to the Government totaling $247,064 for excess cash retained for award years 1998-1999, 1999-2000, and 2000-2001; and
- Maintain Title IV funds in an interest-bearing bank account, and calculate and pay any lost interest as a result of not maintaining Title IV funds in an interest-bearing account from award year 1998-1999 to date.

In addition, based on our findings, we recommend that the Chief Operating Officer of FSA place ASU on the reimbursement method of payment, change ASU's origination level for Direct Loans to standard origination, and take appropriate action under 34 C.F.R. Part 668, Subpart G, to fine ASU or to terminate, suspend, or limit ASU's participation in the Title IV programs.

ASU provided written comments to the draft audit report. In general, ASU did not disagree with our findings, but it did disagree with some of our recommendations. We summarized ASU's comments after each finding and included them in their entirety as an attachment to this report.

AUDIT RESULTS

Our audit objectives were to determine whether ASU administered the student financial assistance programs in compliance with the Title IV regulations regarding (1) the calculation and payment of Direct Loan and Pell refunds; (2) Direct Loan cash management, reporting, and reconciliation; (3) student credit balances; (4) student eligibility; and (5) commissioned sales.

We did not identify compliance problems with student eligibility and commissioned sales. However, we identified problems with the calculation and payment of Direct Loan and Pell refunds, Direct Loan cash management and reconciliation, and student credit balances. Based on the significance of these findings, we concluded that ASU did not always meet the administrative capability standards for Title IV programs.

Finding No. 1 – ASU Failed to Pay Refunds Correctly to Students Who Officially Withdrew

ASU did not identify and calculate refunds for all students who officially withdrew from school and did not correctly calculate refunds for students who were identified as withdrawn. There was inadequate coordination between the office responsible for identifying withdrawn students and the office responsible for calculating refunds. The office responsible for refunds also used incorrect enrollment periods to calculate refunds. ASU did not have written refund procedures during award years 1998-1999 and 1999-2000, and the refund procedures initiated for award year 2000-2001 were inadequate. ASU did not calculate refunds, totaling $34,970, for 39 students. In addition, refunds for 103 students were calculated incorrectly, resulting in $48,416 in refunds not returned to the Department.

Institutions are required to calculate returns of Title IV funds for students who withdraw according to the procedures in 34 C.F.R. § 668.22 (2000). Amended regulations to implement the return of Title IV requirements of the Higher Education Amendments of 1998 were published in the Federal Register on November 1, 1999. Institutions were not required to implement these new requirements until October 7, 2000, although institutions could choose to implement them earlier. ASU implemented the new refund procedure at the beginning of the fall semester in August 2000. We used the appropriate refund calculation depending on when the refund was made. In this report, we use the term *refund* to refer to any refund or other return of Title IV, HEA program funds required under 34 C.F.R. § 668.22, regardless of the date of the return.

<u>ASU Did Not Identify and Calculate Refunds for 39 Students</u>

ASU procedures required students who wanted to withdraw from school to submit a Notification of Total Withdrawal form to the Office of Academic Affairs. The Office of Academic Affairs was to forward a copy of the withdrawal form to the Business Office, which was responsible for calculating refunds.

A comparison of the Office of Academic Affairs' list of withdrawn students to the withdrawal forms retained by the Business Office revealed discrepancies in the number of withdrawn students recorded by the two offices. In some instances, the Business Office had no withdrawal forms for some students identified by the Office of Academic Affairs as withdrawn. In other instances, the Business Office had withdrawal forms for students, but the Office of Academic Affairs did not identify them as withdrawn. There were also some students that both offices recorded as withdrawn, but the Business Office had not calculated refunds. Based on these findings, we concluded that there was inadequate coordination between the two offices. Table 1.1 illustrates the results of our review by award year.

Table 1.1: Number of Withdrawn Students Requiring a Refund Calculation

				TOTALS
Total official withdrawals requiring refund calculations	**50**	**45**	**54**	**149**
Total refunds calculated by ASU	**31***	**27**	**52**	**110**
Difference	**19**	**18**	**2**	**39**

*ASU calculated a refund of $0 for 4 of the 31 students. The amount owed is included in Tables 1.3 and 1.4.

ASU did not calculate Title IV refunds for 39 students that its records showed as having withdrawn during award years 1998-1999, 1999-2000, and 2000-2001. As a result, $34,970 in refunds was not returned to the Department. A breakdown of the amounts owed by Title IV program for the 39 students is shown in Table 1.2.

Table 1.2: Refunds Owed for the 39 Withdrawn Students

					TOTAL
1998-1999	**$3,328**	**$8,649**	**$4,739**	**$290**	**$17,006**
1999-2000	**$1,456**	**$ 6191**	**$9,072**	**$611**	**$17,330**
2000-2001	**$ 397**	**$ 237**	**$0**	**$0**	**$ 634**
				Total	**$34,970**

*Federal Direct Unsubsidized Loan. **Federal Direct Subsidized Loan.
***Federal Supplemental Educational Opportunity Grant.

<u>ASU Did Not Calculate Refunds Correctly</u>

As shown in Table 1.1, ASU calculated refunds for 110 withdrawn students during award years 1998-1999, 1999-2000, and 2000-2001. A review of these refunds revealed that ASU used incorrect starting and ending dates to calculate refunds. ASU did not always use the actual semester start/end dates to calculate refunds. For example, some refund calculations were based on the date the dormitory opened rather than the semester start date. ASU also did not exclude its spring break period to determine the total number of days of enrollment for award year 2000-2001. As a result, 103 of the 110 refund calculations were incorrect.

Table 1.3 shows the amount of Title IV aid that ASU should have returned to the Department, the amount that it actually returned, and the difference for each award year. Table 1.4 shows the refund amounts owed by Title IV program.

Table 1.3: Refunds Owed as a Result of Incorrect Calculations or Failure to Pay

				TOTAL
1998-1999	Should have returned	$18,293	$ 7,516	$25,809
	Amount returned*	$ 9,435	$0**	$ 9,435
	Difference	$ 8,858	$ 7,516	$16,374
1999-2000	Should have returned	$16,401	$11,125	$27,526
	Amount returned**	$0	$0	$0
	Difference	$16,401	$11,125	$27,526
2000-2001	Should have returned	$38,075	$17,102	$55,177
	Amount returned	$37,541	$13,120	$50,661
	Difference	$ 534	$ 3,982	$ 4,516
	Total Difference	$25,793	$22,623	$48,416

*Based on ASU's original refund calculations.
** For $35,042 of the amounts we identified, ASU calculated but did not return refunds.

Table 1.4: Refunds Owed by Program as a Result of Incorrect Calculations

						TOTALS
1998-1999	$1,941	$ 6,900	$ 17	$ 7,516	$0	$16,374
1999-2000	$3,285	$12,724	$392	$11,125	$0	$27,526
2000-2001	$ 254	$ 280	$0	$ 3,982	$0	$ 4,516
					Total	$48,416

*Federal Direct Unsubsidized Loan. **Federal Direct Subsidized Loan.
***Federal Direct PLUS Loan. ****Federal Supplemental Educational Opportunity Grant.

ASU should have returned the $22,623 in Pell refunds and the $25,793 in Direct Loan refunds to the Department. As a result of a refund finding in ASU's Single Audit Report for the year ended June 30, 1999, issued by the Mississippi State Auditor, FSA instructed ASU to recalculate its 1998-1999 refunds. We found that most of these recalculations were inaccurate.

ASU Overpaid Refunds for Some Students

ASU made duplicate refunds for some students. ASU returned Direct Loan refunds totaling $16,008 in excess of our refund calculations for 25 withdrawn students. ASU also paid Pell refunds totaling $830 in excess of our refund calculations for five withdrawn students.

ASU did not have written refund procedures during award years 1998-1999 and 1999-2000. Although ASU established written procedures during award year 2000-2001, the procedures were not adequate to ensure that refunds were correctly calculated and that unearned funds were returned to the Department. For example, the written procedures did not provide for returning unearned Title IV funds to the Department in the order specified in 34 C.F.R. § 668.22(i) (2000) (i.e., first Direct Loans, then Pell, and then FSEOG program aid).

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA—

1.1 Require ASU to develop and implement policies, procedures, and management controls to ensure that withdrawn students are identified and that Title IV refunds are calculated accurately and returned to the Department.

1.2 Require ASU to return $34,970 in Title IV refunds for the 39 students for whom ASU did not calculate a refund.

1.3 Require ASU to return $48,416 in Title IV refunds that ASU did not calculate correctly, or calculated but failed to pay, for award years 1998-1999 ($16,374), 1999-2000 ($27,526), and 2000-2001 ($4,516). (Some of the recommended recovery amount (the amount ASU failed to pay, $35,042 of the $48,416) is also included in the amounts for Recommendation 2.2.)

1.4 Calculate and require ASU to pay imputed interest costs for the $34,970 and $48,416 in Title IV refunds that were not returned to the Department.

ASU RESPONSE

In its written response to the draft report (see attachment), ASU stated that it had strengthened its policies, procedures, and management controls between divisions to ensure that withdrawn students are identified and that Title IV refunds are calculated accurately and returned to the Department. ASU agreed to return Title IV funds totaling $83,386 for incorrect refund calculations of students withdrawn or refunds not calculated. ASU requested that the imputed interest costs be waived because this finding has been corrected and all measures will be taken to ensure that future refunds are calculated according to the current policy. ASU stated that personnel involved in the process will receive annual training to ensure knowledge of regulations, and the University's Internal Auditor will review the process.

OIG COMMENTS

We appreciate ASU's efforts to strengthen its policies, procedures, and management controls to identify withdrawn students and return Title IV funds. The written policy ASU provided with its response should ensure that it identifies borrowers who officially withdraw, if implemented. However, the written policy does not appear to include sufficient detail to ensure that refunds are calculated accurately or to ensure that the school returns funds to the Department as required.

We have not revised our recommendations. By not properly returning Title IV refunds in the past, as the principal balances of borrower accounts were not reduced, and additional interest continued to accrue, students were harmed. If the interest is not paid by ASU, the Department may have to reimburse the borrower for accrued interest under the refund discharge provisions of 34 C.F.R. § 685.216.

Finding No. 2 – ASU Did Not Always Return or Timely Return Direct Loan and Pell Refunds to the Department

ASU did not always send refunds to the Department and the refunds that were returned were not returned in a timely manner. ASU did not have adequate refund procedures to ensure that refunds were submitted, or submitted within the required timeframe. As a result, 39 refunds were not returned, and 73 refunds were not returned within the required timeframe.

The regulations at 34 C.F.R. § 668.22(h)(2)(iv)[1] state, "The amount of the Title IV, HEA program portion of the refund allocated to the Title IV, HEA programs . . . must be returned to the appropriate program account or accounts by the institution within 30 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn." A similar requirement is provided for refunds returned after July 1, 2000, in 34 C.F.R. § 668.22(j)(1) (2000).

Chapter 7 of the 1998-1999 Direct Loan School Guide provided guidance on reporting Direct Loan adjustments to the Department. According to the guide, Option 1 schools such as ASU are to "send adjustment records reflecting the adjustment to the Loan Origination Center."

For award year 1998-1999, ASU sent Direct Loan refunds to the Department for 16 students, and all 16 refunds were over 60 days late. ASU did not return 10 Pell refunds for this award year to the Department. During award year 1999-2000, there was no evidence that Direct Loan and Pell refunds were sent to the Department for any of the 27 students who withdrew. For award year 2000-2001, all 39 Direct Loan refunds and 18 of the 20 Pell refunds were sent to the Department late. Table 2.1 below illustrates the lack of timeliness for refunds sent to the Department. Of the 114 refunds, 39 were not made and 73 were made late. (The information in Table 2.1 represents the number of refunds, not students. Since some students received both Direct Loan and Pell refunds, the totals in Table 2.1 may not correspond to the totals in tables for Finding No. 1.)

[1] Unless otherwise noted, all C.F.R. citations are to the July 1, 1998, volume.

Table 2.1: Untimely Refunds Sent to the Department

					Award Year 2000-2001	
Days Late	**Direct Loan**	**Pell**	**Direct Loan**	**Pell**	**Direct Loan**	**Pell**
Timely Refunds	**0**				**0**	**2**
1 to 60	**0**				**16**	**4**
61 to 120	**9**	**10 Pell Refunds not made***	**18 Direct Loan and 11 Pell refunds not made ***		**4**	**7**
120 to 180	**0**				**9**	**6**
181 to 240	**3**				**9**	**1**
241 to 300	**4**				**1**	**0**
Total Refunds made	**16**				**39**	**20**

*For award year 1998-1999, ASU did not return Pell refunds for 10 students who withdrew. For award year 1999-2000, ASU did not return 18 Direct Loan refunds and 11 Pell refunds for 27 students who withdrew. We determined that the refunds for these students totaled $35,042 ($7,516 for 1998-1999 Pell; $16,401 for 1999-2000 Direct Loan; and $11,125 for 1999-2000 Pell).

As of January 2002, ASU had not submitted Direct Loan refund adjustment records to the Loan Origination Center (LOC) for 16 students who withdrew during award year 1998-1999. ASU refunded $10,354 to the LOC for the 16 students who received Direct Loan funds ($9,435 in under-refunds and a $919 over-refund for nine students). However, ASU did not send any disbursement adjustment records to the LOC that reflected the change in loan amounts disbursed as a result of the refunds made. If proper adjustment records are not submitted to the LOC, students could be charged incorrect loan interest and may overpay their loans.

Due to staff turnover and a lack of procedures, ASU calculated refunds but did not always process them for payment. ASU had no written refund procedures in place during award years 1998-1999 and 1999-2000, and only limited refund procedures during award year 2000-2001. Without adequate procedures and controls in place, there was no assurance that unearned Title IV funds were properly returned and reported to the Department in a timely manner.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA—

2.1 Require ASU to develop and implement policies, procedures, and management controls to ensure that Title IV refunds are made within the 30-day required timeframe and correctly reported to the Department.

2.2 Require ASU to return $35,042 in Title IV refunds that ASU calculated, but failed to pay for award years 1998-1999 ($7,516) and 1999-2000 ($27,526). (These recommended recovery amounts are also included in the amounts for Recommendation 1.3.)

2.3 Require ASU to submit the proper Direct Loan adjustment records to the LOC for the 16 students who withdrew during award year 1998-1999.

2.4 Take appropriate action under 34 C.F.R. Part 668, Subpart G, to fine ASU or terminate, suspend, or limit the participation of ASU in the Title IV programs as a result of not returning and not timely returning Direct Loan and Pell refunds to the Department.

ASU RESPONSE

In its written response to the draft report (see attachment), ASU stated that it had strengthened its policies, procedures, and management controls to ensure that Title IV refunds are made within the 30-day required timeframe and correctly reported to the Department. ASU stated that it would return Title IV funds for refunds calculated but not paid in response to Recommendation 1.3. ASU also said it would submit the proper Direct Loan adjustment records to the LOC for the 16 students who withdrew during award year 1998-1999. ASU requested that no action be taken to fine, terminate, suspend, place on reimbursement, or limit its participation in the Title IV programs. ASU stated that it had implemented the current refund policy and had signed up key personnel from the financial aid office and the business office to receive additional training through the Department of Education.

OIG COMMENTS

We appreciate ASU's efforts to strengthen its policies, procedures, and management controls to ensure that Title IV refunds are made within the 30-day required timeframe and correctly reported to the Department. However, we have not revised our recommendations. The written policy ASU provided with its response does not appear to include sufficient details about timeframes for actions to ensure that it meets Departmental requirements regarding Title IV refunds.

Finding No. 3 – ASU Did Not Have a System in Place to Identify Students Who Did Not Follow Official Withdrawal Procedures

Although ASU had a system to identify students who officially withdrew from school, it did not have a system to identify and report to the Business Office those students who withdrew without following the established withdrawal procedures (dropped out of school). As a result, ASU did not determine the withdrawal date and process Title IV refunds for students who unofficially withdrew from school.

The regulations at 34 C.F.R. § 668.22(j)(2) (2000) state—

> An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the—
> (i) Payment period or period of enrollment, as appropriate . . . ;
> (ii) Academic year in which the student withdrew; or
> (iii) Educational program from which the student withdrew.

A similar requirement is provided for refunds calculated prior to July 1, 2000, in 34 C.F.R. § 668.22(j)(3).

We requested ASU to identify withdrawn students who did not officially notify the school during award years 1998-1999, 1999-2000, and 2000-2001. To estimate students who unofficially withdrew, ASU reviewed school records and identified those students who had a grade point average of zero and were no longer in school. ASU identified 140 students for award year 1999-2000 and 135 students for award year 2000-2001, for a total of 275 students who unofficially withdrew during these periods. ASU did not provide any information for 1998-1999. According to ASU's Financial Aid Director, approximately 73 percent of the students enrolled during the 2000-2001 academic year received Title IV funds. Using this percentage, we estimated that approximately 200 of the students who withdrew during these award years might need a refund calculation (73 percent of 275 is approximately 200).

Since ASU did not have a system to identify students who did not officially notify the school of their withdrawal, there was no assurance that the Department's funds were properly protected and that disbursed funds were returned for withdrawn students.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA require ASU to—

3.1 Develop and implement policies, procedures, and management controls to identify students who do not officially notify the school of their withdrawal, and determine whether Title IV refunds are due the Department.

3.2 Calculate and pay applicable Title IV refunds to the Department for students who received Title IV funds and unofficially withdrew from school since award year 1998-1999. The Chief Operating Officer should require verification of this calculation by an independent public accountant.

ASU RESPONSE

ASU stated that it had developed and implemented policies, procedures, and management controls to identify students who do not officially notify the school of their withdrawal, and determine whether Title IV refunds are due to the Department. ASU stated that it would calculate and pay applicable Title IV refunds to the Department for students who received Title IV funds and unofficially withdrew from school since award year 1988-1999 and have the calculations verified by an independent public accountant.

OIG COMMENTS

We appreciate ASU's efforts to strengthen its policies, procedures, and management controls to identify all student withdrawals and determine whether Title IV refunds are due to the Department. The actions ASU described in its response should help ensure that it meets Departmental requirements for unofficially withdrawn students who received Title IV funds, if implemented.

Finding No. 4 – ASU Did Not Timely Disburse Direct Loan Drawdowns or Timely Return Excess Cash

ASU did not timely disburse Direct Loan drawdowns to students or timely return excess cash to the Department. ASU did not have written policies and procedures or controls to ensure that Direct Loan drawdowns were timely disbursed to student accounts or to ensure that excess cash was promptly returned to the Department. As a result, over 60 percent of the disbursements we reviewed were disbursed more than three business days after the drawdown of Title IV funds from the Department, and the excess cash was not promptly returned to the Department. We estimated imputed interest to the Government totaling $247,064 as a result of not returning excess cash in a timely manner. In addition, ASU did not maintain Title IV funds in an interest-bearing account.

The regulations at 34 C.F.R. § 668.166(a)(1) state—

> The Secretary considers excess cash to be any amount of title IV, HEA program funds, that an institution does not disburse to students or parents by the end of the third business day following the date the institution received those funds from the Secretary. Except as provided in paragraph (b) of this section [for excess cash tolerances], an institution must return promptly to the Secretary any amount of excess cash in its account or accounts.

Under 34 C.F.R. § 668.163(c)(2), "an institution must maintain Direct Loan, Federal Pell Grant, FSEOG, and FWS [Federal Work Study] program funds in an interest-bearing bank account or an investment account as described in [34 C.F.R. § 668.163(c)(1)]."

Direct Loan Drawdowns Were Not Timely Disbursed to Students

We reviewed a judgmental sample of 10 of 167 drawdowns for award year 1998-1999 and a judgmental sample of 4 of 137 drawdowns for award year 2000-2001. For the sampled drawdowns, we obtained the Actual Disbursement Roster that lists student loans to be disbursed and selected a judgmental sample of loan disbursements to trace from the roster to student accounts, to test the timeliness of disbursements.

The review of loan disbursements revealed that ASU did not disburse all Direct Loan funds within three business days. Funds were disbursed from 1 to 146 days past the time allowed. Of the 133 untimely disbursements in award year 1998-1999, 126 were disbursed between 1 and 30 days late, and of the 90 untimely disbursements in award year 2000-2001, 82 were disbursed between 1 and 30 days late. In addition, some of the loan funds that were not disbursed to students were not returned to the LOC. Table 4.1 illustrates the results of our review of the 10 of 167 drawdowns for 1998-1999 and 4 of 137 drawdowns for 2000-2001.

Table 4.1: Loan Disbursements Review Results

		2000-2001
Universe of anticipated loan disbursements in drawdown sample	**2,127**	**3,034**
Sample of anticipated loan disbursements	**214**	**141**
Loans disbursed more than three business days after drawdown	**133 (62%)**	**90 (64%)**
Dollar amount of loans disbursed more than three business days after drawdown	**$105,617**	**$148,272**

In addition, we selected a judgmental sub-sample of 42 of the 214 and 70 of the 141 sampled anticipated loan disbursements, to test the return of excess cash. Table 4.2 illustrates the results of this review.

Table 4.2: Loan Disbursements Review Results

		2000-2001
Sub-sample of anticipated loan disbursements	**42**	**70**
Loans not disbursed or returned to LOC	**3**	**24**
Dollar amount of loans not disbursed or returned to LOC	**$2,861**	**$31,082**

Based on the results of this review, we reviewed the return of excess cash for award years 1998-1999, 1999-2000, and 2000-2001.

Direct Loan Excess Cash Was Not Promptly Returned to the Department

ASU did not promptly return Direct Loan funds that were not disbursed to students, thus failing to comply with regulations governing the return of excess cash. ASU lacked written policies and procedures and had not established controls to govern the return of Direct Loan excess cash. There was no supervisory review to ensure that Direct Loan excess cash was promptly returned to the LOC.

ASU's retention of excess cash resulted in additional borrowing costs to the Government. We estimated imputed interest costs to the Government of $75,548, $108,442, and $63,074 on the excess cash maintained for award years 1998-1999, 1999-2000, and 2000-2001, respectively.

Award Year 1998-1999. After the 1998-1999 award year ended on June 30, 1999, ASU returned $709,625 of Direct Loan excess cash to the Department ($92,502 in November 2000, $639 in April 2001, $296,420 in May 2001, and $320,064 in January 2002). We calculated imputed interest to the Government totaling $75,548 as a result of ASU maintaining excess Direct Loan cash after award year 1998-1999 ended. Imputed interest was computed from June 30, 1999, to the date the excess cash balance was reduced to zero.

Award Year 1999-2000. After the 1999-2000 award year ended on June 30, 2000, ASU returned $1,545,067 of Direct Loan excess cash to the Department ($242,970 in August 2000, $431,049 and $329,735 in February 2002, and $541,313 in March 2002). We calculated imputed interest to the Government totaling $108,442 as a result of ASU maintaining excess Direct Loan cash after award year 1999-2000 ended. Imputed interest was computed from June 30, 2000, to the date the excess cash balance was reduced to zero.

Award Year 2000-2001. After the 2000-2001 award year ended on June 30, 2001, ASU returned $1,331,273 of Direct Loan excess cash to the Department ($220,396 in November 2001, $677,624 in April 2002, $430,871 in July 2002, and $2,382 in August 2002). We calculated imputed interest to the Government totaling $63,074 as a result of ASU maintaining excess Direct Loan cash after award year 2000-2001 ended. Imputed interest was computed from June 30, 2001, to the date the excess cash balance was reduced to zero.

Title IV Funds Were Not Maintained in an Interest-Bearing Account

The Coordinator of Grants and Contracts, who was responsible for drawing down Title IV funds, stated that he was unfamiliar with the cash management rules that require institutions to maintain Title IV funds in an interest-bearing account. As a result, ASU did not comply with this requirement.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA—

4.1 Require ASU to develop and implement policies, procedures, and management controls to ensure that Direct Loan drawdowns are disbursed within three business days and that any excess cash is promptly returned to the Department.

4.2 Require ASU to pay imputed interest costs of $247,064 for excess cash maintained by ASU retained for award years 1998-1999, 1999-2000, and 2000-2001.

4.3 Ensure that ASU maintains Title IV funds in an interest-bearing bank account.

4.4 Require ASU to calculate and pay any lost interest as a result of not maintaining Title IV funds in an interest-bearing account since award year 1998-1999 to date. The Chief Operating Officer should require verification of this calculation by an independent public accountant.

4.5 Require ASU to participate under the reimbursement payment method and change ASU's origination level for Direct Loans to standard origination.

4.6 Take appropriate action under 34 C.F.R. Part 668, Subpart G, to fine ASU or to terminate, suspend, or limit ASU's participation in the Title IV programs, for not disbursing Direct Loan funds within three business days and for failing to promptly return Direct Loan excess cash to the Department.

4.7 Review ASU's compliance with requirements for cash management, under 34 C.F.R. Part 668, Subpart K, for its participation in the Pell and FSEOG programs, and require ASU to remit any unreturned excess cash, including interest.

ASU RESPONSE

ASU stated that it had strengthened its policies, procedures, and management controls concerning Direct Loan drawdowns and that it would maintain Title IV funds in an interest bearing account. Based on these improvements, ASU asked that the interest liabilities in our recommendations be waived and that no action be taken against ASU under 34 C.F.R. Part 668, Subpart G.

ASU also asked to continue participating in the Direct Loan Program under Option 1, and that it not be required to participate under the reimbursement payment method. ASU stated that, under the Department's new Common Origination and Disbursement (COD) system, ASU would be required to send actual disbursement records to the Department before receiving funds. ASU felt that this process would ensure that drawdowns are disbursed within regulations.

OIG COMMENTS

We appreciate ASU's improvement efforts to timely disburse Direct Loan funds, return any excess cash, and correct related deficiencies. However, we have not revised our recommendations. The description that ASU provided in its response of its strengthened policies, procedures, and management controls does not include sufficient details for us to understand whether ASU's revised policies will ensure its compliance with Departmental requirements. In addition, it is our understanding that COD does allow schools to draw down funds before disbursements are made. As such, COD does not necessarily provide increased oversight that would be provided by participation under Standard Origination using the reimbursement payment method.

Finding No. 5 – ASU Did Not Reconcile Direct Loan Funds on a Monthly Basis

ASU did not reconcile its Direct Loan records with the Department's records on a monthly basis. ASU did not have adequate written procedures for conducting monthly reconciliation. Because the school's records do not match the Department's records, the Department cannot account for the Direct Loan funds or identify potential problems with timely disbursements or excess cash.

Under 34 C.F.R. § 685.102(b)(3), an origination option 1 school, such as ASU, must reconcile "on a monthly basis." Based on our review of procedures and records, we found no evidence that ASU attempted to reconcile Direct Loan funds on a monthly basis until award year 2000-2001.

The official responsible for reconciling Direct Loan data stated that ASU did not perform monthly reconciliation during award years 1998-1999 and 1999-2000. The official stated that ASU's first attempt at monthly reconciliation for Direct Loans was during the summer of 2000, for award year 2000-2001. Our review of the reconciliation attempts for January, March, and June 2001 revealed that ASU had not been successful in reconciling Direct Loans on a monthly basis.

ASU did not perform Direct Loan reconciliation because it did not have written policies and procedures or controls in place to ensure that the monthly reconciliation was performed or that discrepancies between ASU's records and the Department's records were resolved. The ASU staff responsible for performing reconciliation said that they were unfamiliar with the Federal guidelines pertaining to reconciliation and lacked sufficient training to timely complete the task.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA require ASU to—

5.1 Develop and implement policies, procedures, and management controls to ensure that Direct Loan funds are reconciled on a monthly basis.

5.2 Train personnel in the reconciliation requirements of the Direct Loan Program.

ASU RESPONSE

ASU stated that it had improved its policies, procedures, and management controls to ensure Direct Loan funds are reconciled on a monthly basis. ASU stated that all reconciliations are current, training is scheduled with the Department of Education for July 2003, and that ASU is committed to attending the Historically Black Colleges and Universities (HBCU) Program Integrity and Accountability Training. ASU also stated that it had employed two certified public accountants (CPA) in the accounting office and an internal auditor who is a CPA.

OIG COMMENTS

We appreciate ASU's improvement efforts to ensure that Direct Loans are reconciled on a monthly basis. The actions ASU describes in its response should help ASU ensure that it meets Departmental requirements for Direct Loan reconciliation, if implemented.

Finding No. 6 - ASU Did Not Properly Handle Credit Balances on Student Accounts

ASU maintained credit balances on student accounts and did not always remit Title IV credit balances to students. Our cursory review of 1,959 student accounts with credit balances and a detailed review of a random sample of 98 of these credit balances identified $12,053 that ASU did not remit to 13 students who had credit balances as a result of Title IV aid.

The regulations for handling credit balances, at 34 C.F.R. § 668.164(e) (2000), state—

> Whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds

> credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but—
>
> (1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or
>
> (2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.

The regulations at 34 C.F.R. § 668.165(b)(1)(iii) (2000) state, "If an institution obtains written authorization from a student or parent, as applicable, the institution may . . . hold on behalf of the student or parent any title IV, HEA program funds that would otherwise be paid directly to the student or parent under §668.164(e)."

ASU did not have written credit balance policies and procedures, or documentation to show that it obtained permission from students or parents to retain credit balances. ASU's failure to pay student credit balances occurred because the school did not have written policies and procedures for remitting credit balance funds to students. There was also a lack of supervisory review in the handling of credit balances.

ASU's September 13, 2001, credit balance report identified 1,959 student accounts with credit balances totaling $1.5 million. The credit balances were created by (1) Federal student aid, (2) check payments, (3) credit card payments, (4) cash payments, and (5) refunds. During the transition to a new accounting system in July 1996, ASU used the term "GPAY" to identify all categories of payments made on student accounts that created a credit balance. Of the 1,959 student accounts, 259 were labeled GPAY. Most of these GPAY credit balances had been on the student accounts for over 700 days and totaled $178,085.

During a cursory initial review of 1,959 student accounts that had credit balances as of September 13, 2001, we identified five credit balances created by Title IV student aid. These credit balances had been on the student accounts from six months to two years. The ASU Direct Loan Accountant responsible for reviewing and initiating the credit balance resolution process said these five cases, totaling $7,004, were not true credit balances, but were cancelled tuition charges that should be returned to the Department. However, ASU did not provide any supporting documentation to show that these cases were not student credit balances.

We randomly selected 98 of the 1,959 student accounts from the September 13, 2001, credit balance report for detailed review. We traced the balances to cancelled checks and check registers to determine if the credit balances were properly cleared and paid. Of these 98 credit balances, 74 did not involve GPAY items. These 74 credit balances were created from Title IV funds, campus scholarships, and credit and cash payments. All of the Title IV aid in these credit balances were properly cleared and paid.

The remaining 24 (98 less 74) credit balances consisted of GPAY items. Eight of these 24 credit balances were created by Title IV aid. These eight credit balances were over five years old and totaled $5,049. The ASU Direct Loan Accountant responsible for reviewing and initiating the credit balance resolution process said three of these eight cases were not true credit balances, but were cancelled tuition charges that should be returned to the Department. However, ASU did not provide supporting documentation to show that the three cases were not credit balances. The remaining 16 (of 24) credit balances were either cleared and paid, did not consist of Title IV funds, or were created by unidentified funding sources.

ASU did not comply with regulations and guidelines governing the remittance of credit balances to students. Students were harmed because they were not provided funds that were due them.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA require ASU to—

6.1 Develop and implement policies, procedures, and management controls to ensure that the handling of credit balances complies with regulatory requirements.

6.2 Remit $12,053 to the 13 students whose accounts had credit balances resulting from disbursements of Title IV aid.

6.3 Review all student accounts with credit balances and determine if the credit balances resulted from Title IV aid and, if so, return the credit balance funds to the Department or students, as applicable.

ASU RESPONSE

ASU stated that it had strengthened its policies, procedures, and management controls to ensure that the handling of credit balances complies with regulatory requirements. ASU said it had established a policy to weekly scan credit balances and refund students accordingly and that it would review the 13 students with credit balances that have been created by Title IV funds and refund where applicable. ASU stated that it is in the process of reviewing all student accounts with credit balances to determine if the balances resulted from Title IV aid and, if so, would return the credit balance to the Department or students, as applicable.

OIG COMMENTS

We appreciate ASU's improvement efforts to properly handle credit balances on student accounts. The actions described in ASU's response should help ensure that it meets Departmental requirements for credit balances, if implemented.

Finding No. 7 - ASU Did Not Always Meet Administrative Capability Standards for Title IV Programs

As discussed in Findings 1 through 6, ASU had problems affecting its ability to administer the Title IV programs. There was a lack of adequate policies, procedures, and management controls over program operations. As a result, ASU did not always meet the administrative capability standards for Title IV programs.

Under 34 C.F.R. § 668.16, to continue participation in a Title IV program, an institution must demonstrate that it "is capable of adequately administering that program under each of the standards established in this section." Among other requirements, an institution is considered administratively capable if it—

- "Administers the Title IV, HEA program in accordance with all statutory provisions of or applicable to Title IV of the HEA, [and] all applicable regulatory provisions prescribed under that statutory authority . . . ." 34 C.F.R. § 668.16(a).

- "Designates a capable individual to be responsible for administering all the Title IV, HEA programs in which it participates . . . ." 34 C.F.R. § 668.16(b)(1).

- "Communicates to the individual designated to be responsible for administering Title IV, HEA programs, all the information received by any institutional office that bears on a student's eligibility for Title IV, HEA program assistance . . . ." 34 C.F.R. § 668.16(b)(3).

- "Has written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of Title IV, HEA program assistance and the preparation and submission of reports to the Secretary . . . ." 34 C.F.R. § 668.16(b)(4).

- "Shows no evidence of significant problems that affect . . . the institution's ability to administer a Title IV, HEA program . . . ." 34 C.F.R. § 668.16(j).

- "Does not otherwise appear to lack the ability to administer the Title IV programs competently . . . ." 34 C.F.R. § 668.16(n).

ASU did not always administer the Title IV programs in accordance with all statutory and regulatory requirements: it did not pay refunds correctly to students who officially withdrew, return or timely return refunds to the Department, have a system in place to identify students who did not follow official withdrawal procedures, timely disburse Direct Loan drawdowns, timely return Direct Loan excess cash, reconcile Direct Loan funds, and properly handle credit balances on student accounts. We attributed these problems to staff turnover and a lack of adequate policies, procedures, and management controls. As a result, ASU did not always meet the administrative capability standards for Title IV programs.

The OMB A-133 audit reports issued by the Office of the State Auditor for FY's 1998, 1999, and 2000 also included findings related to ASU's refunds, cash management, and reconciliation.

RECOMMENDATIONS

We recommend that the Chief Operating Officer of FSA—

7.1 Determine ASU's current ability to administer the Title IV programs in accordance with regulations.

7.2 Take appropriate action under 34 C.F.R. Part 668, Subpart G, to fine ASU or to terminate, suspend, or limit ASU's participation in the Title IV programs, based on ASU's current ability to administer those programs.

ASU RESPONSE

ASU stated that a current review of its ability to administer the Title IV programs in accordance with regulations would have positive results. ASU stated that it had developed and implemented policies, procedures, and management controls to eliminate the shortcomings cited in this report and that it had placed trained staff in positions to enforce these policies, procedures, and management controls. ASU said it would engage in the Self-Evaluation Guide for Institutional Participation in Title IV and Other Federal Programs. ASU also requested that no action be taken to fine, terminate, suspend, place on reimbursement, or limit participation in Title IV programs. ASU stated that it is the only provider of higher education in rural southwest Mississippi and is totally committed to compliance for the benefit of its students and the Federal Government.

OIG COMMENTS

We appreciate ASU's recognition of the shortcomings identified in the audit and the improvement efforts taken by ASU to better manage its Title IV programs. We have not changed our recommendations. As we have recommended, the Chief Operating Officer for Federal Student Aid should make a determination regarding ASU's ability to administer the Title IV programs and take appropriate action under 34 C.F.R. Part 668, Subpart G.

OTHER MATTERS

ASU Did Not Always Include Fee Waivers When Packaging Financial Aid for Employees

As described in the 2001-2002 *Student Financial Aid Handbook* (Volume 1, Chapter 7), the Department generally interprets fee waivers as one type of financial resource that should be included as estimated financial assistance. ASU did not always include fee waivers for faculty and staff as resources when determining financial need for ASU employees. ASU employees who attend the school were given fee waivers that paid for up to two classes per semester.

We identified 25 students who were also ASU employees that received Federal aid. A review of these employees' 2001-2002 financial aid files revealed that fee waivers were not included as a financial resource when determining financial need for 19 employees. Our review of the student files for these 19 student-employees revealed that one employee's Direct Subsidized Loan should be reduced $1,818 as a result of the fee waiver not being considered during the financial need review.

We notified the senior financial aid counselor that fee waivers were not considered for 19 student-employees. The counselor reviewed the student files of the 19 employees and also determined that one employee's Direct Subsidized Loan should be reduced $1,818 as a result of the fee waiver not being considered. The counselor took action to reduce the employee's Direct Loan by $1,818.

BACKGROUND

Founded in 1871, Alcorn State University (ASU) is a Historically Black University supported by the State of Mississippi. ASU is located in Lorman, Mississippi, and has an enrollment of about 2,900 students. The Commission on Colleges of the Southern Association of Colleges accredited ASU to award the Associate, Bachelor, Master, and Educational Specialist degrees.

ASU participated in the Direct Loan, Pell, and FSEOG programs. Approximately 73 percent of its students received Title IV aid for academic year 2000-2001. For the years ended June 30, 1999, 2000, and 2001, ASU awarded approximately $39.6 million in Direct Loans, Pell grants, and FSEOG funds to students. ASU participated in the Direct Loan Program under School Origination Option 1. Under Option 1, the LOC requests Direct Loan funds from GAPS based on information provided by ASU, and the drawdown amounts and disbursements are borrower-specific.

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of the audit was to determine whether ASU administered the student financial assistance programs in accordance with Title IV of the HEA and with applicable regulations. Specifically, we reviewed compliance with the Title IV regulations regarding (1) the calculation and payment of Direct Loan and Pell refunds; (2) Direct Loan cash management, reporting, and reconciliation; (3) student credit balances; (4) student eligibility; and (5) general requirements for commissioned sales.

We accomplished these objectives by reviewing laws, regulations, and policies applicable to the Title IV programs. We interviewed ASU officials from the Financial Aid, Business, Grants and Contracts, and Registrar offices. We also interviewed Department officials from FSA Case Management and Oversight and from the Recipient Financial Management System (RFMS). We reviewed various financial and academic reports provided by ASU and FSA. We reviewed policies and procedures used by the school for managing its Title IV programs. We also reviewed Office of Management and Budget Circular A-133 non-Federal audit reports submitted to the Department for the years ended June 30, 1998, 1999, and 2000. We also utilized computerized Departmental systems, such as the Loan Origination On-line System and the National Student Loan Data System.

We reviewed all Direct Loan and Pell refund calculations for award years 1998-1999, 1999-2000, and 2000-2001. We used random sampling to review credit balances and judgmental sampling to review Direct Loan disbursements and commissioned sales. The results of the judgmental samples may not be representative of the entire population.

To test whether ASU timely disbursed Direct Loan funds to student accounts, we judgmentally selected 10 of 167 drawdowns for award year 1998-1999 and 4 of 137 drawdowns for award year 2000-2001. For 1998-1999, we selected one drawdown between $1,000 and $10,000, two drawdowns between $10,000 and $100,000, and seven drawdowns greater than $100,000. For 2000-2001, we selected one drawdown less than $100,000, one drawdown between $100,000 and $1 million, one drawdown between $1 million and $2 million, and one drawdown greater than $2 million. From the school's anticipated loan disbursement rosters, we judgmentally selected student loan disbursements from each page of the 1998-1999 disbursement rosters and every other page of the 2000-2001 disbursement rosters. As a result, we selected 214 of the 2,127 loan records for award year 1998-1999 and 141 of the 3,034 loan records for award year 2000-2001. To test the return of excess cash, we judgmentally reviewed a sub-sample of 42 of the 214 students whose loans were not credited to their account for award year 1998-1999 and a sub-sample of 70 of the 141 students for award year 2000-2001. The sub-samples were generally obtained by selecting students whose loans were not credited to his or her account and selecting higher dollar loan amounts. Based on the test results of excess cash, we performed an analysis of the return of excess cash for award years 1998-1999, 1999-2000, and 2000-2001.

To evaluate the remittance of credit balances for award year 2001-2002, we performed a cursory review of the 1,959 students accounts that had credit balances and randomly sampled 98 of the 1,959 accounts for detailed review. To evaluate commissioned sales, we judgmentally selected for review employee contracts for 12 ASU administrators, department heads, and staff. We also judgmentally selected payroll records for eight admissions/recruitment and financial aid staff for review. The judgmental samples consisted of upper-level management and key operating positions: Vice Presidents, Directors, Assistant Directors, and recruitment officials.

To achieve the audit objectives, we relied in part on computer-processed data contained in ASU's Banner accounting system. We performed limited testing of disbursement data by comparing source information to the institution's data. We also compared ASU's data to the Department's data maintained by the LOC and RFMS. Other than the concerns noted in the Audit Results section of this report, the Banner data was sufficiently reliable for the purpose of our audit.

We reviewed award years 1998-1999, 1999-2000, and 2000-2001 for Title IV refunds and repayment of excess cash; award years 1998-1999 and 2000-2001 for Direct Loan reconciliation and other cash management practices; award year 2000-2001 for commissioned sales; and award year 2001-2002 for student eligibility. We also reviewed the September and November 2001 credit balance reports to review the remittance of credit balances to students. Our audit work was performed during the period July 2001 through January 2002. A conference was held with ASU officials on March 19, 2002, to discuss the audit results. Additional audit work was performed during the period March 2002 through December 2002. An audit exit conference was conducted with ASU officials on May 13, 2003.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we gained an understanding of the system of management controls, policies, procedures, and practices applicable to ASU's administration of the Title IV programs. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of substantive tests to accomplish the audit objectives. For the purpose of this report, we assessed and classified the significant controls into the following categories: (1) calculation and payment of refunds, (2) Direct Loan cash management and reconciliation, (3) student credit balances, and (4) student eligibility.

Due to inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the management controls. We identified no deficiencies with student eligibility. However, our overall assessment disclosed management control weaknesses in each of the other control areas mentioned above. These weaknesses are discussed in the AUDIT RESULTS section of this report.

ALCORN STATE UNIVERSITY
ALCORN STATE, MISSISSIPPI 39096-9402

OFFICE OF THE PRESIDENT

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June 11, 2003

Mr. J. Wayne Bynum
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

Dear Mr. Bynum:

In response to your letter dated May 14, 2003, please find enclosed Alcorn State University's reply to your findings and recommendations. We have answered those findings and recommendations with emphasis showing that our management of the Title IV programs has been strengthened to properly administer such funds. Hopefully, these responses have adequately addressed the concerns of the report.

If you need further assistance, please do not hesitate to contact me.

Sincerely,

Clinton Bristow, Jr.
President

ALCORN STATE UNIVERSITY (ASU)

OFFICE OF INSPECTOR GENERAL DRAFT AUDIT REPORT
Written Comments on Findings and Recommendations

Response to Recommendations:

Finding No. 1 - ASU Failed to Pay Refunds Correctly to Students Who Officially Withdrew

1.1 ASU has strengthened its policies, procedures, and management controls between divisions to ensure that withdrawn students are identified and that Title IV refunds are calculated accurately and returned to the Department. A student who desires to withdraw from the university during the course of a semester or summer session must secure a Notification of Total Withdrawal from the Office of Counseling and Testing. The Office of Academic Affairs will send a compilation of withdrawals to the Business Office weekly. The Business Office will begin the R2T4 process by comparing the compilation of withdrawals and the Business Office copy of the Total Withdrawal form. After the end of each term, Counseling and Testing and the Office of Academic Affairs will provide the Business Office a list of all students that withdrew during that term. The Business Office will review this end of the term withdrawal listing for further reconciling and adjusting.

1.2 &
1.3 ASU will return Title IV funds for incorrect refund calculations of students withdrawn or refunds not calculated for the audit years specified. This amount is $83,386.

1.4 ASU asks that the imputed interest costs be waived due to the fact that this finding has been corrected and all appropriate measures will be taken to ensure that future refunds are calculated according to the current R2T4 policy. ASU personnel involved in the process will undergo annual training to ensure knowledge of regulations and the process will be reviewed by the University's Internal Auditor.

Finding No. 2 - ASU Did Not Always Return or Timely Return Direct Loan and Pell Refunds to the Department.

2.1 ASU has strengthened its policies, procedures, and management controls to ensure that Title IV refunds are made withing the 30-day required time frame and correctly reported to the Department. (See Attachment 2.1 - R2T4 Policy)

2.2 ASU will return Title IV funds for refunds calculated but not paid as committed in response to recommendation 1.3.

2.3 ASU will submit the proper Direct Loan adjustment records to the LOC for the 16 students who withdrew during award year 1998-1999. Once documentation of the 16 students has been received by ASU, the LOC representative Angelique Winters will be contacted to guide ASU in adjusting the records.

2.4 ASU asks that no action be taken to fine, terminate, suspend, place on reimbursement, or limit the participation of ASU in the Title IV programs. ASU has implemented the R2T4 policy and has signed up a total of 16 key personnel from the financial aid office and the business office to receive additional training through the Department of Education. This training was specifically designed for HBCU schools. The training will take place July 15-16 in Clarksdale, MS.

Finding No. 3- ASU Did Not Have A System in Place to Identify Students Who Did Not Follow Official Withdrawal Procedures

3.1 ASU has developed and implemented policies, procedures and management controls to identify students who do not officially notify the school of their withdrawal, and determine whether Title IV refunds are due to the department. After the end of each term, the Journal Voucher Accountant in the Business Office will request a copy of all students receiving a 0.00 grade point average. The list will be reviewed to determine if a student unofficially withdrew from the university. The R2T4 process will begin and the student will be notified accordingly.

3.2 ASU will calculate applicable Title IV refunds to the Department for students who received Title IV funds and unofficially withdrew from school since award year 1998-99. ASU will have the calculations verified by an independent public accountant. The time frame for all calculations and verification by an independent public accountant could possible take nine months to complete.

Finding No. 4- ASU Did Not Timely Disburse Direct Loan Drawdowns or Timely Return Excess Cash

4.1 ASU has strengthened its policies, procedures, and management controls to ensure that Direct Loan drawdowns are disbursed within three business days and that any excess cash is promptly returned to the Department. The Department is now using the COD system. Schools that are Option 1 origination will no longer receive funds on the basis of anticipated disbursement date and amounts for awards. School must send actual disbursement records before receiving money. This process will ensure that drawdowns are disbursed within regulations. Monthly meetings have been established between the business office and the financial aid office to ensure prompt return of excess cash. The V. P. for Business Affairs will oversee this process to ensure timeliness.

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4.2 ASU asks that imputed interest be waived due to the fact that excess cash was returned to the Department. ASU experienced staff turnovers during the 1998-1999 and 1999-2000 year which left personnel without proper training and guidance for returning excess cash in a timely manner. All offices are now fully trained with trained personnel.

4.3 ASU will maintain Title IV funds in an interest-bearing account.

4.4 ASU asks that lost interest calculation for the past years be waived.

4.5 ASU asks that Option 1 using the COD system be retained. As stated in 4.1, the COD system will ensure that actual disbursement records are received before ASU can drawdown Direct Loan funds.

4.6 ASU asks that no action be taken to fine, terminate, suspend, place on reimbursement, or limit participation in the Title IV programs due to the fact that a loan counselor is now assigned to work solely with processing of loans. This ensures compliance. Also, the University's Internal Auditor will do regular compliance checks.

Finding No. 5- ASU Did Not Reconcile Direct Loan Funds on a Monthly Basis

5.1 ASU has improved its policies, procedures, and management controls to ensure direct loan funds are reconciled on a monthly basis. The loan counselor, the assistant director of accounting for finance, the comptroller, and the director of financial aid are working together to ensure reconciling on a monthly basis is done. All reconciliations are now current.

5.2 Training is scheduled with the Department of Education for July 15 -16, 2003. ASU is committed to attending the HBCU Program Integrity and Accountability Training. We will send nine staff personnel from financial aid and seven staff personnel from the business office. ASU has employed two CPAs on staff in the accounting office and an internal auditor who is a CPA. These employees have strengthened our staff.

Finding No. 6- ASU Did Not Properly Handle Credit Balances on Student Accounts

6.1 ASU has strengthened its policies, procedures, and management controls to ensure that the handling of credit balances complies with regulatory requirements. Utilizing the BANNER software system, ASU has established a policy to weekly scan credit balances and refund students accordingly.

6.2 ASU will review the 13 students with credit balances specified that have been created by Title IV funds and will refund where applicable.

6.3 ASU is currently in the process of reviewing all student accounts with credit balances to determine if the balances resulted from Title IV aid, and if so, will return the credit balance to the Department or students, as applicable.

Finding No. 7- ASU Did Not Always Meet Administrative Capability Standards for Title IV Programs

7.1 A current review of ASU's ability to administer the Title IV programs in accordance with regulations will have positive results. ASU has developed and implemented policies, procedures, and management controls to eliminate the shortcoming previously sighted. ASU has placed trained staff in positions to enforce these policies, procedures, and management controls. ASU will also engage in the Self-Evaluation Guide for Institutional Participation in Title IV and Other Federal Programs. This self-evaluation guide will point out ASU's strengths as well as weaknesses and allow ASU to meet administrative capability standards for Title IV programs.

7.2 ASU asks again that no action be taken to fine, terminate, suspend, place on reimbursement, or limit participation in the Title IV programs. The self-evaluation tool will provide useful information for administrative personnel to continuously improve in order for the university to properly administer Title IV Programs. The University as the only provider of higher education in rural southwest Mississippi is totally committed to compliance for the benefit of its students and the federal government.

ATTACHMENT 2.1

R2T4 POLICY

ALCORN STATE UNIVERSITY

RETURN OF TITLE IV FUNDS (R2T4) POLICY

The Higher Education Amendments of 1998, Public Law 105-244(the Amendments of 1998) substantially changed the way funds paid toward a student's education are handled when a recipient of Title IV funds withdraws from school. All schools were required to implement these provisions by October 7, 2000.

A statutory schedule is used to determine the amount of Title IV funds a student has earned as of the date he or she ceases attendance. The amount of Title IV program assistance earned is based on the amount of time the student spent in academic attendance; it has no relationship to the student's incurred institutional charges.

Up through the 60% point in each period of enrollment, a pro rata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. After the 60% point in the payment period or period of enrollment, a student has earned 100% of the Title IV funds.

If a recipient of SFA grant or loan funds withdraws from a school after beginning attendance, the amount of SFA grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. Title IV funds are awarded to a student at Alcorn State University under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

Alcorn State University is required to provide students with the details of all refund policies applicable at the institution as well as information on the Title IV program requirements for determining the amount of Title IV funds a student has earned when he or she withdraws.

1. **Notification of Total Withdrawal**

A student who desires to withdraw from the university during the course of a semester or summer session must secure a Notification of Total Withdrawal from the Office of Counseling and Testing. This single document will initiate the withdrawal process. A copy of the total withdrawal form is distributed to the Registrar Office, Business Office, Student Affairs, Financial Aid, and Academic Affairs. The Office of Academic Affairs will send a compilation of withdrawals list to the Business Office weekly. The Business Office will begin the R2T4 process by comparing the compilation of withdrawals and the Business Office copy of the total withdrawal form.

If a return of funds is due by the University, Financial Aid makes adjustments on the student's account in Banner for the amount of refund to be paid by the University and forwards a cancellation list to Grants and Contracts.

Within 30 days of the withdrawal, the Financial Aid Office notifies the student of any return of funds due by the Student. The letter gives students two options regarding repayment and instructs the student on where to send payment of any federal grant overpayments.

The student is allowed 45 days to contact the Financial Aid Office regarding the student's portion of Title IV funds that must be returned (if applicable).

2. **If the student contacts the financial aid office within 45 days and elects to send full payment to the school:**

The Financial Aid Office receives the payment and forwards the payment to the Business Office to be processed based on the requirements by ED. (The financial aid office will reduce the student's award (by entering a negative disbursement) and the Business Office will adjust its institutional ledgers and the student's accounts. The Financial Aid Office cancels the aid on the student's account for the amount of the refund repaid by the student and forwards a cancellation list to Grants and Contracts.

The Bursar/Cashier accepts and posts the student's payment

Grants and Contracts cross references this list with the copies of Treatment of Title IV funds and initiates an authorization of payment for the Return of Loan funds or initiates an electronic return of funds for PELL or FSEOG funds.

3. **If the student contacts the financial aid office within 45 days and indicates that he or she cannot repay his or her debt in full:**

   The school will immediately report the overpayment to the National Student Loan Data System (NSLDS) and refer the overpayment to ED collections. The school will provide the student with the phone number, e-mail, and postal address for ED collections.

   A student can contact ED Collections by calling 1-800-621-3115 or by sending an e-mail to DCS_HELP@ed.gov or write ED Collections at the following address:

   U.S. Department of Education
   Student Financial Assistance Programs
   P.O. Box 4222
   Iowa City, Iowa 52245

4. **If the student fails to contact the University within 45 days:**

   The Financial Aid Office completes and mails the Overpayment Referral Form. Copies are disseminated to the appropriate offices:

   - **Business Office**
   - **Financial Aid Office**

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