



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL  
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March 30, 2006

**Control Number**  
**ED-OIG/A04F0008**

Dr. Castell Bryant  
President  
Florida Agricultural and Mechanical University  
1500 South Martin Luther King Jr. Blvd.  
Tallahassee, FL 32307-3100

Dear Dr. Bryant:

This **Final Audit Report**, titled *Florida Agricultural and Mechanical University's Administration of the Student Financial Assistance Programs*, presents the results of our audit. The objective of our audit was limited to determining whether Florida Agricultural and Mechanical University (FAMU) was in compliance with the return of Title IV, basic student eligibility<sup>1</sup> and cash management requirements. Our review of cash management was limited to the Federal Pell grant (Pell grant) and William D. Ford Federal Direct Loan (Direct Loan) programs. Our review covered disbursements to students who received Title IV funds during the period July 1, 2003, through June 30, 2004. We found that FAMU was not in compliance with the return of Title IV requirements and over awarded Title IV funds. FAMU generally complied with the cash management requirements. We provided FAMU a copy of the draft report and their comments are attached to the report.

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## BACKGROUND

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FAMU is a four-year, public, co-educational institution of higher learning located in Tallahassee, Florida. FAMU's student enrollment consists primarily of undergraduates. FAMU offers bachelor's degrees in 103 majors/tracks and master's degrees in 56 majors/tracks. FAMU also offers two professional degrees and 11 PhD degree programs. FAMU is accredited by the Southern Association of Colleges and Schools for Title IV purposes.

FAMU participated in the Federal Supplemental Educational Opportunity Grant, the Federal Work Study, the Federal Perkins Loan, the Federal Pell Grant, and the William D. Ford Federal

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<sup>1</sup> Our review of basic student eligibility was limited to the sample of 150 students selected to evaluate FAMU's compliance with cash management requirements.

Direct Loan programs. FAMU disbursed \$17,208,393 in Pell Grant funds and \$61,181,762 in Direct Loan funds for award year 2003-2004.

Recent reviews of FAMU by the Florida State Auditor General's office, the National Science Foundation, and Financial Student Aid Case Management noted significant internal control weaknesses and mismanagement of funds.

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## AUDIT RESULTS

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Although we found that FAMU generally complied with the cash management requirements, FAMU did not comply with the requirements for the return of Title IV funds. In addition, in our review of student basic eligibility related to FAMU's cash management, we found that FAMU improperly disbursed Title IV funds in excess of amounts students were eligible to receive. In the *Other Matter* section, we note that FAMU did not properly identify bank accounts that include federal funds. FAMU concurred with our findings and recommendations and stated that it has taken corrective actions. We have not audited or evaluated FAMU's stated corrective actions. FAMU's complete written response is attached to the report.

### **Finding No. 1 - FAMU Did Not Fully Comply With Requirements for the Return of Title IV Funds**

FAMU did not comply with all requirements for calculating and making returns of Title IV funds as prescribed in the regulation at 34 C.F.R. § 668.22. Specifically, FAMU did not calculate and make returns of Title IV funds, did not return the funds in a timely manner, and did not always calculate the amounts to be returned correctly. We identified 40 students that withdrew, for whom FAMU failed to calculate a return of Title IV funds. This resulted in \$81,110 of unearned Title IV funds.

The regulations at 34 C.F.R. § 668.22(j)(1) require that an "institution must return the amount of Title IV funds for which it is responsible . . . as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew . . . ."

According to 34 C.F.R. § 668.84(a)(1)(i) "[t]he Secretary may impose a fine of up to \$27,500 per violation on a participating institution . . . that – (i) Violates any statutory provision of or applicable to Title IV of the HEA, [or] any regulatory provision prescribed under that statutory authority . . . ."

We identified a total of 355 Title IV recipients who withdrew from the University and required a return of Title IV calculation. FAMU did not calculate a return of Title IV for 40 of these students. For the 40 students we identified \$81,110 in unearned Title IV funds. We also found FAMU did not make timely returns of a total of \$14,153 for 12 students, and incorrectly calculated the returns for two other students – under calculating the amount to be returned to the Department by \$80. With the 40 calculations that were not performed and returns not made and the 12 untimely returns, 52 or 14 percent of the returns of Title IV were not timely.

Previous Florida State Auditor General reports<sup>2</sup> noted that FAMU has had recurring findings in accurately calculating returns of Title IV HEA funds for both official and unofficial student withdrawals and in returning Title IV HEA funds in a timely manner. We found that FAMU had policies and procedures governing the processing of withdrawals and related returns of Title IV funds, however, those policies were not adequate to ensure timely communication between the various offices necessary for making return of Title IV calculations within the required timeframes. As a result, FAMU failed to make timely returns of Title IV funds totaling \$81,190.

### **Recommendations**

We recommend the Chief Operating Officer for Federal Student Aid

- 1.1 Take action to fine FAMU under 34 C.F.R. § 668.84 for the 40 instances of failing to make a return of Title IV.
- 1.2 Require FAMU to strengthen its policies and procedures to ensure that required return of Title IV calculations are not overlooked and return of Title IV funds are remitted timely.
- 1.3 Require FAMU to remit to the Department the portion of the \$81,190 due from the university. As a part of final resolution, require FAMU to remit documentation in support of their return of Title IV calculations for the 40 students identified for whom FAMU failed to make a return of Title IV, and the incorrect calculation for one student.
- 1.4 Calculate and require FAMU to pay imputed interest costs to the Government for the \$14,153 in Title IV funds for the 12 returns that were not remitted timely and for the Title IV funds for the 40 returns not made prior to our review.

### **Auditee and OIG Comments**

FAMU concurred with our finding that the returns were not calculated and returned timely. They also noted a duplicate student, which we deleted from the finding. FAMU recalculated the return of Title IV for the students we identified. We did not verify FAMU's calculation.

### **Finding No. 2 - FAMU Improperly Disbursed Title IV Funds in Excess of Eligible Amounts**

FAMU did not always ensure appropriate adjustments were made to subsequent awards to reduce or eliminate overpayments. Of the 150 students sampled for cash management, we identified two students who received \$2,354 more in Title IV funds than the amounts they were eligible to receive. Although FAMU made partial adjustments to subsequent disbursements, those adjustments were insufficient. As a result of the overawards, FAMU owes the Department \$2,354.

The regulations at 34 C.F.R. § 668.61 *Recovery of funds*, state:

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<sup>2</sup> Florida State Auditor General reports 04-168 (finding 03-81), 03-167 (finding 02-084)

(a) If an institution discovers, as a result of the verification process, that an applicant received . . . more financial aid than the applicant was eligible to receive, the institution shall eliminate the overpayment by--

(1) Adjusting subsequent financial aid payments in the award year in which the overpayment occurred; or

(2) Reimbursing the appropriate program account by--

(i) Requiring the applicant to return the overpayment to the institution if the institution cannot correct the overpayment . . . or

(ii) Making restitution from its own funds, by the earlier of the following dates, if the applicant does not return the overpayment:

(A) Sixty days after the applicant's last day of attendance.

(B) The last day of the award year in which the institution disbursed Federal Pell Grant, Federal Perkins Loan, or FSEOG funds to the applicant.

FAMU's policies and procedures governing the treatment of overawards were not adequate to ensure that overawards were properly eliminated. FAMU's policies governing the correction of overawards provide options including reductions in un-disbursed funds or award reductions. In both instances noted, FAMU had made adjustments to subsequent disbursements, but the adjustments were insufficient to eliminate the over-award. FAMU could not explain why it did not initially identify and eliminate the overawards.

## Recommendations

We recommend the Chief Operating Officer for Federal Student Aid require FAMU to

2.1 Reimburse the Department for the \$2,354 in overawards identified.

2.2 Strengthen policies and procedures for processing student financial aid awards.

## Auditee Comments

The University acknowledged the overpayments shown under this section, and stated that it has reimbursed the Department for the overpayment.

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## OTHER MATTERS

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FAMU failed to properly label bank accounts that contained Title IV funds and had no record of any notification to the bank that the accounts contain federal funds. The regulations at 34 C.F.R. § 668.163(a)(2)(i) and (ii) provide that “an institution must clearly identify that Title IV, HEA program funds are maintained in [a bank or investment account] by – (i) Including in the name of each account the phrase ‘Federal Funds’; or (ii) Notifying the bank or investment company of the accounts that contain title IV, HEA program funds and retaining a record of that notice . . . .” Although we received confirmation from the bank that it was aware that FAMU's accounts all contain or may contain federal funds, we suggested that FAMU issue an official

notification to the bank and retain a copy of that notification. On September 28, 2005, FAMU provided documentation of the bank notification and account name change, clearly identifying that the account contains federal funds.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The audit objective was to evaluate FAMU's compliance with Title IV regulations governing cash management; basic student eligibility, and return to Title IV funds. Our evaluation of cash management was limited to the Pell grant and Direct Loan programs. Our audit covered the administration of the Title IV, HEA programs during the period July 1, 2003, through June 30, 2004.

Because recent reviews of FAMU noted significant internal control weaknesses and mismanagement of funds, we determined that we would not rely, and did not rely, on FAMU's system of internal control.

To accomplish our objective, we reviewed written policies and procedures applicable to FAMU's student financial aid processes and interviewed officials and staff in FAMU's Financial Aid, Student Accounts, Controller's, and Registrar's offices. We obtained data from FAMU's Financial Aid, Title IV Accounting, and Registrar's offices; and ED's Grant Administration and Payment System (GAPS), and National Student Loan Data System (NSLDS).

To test FAMU's cash management, we judgmentally selected two large Pell draws (from the 42 draws made during the review period) and three large Direct Loan draws (from the 80 draws made during the review period) from GAPS. The selected drawdowns provided for coverage of 70 percent of the Pell funding (\$12 million of the total \$17.2 million) and 50 percent of the Direct Loan funding (\$31.1 million of the total \$61.2 million) for the period under review. We then randomly selected 30 students from each of the five draws (150 students of the 20,492<sup>3</sup> included in all 5 draws), for use in our analysis. We reviewed the selected student files to determine when the funds were drawn and posted to student accounts. We evaluated basic student eligibility for all 150 students selected for our evaluation of cash management. We also verified the award amounts. In addition, we reviewed FAMU's bank accounts for compliance with the cash management requirements.

To test FAMU's compliance with the regulations governing the return of Title IV funds, we identified students who received Title IV funds and withdrew either officially or unofficially during the 2003-2004 award year. We conducted a probe sample to determine whether FAMU's return of Title IV calculations were made correctly and found that, generally, FAMU's calculations were accurate. We reviewed 100% of the Title IV recipients who withdrew to identify those instances where calculations were not prepared, or were not prepared timely. Because we found the data provided by FAMU's Controller's office did not identify all Title IV recipients, we used the NSLDS database to identify students who received Title IV funds and the

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<sup>3</sup> The total number of students includes duplications, but the samples only included one duplication – one student was selected from two different drawdowns.

amounts of funds received. We identified 355 students who withdrew and received Title IV funds. We compared all 355 students to FAMU's return of Title IV calculations to identify any instance where a calculation should have been made, but was not. To determine the unearned Title IV funds, we identified the total Title IV funds distributed to each student during the period of withdrawal as shown in the NSLDS database and the percentage of completion indicated by the date of withdrawal when known and 50% for unofficial withdrawals.

We relied in part on computer-processed data contained in FAMU's accounting system, and the Department's Grant Administration Payment System (GAPS) and National Student Loan Data System (NSLDS). We performed limited testing of the data from FAMU's accounting system to assure ourselves that the data was reliable to meet our audit objectives. Our testing consisted of comparing the FAMU accounting system data to student records for 15 of the 150 students in our sample. We determined that FAMU's system could be relied on for our review of compliance with cash management. However, we determined that computer generated data provided by FAMU for identification of student withdrawals requiring a return of Title IV funds could not be relied on because FAMU provided two different lists of students requiring a return of Title IV calculation; therefore, we used data from the Department's NSLDS to identify students from FAMU's list of withdrawals who received Title IV funds.

We conducted our site work at FAMU offices in Tallahassee, FL, from April 11 - 22, 2005 and May 24 - 26, 2005. An exit conference was held with FAMU officials on October 11, 2005. We provided a complete schedule of the specific student accounts related to the findings in this report, for FAMU's use in reviewing and responding to our report. The audit was conducted in accordance with generally accepted government auditing standards appropriate for the scope of the audit described above.

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## ADMINISTRATIVE MATTERS

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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.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Theresa S. Shaw  
Chief Operating Officer, Federal Student Aid  
U. S. Department of Education  
Union Center Plaza,  
830 First Street, NE, Room 112G1  
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

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.

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact Mary Allen, Assistant Regional Inspector General for Audit, at 404-562-6465.

Sincerely,

/s/

Denise M. Wempe  
Regional Inspector General for Audit Services

Attachment



Excellence With Caring

# Florida Agricultural and Mechanical University

TALLAHASSEE, FLORIDA 32307-3100

CASTELL VAUGHN BRYANT, INTERIM PRESIDENT

OFFICE OF THE PRESIDENT

February 7, 2006

TELEPHONE: (850) 599-3225

FAX: (850) 561-2152

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Ms. Denise M. Wempe  
Regional Inspector General for Audit Services  
United States Department of Education  
61 Forsyth Street, RM 18T71  
Atlanta, GA 30303

Dear Ms. Wempe:

My leadership team and I reviewed and discussed the audit findings as presented by \_\_\_\_\_ from your office, and generally agree with his findings. The findings below are consistent with the findings presented to us during the general annual audit conducted by the State of Florida completed a few months earlier.

Your auditor, \_\_\_\_\_, is aware of the fact that the University is now under new leadership and is going through reorganization to strengthen its internal controls, fiscal responsibility, and improve its overall compliance in operating the HEA Title IV Financial Aid Programs. Our responses to your findings are shown below, following each finding, as reported.

## **AUDIT RESULTS**

Although we found that FAMU generally complied with the cash management requirements, FAMU did not comply with the requirements for the return of Title IV funds. In addition, in our review of student basic eligibility related to FAMU's cash management, we found that FAMU improperly disbursed Title IV funds in excess of amounts students were eligible to receive. In the Other Matter section, we note that FAMU did not properly identify bank accounts that include federal funds.

### **Finding No. 1 - FAMU Did Not Fully Comply With Requirements for the Return of Title IV Funds**

FAMU did not comply with all requirements for calculating and making returns of Title IV funds as prescribed in the regulation at 34 C.F.R. § 668.22. Specifically, FAMU did not calculate and make returns of Title IV funds, did not return the funds in a timely manner, and did not always calculate the amounts to be returned correctly. We determined that FAMU owes the Department \$81,680 as a result of its return of Title IV violations.

The regulations at 34 C.F.R. § 668.22(j)(1) require that an “institution must return the amount of Title IV funds for which it is responsible . . . as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew . . .”

According to 34 C.F.R § 668.84(a)(1)(i) “[t]he Secretary may impose a fine of up to \$27,500 per violation on a participating institution . . . that – (i) Violates any statutory provision of or applicable to Title IV of the HEA, [or] any regulatory provision prescribed under that statutory authority . . .”

We identified a total of 355 Title IV recipients who withdrew from the University and required a return of Title IV calculation. FAMU did not calculate a return of Title IV for 41 of these students. For the 41 students we determined that \$81,600 should have been returned. We also found FAMU did not make timely returns of a total of \$14,153 for 12 students, and incorrectly calculated the returns for two other students – under calculating the amount to be returned to the Department by \$80. With the 41 calculations that were not performed and returns not made and the 12 untimely returns, 53 or 15 percent of the returns of Title IV were not timely.

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Previous Florida State Auditor General reports<sup>2</sup> noted that FAMU has had recurring findings in accurately calculating returns of Title IV HEA funds for both official and unofficial student withdrawals and in returning Title IV HEA funds in a timely manner. We found that FAMU had policies and procedures governing the processing of withdrawals and related returns of Title IV funds, however, those policies were not adequate to ensure timely communication between the various offices necessary for making return of Title IV calculations within the required timeframes. As a result, FAMU failed to make timely returns of Title IV funds totaling \$81,680.

#### Recommendations

We recommend the Chief Operating Officer for Federal Student Aid

- 1.1 Take action to fine FAMU under 34 C.F.R. § 668.84 for the 41 instances of failing to make a return of Title IV.
- 1.2 Require FAMU to strengthen its policies and procedures to ensure that required return of Title IV calculations are not overlooked and return of Title IV funds are remitted timely.
- 1.3 Require FAMU to remit to the Department, \$81,680 in Title IV funds. The amount is the total of \$80 in Direct Loan funds that FAMU should have returned to the Department for the incorrect return of Title IV calculation, and \$81,600 in Pell Grants and Direct Loans for the 41 students for whom FAMU failed to make a return of Title IV.

1.4 Calculate and require FAMU to pay imputed interest costs to the Government for the \$14,153 in Title IV funds for the 12 returns that were not remitted timely and for the \$81,600 in Title IV funds for the 41 returns not made prior to our review.

**FAMU'S RESPONSE:** We concur with your finding that the returns were not calculated and returned timely. We do, however, want to correct the number of students affected, and the amount of return owed to the Department.

- 1 The number of students in the audit finding was reviewed and it was determined by the university that one student on the list was submitted twice. Therefore, the number of students who were not calculated timely is 40.
2. The calculation was preformed and the amount owed to the Department of Education is \$82,280.67 **Documentation** in support of this calculated amount was previously faxed to \_\_\_\_\_
3. The University **notified each student** whose financial assistance was adjusted resulting from these findings.

The University acknowledges that the measures established to timely and correctly administer the Return of Title IV Funds requirements were insufficient. The University has since returned the unearned funds to the respective Title IV Federal Programs.

Additionally, under FAMU'S new President and management team, the University has since reviewed and strengthened its procedures to timely and accurately calculates, and returns un-earned Title IV Funds to the respective Federal accounts. These new procedures have been put into place effective with the 2005-2006 program year. These procedures will be monitored and updated as needed to ensure full compliance.

## **Finding No. 2 - FAMU Improperly Disbursed Title IV Funds in Excess of Eligible Amounts**

FAMU did not always ensure appropriate adjustments were made to subsequent awards to reduce or eliminate overpayments. Of the 150 students sampled for cash management, we identified two students who received \$2,354 more in Title IV funds than the amounts they were eligible to receive. Although FAMU made partial adjustments to subsequent disbursements, those adjustments were insufficient. As a result of the over awards, FAMU owes the Department \$2,354.

The regulations at 34 C.F.R. § 668.61 Recovery of funds, state:

(a) If an institution discovers, as a result of the verification process, that an applicant received . . . more financial aid than the applicant was eligible to receive, the institution shall eliminate the overpayment by--

(1) Adjusting subsequent financial aid payments in the award year in which the overpayment occurred; or

(2) Reimbursing the appropriate program account by-- Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

2 Florida State Auditor General reports 04-168 (finding 03-81), 03-167 (finding 02-084) Draft Report ED-OIG/A04F0008 Page 4 of 7

(i) Requiring the applicant to return the overpayment to the institution if the institution cannot correct the overpayment . . . or

(ii) Making restitution from its own funds, by the earlier of the following dates, if the applicant does not return the overpayment:

(A) Sixty days after the applicant's last day of attendance.

(B) The last day of the award year in which the institution disbursed Federal Pell Grant, Federal Perkins Loan, or FSEOG funds to the applicant.

FAMU's policies and procedures governing the treatment of over awards were not adequate to ensure that over awards were properly eliminated. FAMU's policies governing the correction of over awards provide options including reductions in un-disbursed funds or award reductions. In both instances noted, FAMU had made adjustments to subsequent disbursements, but the adjustments were insufficient to eliminate the over-award. The University could not explain why it did not initially identify and eliminate the over awards.

#### Recommendations

We recommend the Chief Operating Officer for Federal Student Aid require FAMU to

2.1 Reimburse the Department for the \$2,354 in over awards identified.

2.2 Strengthen policies and procedures for processing student financial aid awards.

**FAMU'S RESPONSE:** The University acknowledges the overpayments shown under this section, and has reimbursed the Department, as documented in our previous submission for the overpayment, as recommended by the auditor.

Additionally, under FAMU'S new President and management team, the University has since reviewed and strengthened its procedures to accurately determine awards and disbursements of Title IV Funds to students. These new procedures have been put into place effective with the 2005-2006 program year. These procedures will be monitored and updated as needed to ensure full compliance.

### **OTHER MATTERS**

FAMU failed to properly label bank accounts that contained Title IV funds and had no record of any notification to the bank that the accounts contain federal funds. The regulations at 34 C.F.R. § 668.163(a)(2)(i) and (ii) provide that "an institution must clearly identify that Title IV, HEA program funds are maintained in [a bank or investment account] by – (i) Including in the name of each account the phrase 'Federal Funds'; or (ii) Notifying the bank or investment company of the accounts that contain title IV, HEA program funds and retaining a record of that notice . . . ." Although we received confirmation from the bank that it was aware that FAMU's accounts all contain or may contain federal funds, we suggested that FAMU issue an official notification to the bank and retain a copy of that notification. On September, 28, 2005, FAMU provided documentation of the bank notification and account name change, clearly identifying that the account contains federal funds.

**FAMU'S RESPONSE:** The University provided the auditor with documentation that correspondence was provided to the Bank, informing the Bank that the funds on deposit included Federal Title IV Funds, as required. The University's new CFO has developed procedures to assure that all newly established Bank Accounts, which contain Federal Title IV Funds, will be documented in writing to, and acknowledged by the Bank, to ensure that the Bank is aware that the account contains Federal dollars, for all such new accounts which may be open in the future. These procedures will be monitored and updated as needed to ensure full compliance.

Ms. Wempe  
February 7, 2006  
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Please further be advised that Florida A&M University, under my leadership, is committed to the making the improvements to make our Financial Aid program second to none in this nation. If additional information or documentation is needed in this matter, please let us know.

With regards,

/s/

Castell Vaughn Bryant  
Interim President

Copy: James C. McMillan II, Special Assistant for Financial Aid Services  
Gerald Dunn, Vice President and Chief Financial Officer  
Rufus Little, Vice President for Audit and Compliance