
Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement

FINAL AUDIT REPORT



ED-OIG/A06F0018
November 2, 2006

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U.S Department of Education
Office of Inspector General
Dallas, Texas

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November 2, 2006

Dr. Walter Kimbrough, President
Philander Smith College
One Trudie Kibbe Reed Drive
Little Rock, Arkansas 72202

Dear Dr. Kimbrough:

Enclosed is our final audit report, Control Number ED-OIG/A06F0018, entitled *Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement*. This report incorporates the comments you provided in response to the draft report. 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
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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.

Sincerely,

/s/
Sherri L. Demmel
Regional Inspector General
for Audit

Enclosures

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EXECUTIVE SUMMARY

The purpose of the audit was to determine whether Philander Smith College (PSC) complied with the Title IV program requirements for student eligibility, verification, return of Title IV funds, and accounting for the Federal Perkins Loan program (Perkins) and the William D. Ford Federal Direct Loan program (Direct Loans). Our review covered PSC's fiscal year July 1, 2003, through June 30, 2004. Federal funds disbursed in the 2003-2004-award year for Pell and Direct Loans were \$2,028,609 and \$4,574,054, respectively.

We determined that PSC often did not comply with the Title IV program requirements, and as a result did not meet the administrative capability standards for Title IV programs. Based on the significance of these findings, we concluded that the entire \$11.4 million in Department of Education (Department) funds that PSC expended during 2003-2004 might be at risk for similar misuse.

We found that PSC—

- Did not account for or properly administer the Perkins Loan Funds;
- Disbursed \$26,548 in Title IV funds to 5 ineligible students from a sample of 20;
- Did not return unearned Title IV funds;
- Failed to monitor the verification process and ensure that all required verifications were completed;
- Did not properly handle credit balances for the 8 files we reviewed;
- Did not properly disburse or reconcile Direct Loan Program funds;
- Did not report student status changes to the National Student Loan Data System (NSLDS); and,
- Did not meet administrative capability standards for Title IV Programs.

To correct these deficiencies, we recommend that the Chief Operating Officer for Federal Student Aid (FSA) require PSC to—

- Reconcile the Perkins Loan and Direct Loan Programs;
- Return funds to the Department for disbursements made to ineligible students;
- Develop and implement adequate policies, procedures, and management controls;
- Refund outstanding credit balances;
- Calculate and pay imputed interest costs to the Federal Government for excess cash retained in fiscal year 2003-2004;
- Ensure personnel are trained in the requirements of the Title IV Programs; and
- Contract with a consultant, acceptable to the Department, to perform a 100 percent file review for years 2003-2004, 2004-2005, and 2005-2006 to determine if additional Title IV funds were improperly disbursed.

We also recommend that the Chief Operating Officer of FSA—

- Continue PSC on provisional certification;
- Place PSC on the reimbursement payment method;
- Initiate appropriate action under 34 C.F.R. Part 668, Subpart G, to fine, limit, suspend, or terminate PSC's participation in the Title IV programs;
- Provide technical assistance to PSC to develop and implement policies, procedures, and management controls as discussed in Recommendations 1.1, 3.1, 4.1, and 5.1;
- Conduct follow up site visits to ensure that PSC follows its policies and procedures to properly administer the Title IV programs.

In its response, PSC stated it is committed to bringing its Title IV program into compliance with Federal laws and regulations. PSC agreed with our findings and accepted financial responsibility for \$430,078 of our recommendations to return total funds of \$477,029. PSC did not agree with Recommendations 2.2, 3.2 (partially), 4.2, 5.2, 6.2, 8.3, and 8.8. PSC did not comment on Recommendations 1.1, 8.1, and 8.7.

Based on PSC's response and their commitment to bring their Title IV program into compliance, we have added recommendations that FSA provide the assistance necessary. Based on additional documentation provided by PSC, we removed Recommendation 2.2, modified 3.2 and 5.2, but kept all others unchanged. The response, excluding the referenced appendices, which contains student information, is included as Enclosure 2. The appendices are available upon request.

BACKGROUND

PSC, a historically black college founded in 1877, is Arkansas's oldest, private, not-for-profit, four-year, liberal arts college. The college, accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools, offers the following degrees: Bachelor of Arts, Bachelor of Science, Bachelor of Business Administration, and Bachelor of Social Work.

PSC has participated in the Title IV programs under provisional certification since 1999. Federal funds disbursed in the 2003-2004-award year for Pell and Direct Loans were \$2,028,609 and \$4,574,054, respectively. During our audit period, PSC used a servicer, Campus Partners, to handle accounting functions and Debtcom, Incorporated to perform collections for its Perkins program. Debtcom discontinued operations in July 2004.

PSC hired a consultant in 2002 to close out the Direct Loan and the Perkins programs. The consultant agreed to reconcile and close out the Direct Loans and to perform due diligence and assign outstanding Perkins loans to the Department.

PSC's 2003 A-133 Single Audit Report had the following reportable conditions:

- Reconciliation of bank accounts—the College did not reconcile bank accounts and adjust the books for reconciling differences on a monthly basis.
- Cash Management—PSC did not disburse Title IV funds to students or parents by the end of the third day following the date the institution received those funds from the Secretary.
- Returning Title IV Funds—PSC did not return Title IV funds to the Department of Education (ED) within 30 days of determining that students receiving Title IV awards withdrew.
- Submission of Reports—PSC did not properly monitor, oversee, and report Federal Pell Grants.

In 2004, the A-133 Single Audit Report had the following reportable conditions:

- Financial statements—the College did not provide complete and accurate monthly financial statements to management on a timely basis.
- Reconciliation of bank accounts—the College did not reconcile and adjust bank accounts on a monthly basis. As a result, adjustments were made to cash after the year ended.
- Federal revenue and expenditures—the College could not readily identify all Federal revenue and expenditures, and revenue was not recorded in the appropriate account on a consistent basis.
- Payments disbursed not reconciled—the College credited Direct Loans and Pell awards to student accounts receivable for which the College did not receive reimbursement.

The students were either not eligible for these awards, or the College did not submit the necessary documentation to receive reimbursement.

PSC has experienced frequent turnover in administrators and staff. The current President, Chief Financial Officer, and Financial Aid Administrator began their tenures in late 2004 and early 2005.

AUDIT RESULTS

We determined that PSC often did not comply with the Higher Education Act (HEA) of 1965, as amended, and regulations for administering the Title IV programs, and as a result, did not meet the administrative capability standards for program participation. Specifically, PSC did not—

- Account for or properly administer the Perkins Loan Funds;
- Disburse Title IV aid to only eligible students;
- Return unearned Title IV funds;
- Complete verification for all selected students;
- Return credit balances;
- Reconcile the Direct Loan Program; and,
- Report changes in student status to National Student Loan Data System (NSLDS).

FINDING NO. 1 – PSC Did Not Maintain Proper Accounting for Perkins Loan Funds

PSC did not maintain proper accounting for Perkins loans. PSC's Perkins data in NSLDS was not updated. For the period ended on June 30, 2005, NSLDS showed a cumulative, disbursed amount of \$180,103 compared to the servicer's records of \$1,621,697.

We reviewed the servicer's accounting report dated September 30, 2005, which indicated an outstanding loan amount of \$506,687, with no loan payments since September 2003. Occasionally students made payments at PSC's business office, but PSC did not always notify the servicer of those payments. As a result, during our audit period we determined that borrowers were not credited for payments of \$1,741 made on their Perkins loans. Since PSC did not keep detailed records of which students made payments, the number of borrowers affected is unknown. The servicer's records indicate 180 borrowers have credit balances totaling \$27,426 that have not been refunded by PSC. In addition, PSC did not safeguard the Perkins promissory notes that were stored in cardboard boxes in an unsecured basement rather than in a locked, fireproof container.

PSC's Financial Aid consultant stated in her interview on July 15, 2005, that almost 1,200 Perkins loans had been assigned to the Department to date for the purpose of closing the Perkins program. When loans are assigned to the Department all rights, authorities, and privileges

associated with a loan are transferred to the United States Government. As of April 2006, the Department's records show no Perkins loan assignments since the mid-1990s.

Federal regulations address the requirements for records, reporting, and storage of promissory notes as follows:

34 C.F.R. § 674.19 Fiscal Procedures and Records.

- (d) *Records and reporting.* (1) An institution shall establish and maintain program and fiscal records that are reconciled at least monthly.
- (2) Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary.
- (e) *Retention of records*—(1) *Records.* An institution shall follow the record retention and examination provisions in this part and in 34 CFR 668.24.
- (2) *Loan records.* (i) An institution shall maintain a repayment history for each borrower. This repayment history must show the date and amount of each repayment over the life of the loan. It must also indicate the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges.
- (ii) The history must also show the date, nature, and result of each contact with the borrower in the collection of an overdue loan. The institution shall include in the repayment history copies of all correspondence to or from the borrower, except bills, routine overdue notices, and routine form letters.
- (3) *Period of retention of repayment records.* An institution shall retain repayment records, including cancellation and deferment requests, for at least three years from the date on which a loan is assigned to the Department of Education, canceled, or repaid.
- (4) *Manner of retention of promissory notes and repayment schedules.* An institution shall keep the original promissory notes and repayment schedules until the loans are satisfied. If required to release original documents in order to enforce the loan, the institution must retain certified true copies of those documents.
- (i) An institution shall keep the original paper promissory note or original paper Master Promissory Note (MPN) and repayment schedules in a locked, fireproof container.
- (v) Only authorized personnel may have access to the loan documents.

PSC's failure to account for and properly administer the Perkins Loan Program occurred due to a lack of management controls and inadequate supervision. As a result, PSC's default rate climbed to 63.6 percent in 2003; students who overpaid their loan balances have not been refunded; some students were not credited with payments they made; and PSC's accounting records have not been reconciled with the Department's.

Recommendations

We recommend that the Chief Operating Officer of FSA—

- 1.1 Require PSC to reconcile all the Perkins Loan accounts, apply all payments to the applicable borrower loan balance, update the borrowers' status, and refund the credit balances.
- 1.2 Initiate appropriate action under 34 C.F.R. Part 668, Subpart G, to terminate PSC's participation in the Perkins Loan Program.

PSC Comments – PSC stated that it has assigned \$291,706.37 in Federal Perkins loans to the Department of Education and anticipates full closure of the program on or before December 31, 2006.

OIG Response – The Department's Dispute Resolution Group stated that as of September 26, 2006, \$142,780.40 in outstanding Perkins Loans have been accepted for assignment back. The Department and PSC should work together to reconcile the difference of \$148,925. PSC did not comment on Recommendation 1.1. The corrective action steps listed in Recommendation 1.1 should be completed before closure of the program. PSC did not provide additional information to change our finding and recommendations.

FINDING NO. 2 – Title IV Aid Was Disbursed to Ineligible Students

PSC disbursed aid to ineligible students. We reviewed the files for 20 randomly selected students who received Title IV aid to verify their eligibility and determine if disbursements were properly made.

We determined that 5 of 20 students (25%) were ineligible to receive \$26,548 in Title IV funds. These five students did not maintain satisfactory academic progress prior to the semesters within our audit.

Based on the above, we requested PSC to provide a list of students who earned zero credit hours in a semester during our audit period. We reviewed files for 163 students PSC identified as earning zero credit hours in a semester and found that 134 students received Title IV aid. When zero credit hours are earned in a semester, PSC's satisfactory academic progress standards cannot be met in the subsequent semester. We determined that PSC disregarded this policy and disbursed \$263,313 in Title IV aid in a subsequent semester to 59 of these 134 students who should have been on financial aid suspension.

Satisfactory academic progress is one of several factors to be considered when determining student eligibility. According to 34 C.F.R. § 668.32 (f), a student is eligible to receive Title IV program assistance if the student maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress. At 34 C.F.R. § 668.16(e)(1), the Secretary “. . . considers an institution's standards to be reasonable if the standards-- (1) Are the same as or stricter than the institution's standards for a student enrolled in

the same educational program who is not receiving assistance under a Title IV, HEA program.” PSC defines its standards for satisfactory academic progress in the 2003-2004 Office of Student Financial Aid Policies and Procedures Manual, as, “For any semester or term in which a student withdraws or completes zero hours, they will automatically be placed on Financial Aid Suspension for their next semester or term of attendance.” It further states, “Students are eligible for federal aid while on academic probation, unless they are also on financial aid suspension. Students on academic suspension will not be eligible to receive Title IV financial aid.” For any semester that zero hours were earned, we questioned the Title IV aid received in the next semester that fell within our audit period based on lack of satisfactory academic progress.

According to the 2003-2005 PSC Catalog, the student's academic progress will be evaluated at the end of each regular academic semester. A student who fails to maintain a prescribed, minimum cumulative grade-point average (GPA) will be placed on academic probation for one semester. If the student has not attained the minimum cumulative GPA after the probationary period ends, he or she will be placed on academic suspension for one semester. Based on this policy, if two semesters of low GPAs occurred (a GPA below the minimum of 1.5 at the end of 30 semester hours, 1.75 after 60 semester hours, 2.0 after 75 semester hours), the third semester's Title IV aid was unallowable due to the lack of satisfactory academic progress.

These disbursements occurred because PSC did not follow its policies and procedures for ensuring students first met the academic requirements to be eligible to receive Title IV aid. As a result, \$289,861 (\$263,313 + \$26,548) in financial aid was disbursed to 64 students who were ineligible because they did not make satisfactory academic progress.

Recommendation

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

- 2.1 Return \$ 289,861 to the Department for 64 students who did not meet satisfactory academic progress.

PSC Comments – With one exception, PSC concurred with our findings and recommendations. The exception was the incarcerated student discussed in the draft report for which PSC provided additional documentation.

OIG Response – Based on the additional documentation provided, we removed information concerning the incarcerated student from our finding and deleted Recommendation 2.2 concerning this student.

FINDING NO. 3 – Returns of Unearned Title IV Funds Were Not Administered

Returns of Title IV Funds for Students Who Officially Withdrew Were Not Processed

PSC did not always perform Return of Title IV calculations for students who officially withdrew. During our audit period, there were 13 official withdrawals. We reviewed documentation for all 13 and noted that the withdrawal documents did not include the student's signature. We determined that 2 of the 13 students did not receive Title IV aid, and one student's Return of Title IV was properly calculated and returned. However, PSC did not return \$19,090 in Title IV funds for the remaining 10 students.

According to 34 C.F.R. § 668.22(a)(1), "When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance . . . that the student earned as of the student's withdrawal date"

In a December 15, 2002, memo to PSC's President, the Executive Director for Student Fiscal Service advised that the Federally mandated requirement to complete a Return of Title IV calculation had not been implemented. In a later memo dated July 14, 2003, the Dean of Enrollment Management discussed the ongoing issue with processing the Return of Title IV aid. However, the documentation did not reflect the reason the funds were not returned as required.

Unofficial Withdrawals Were Not Identified

PSC did not have a system in place to identify students who unofficially withdrew. Consequently, PSC did not complete a Return of Title IV calculation for students who failed to follow the school's official withdrawal procedures. The regulation at 34 C.F.R. § 668.22(j)(2) directs an institution to determine the withdrawal date for a student who withdraws without providing notification to the institution.

The 2003-2004 Federal Student Aid (FSA) Handbook, Volume 2, Institutional and Program Eligibility, Chapter 6, Return of Title IV Funds and PSC's 2003-2004 Office of Student Financial Aid Policies and Procedures Manual address the need for a Return of Title IV calculation if a student fails to earn a passing grade in at least one class in which the student was enrolled. Both state that in this situation the institution may not make the presumption that the student completed the course requirements, may not consider the student to have completed the period, and must complete a Return of Title IV Funds calculation.

Based on the FSA Handbook and PSC's policies and procedures, students who earned zero hours were unofficial withdrawals. As discussed in Finding 2, we identified 134 students who earned zero credit hours in at least one semester during our audit period and received Title IV funds during the same semester in which zero credit hours were earned. Eighty-eight of the 134 (66%) students required a calculation of Return to Title IV. In accordance with 34 C.F.R. § 668.22 (c)(1)(iii), we performed the required calculations and used the midpoint of the payment period as the withdrawal date because PSC was not required to take attendance. We determined that \$127,265 in Title IV funds were not returned to the Department during our audit period.

PSC did not implement procedures to identify students who withdrew unofficially and did not follow its policies and procedures for returning unearned funds to the Title IV program. To determine why this occurred, we interviewed the only remaining, financial aid staff member from our audit period. She stated that since joining PSC in 2002, five directors have led the Financial Aid Office, there was a lack of adequate staffing, and the Financial Aid Office and Business Office did not communicate well during our audit period.

High staff turnover, inadequate staffing, and faulty communication between the Financial Aid Office and Business Office resulted in \$127,265 of Title IV funds not being returned to the Department during our audit period.

Recommendations

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

- 3.1 Develop and implement policies, procedures, and management controls to ensure that—
 - a.) Students who withdraw or drop out are identified, and refunds are accurately calculated and returned to the Department;
 - b.) Students who withdraw officially sign and date the withdrawal document.
- 3.2 Return \$19,090 to the Department for 10 students who officially withdrew.
- 3.3 Return \$127,265 to the Department for unearned Title IV funds disbursed to 88 students who withdrew unofficially. [\$862 of the \$127,265 is also included in Recommendation 4.2.]

PSC Comments – PSC concurred with our finding and recommendations with one exception. PSC stated that it is only responsible for returning \$12,892.34, which represents their calculations for the 10 students. PSC stated it has implemented policies, procedures, and management controls to ensure that the withdrawal process, including Return of Title IV funds, is properly administered.

OIG Response – We reviewed the documentation that PSC submitted and have revised our recommendation for 10 of the 13 students who withdrew officially. For the two students that PSC did not address, we did not change our recommendation. The one remaining student has already been properly refunded.

FINDING NO. 4 – Verification Was Not Completed For All Selected Students

PSC did not complete the verification process for 5 of 20 (25%) students. We randomly selected and reviewed 20 student files from the universe of students selected by the Central Processing System (CPS) for verification to determine if verification was completed correctly. Four students' files contained evidence that PSC requested verification information from students, but

PSC failed to forward the information to the CPS for re-evaluation. One student's file had no indication that verification was attempted.

The CPS selects certain Title IV applicants to verify five major data elements (34 C.F.R. § 668.56). These elements are adjusted gross income, income tax paid, household size, number enrolled in college, and certain untaxed income/benefits. Verification ensures that information on a student's application and the resulting eligibility determinations and expected family contribution (EFC) are correct. If students chosen for verification do not provide the requested documents, based on 34 C.F.R. § 668.60(b)(1)(i) and § 668.60(c)(2)(i), they forfeit their Federal Pell Grant for the award year, and the institution must not disburse Federal Direct Subsidized Loans to the students.

PSC's 2003-2004 Financial Aid Policies and Procedures Manual states that all applicants selected for verification by the United States Department of Education are verified before an award is made. However, PSC failed to monitor the verification process and ensure that all required verifications were completed. As a result, \$35,222 in Title IV aid was disbursed to five students for whom verification was not performed.

Recommendations

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

- 4.1 Develop and implement policies, procedures, and management controls to ensure that the verification process is completed.
- 4.2 Return \$35,222 to the Department for five students for whom verification was not performed. [\$862 of the \$35,222 is also included in Recommendation 3.3 for unofficial withdrawals.]

PSC Comments – PSC concurred with our finding and stated they have implemented management controls and a new software system to ensure that verification is completed. PSC did not concur with our recommendation to return \$35,222 to the Department stating that we did not provide sufficient evidence to support this recommendation.

OIG Response – PSC did not provide additional information to change our finding and recommendations. We provided PSC with a sample verification list of 20 names in July 2005 and a list of the five students with verification errors in September 2005. Subsequent to PSC's response to our draft, we again provided our worksheet analysis.

FINDING NO. 5 – Credit Balances Were Not Properly Administered

PSC maintained credit balances on student accounts and did not always remit Title IV credit balances to students. The regulations at 34 C.F.R. § 668.164(e) require an institution to pay credit balances within 14 days. PSC did not ensure policies and procedures were in place to monitor and manage credit balances. Also, the People Oriented Information Systems for

Education (POISE) accounting system used by the institution was not configured to display a cumulative balance with each transaction. Instead, PSC rolled the ending balance forward at the end of each fiscal year.

As an alternative to determining whether PSC handled credit balances properly following each transaction, we reviewed 8 of 72 student files with credit balances carried forward as of June 30, 2004. PSC had a 100% error rate in handling these balances. We found—

- a.) Three students were awarded scholarships totaling \$7,625. However, the student ledgers currently carry credit balances equal to the scholarship amounts. We questioned \$7,625 in Title IV funds because the scholarship funds were not deducted from the amount of Title IV aid awarded when determining financial need. Therefore, the students inappropriately received \$7,625 in Title IV aid;
- b.) Three students were credited with Title IV funds not disbursed according to NSLDS;
- c.) One student who did not make satisfactory academic progress was ineligible to receive Title IV funds. The funds should have been returned to the Title IV program, and were questioned in the group of unofficial withdrawals in Finding 3; and,
- d.) One student had a credit balance carried forward from June 2000; however, we did not question it because the source could not be determined.

PSC's 2003-2004 Financial Aid Policies and Procedures Manual states—

The Executive Director and Director/Counselor, in determining need and making an award, have the responsibility of including all resources available to the student when funds are awarded from these programs. These resources include . . . School and other scholarship and grants

PSC's records were not maintained properly to determine credit balances or their source. Failure to follow Federal regulations and institutional policies resulted in students not having use of funds to which they were entitled, and the institution holding funds to which it was not entitled.

Recommendations

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

- 5.1 Develop and implement policies, procedures, and management controls to ensure that credit balances are handled properly within 14 days.
- 5.2 Refund the \$5,591 in credit balances resulting from scholarship awards to the Title IV Program or students, as applicable. 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.

PSC Comments – PSC stated that it has revised its withdrawal policy outlined in the catalog and will strengthen its policies, procedures, and management controls to ensure compliance with regulatory requirements. PSC reviewed credit balances occurring as of August 1, 2005, and stated that credit balances as a result of Title IV aid will be returned to the appropriate program or student by December 31, 2006. PSC submitted documentation that showed reversing entries to three student ledgers for scholarship awards. In addition, a cancelled check copy was submitted for one student substantiating that funds were returned to the Title IV program.

OIG Response – Based on the documentation that PSC submitted, we changed our recommendation to refund monies from \$7,625 for three students to \$5,591 for two students. The documentation PSC provided for the two remaining students demonstrated reversing entries for those two students' ledgers, but no source documents were provided to substantiate that monies were refunded or an explanation to justify not making the refund.

FINDING NO. 6 – PSC Did Not Properly Administer the Direct Loan Program

Direct Loan Monthly Reconciliations Were Not Completed

PSC did not reconcile its Direct Loan records with the Department's records on a monthly basis because its system of internal controls did not have adequate checks and balances. PSC operates under School origination option 2. According to 34 C.F.R. § 685.102(b)(3)—

School origination option 2: In general, under this option the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, prepares the promissory note, obtains a completed and signed promissory note from a borrower, transmits the promissory note to the Servicer, determines funding needs, initiates the drawdown of funds, receives the funds electronically, disburses a loan to a borrower, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis.

Because records from the school and Department do not match, the Department cannot accurately account for the Direct Loan funds or identify potential problems with timely disbursements or excess cash.

PSC Did Not Timely Disburse Direct Loan Drawdowns or Timely Return Excess Cash

PSC did not timely disburse Direct Loan drawdowns to students. Excess cash was created because PSC did not disburse those funds to the intended students or to other students within the required time period. Specifically, 19 of 20 (95%) student files reviewed showed that disbursements were made to the intended student from 6 to 59 days after funds were drawn down. 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.

Because PSC participates under School origination option 2, it can initiate its own funding requests. According to the Department's *The Blue Book* (June 2001), if a school determines that a student has become ineligible for a portion or all of his Direct Loan disbursement, the school must return those funds to the Direct Loan Program. The school must adjust the actual disbursement downward and initiate a return of funds. The amount that is canceled or adjusted is returned to the school's federal bank account where it immediately must be disbursed to other eligible borrowers (within three business days) or returned to ED as excess cash. *The Blue Book* further instructs, ". . . [T]o maintain a written record of funds distributed, Option 2 schools should retain copies of Direct Loan drawdown requests." PSC was not able to provide this list of drawdown requests. Because a list was not available to match drawdowns with students, we used the same 20 student files that were randomly selected for eligibility (discussed in Finding 2) to evaluate timely disbursements and excess cash. We reviewed the dates that NSLDS/Common Origination Disbursement (COD) data show the funds were disbursed to the institution and compared those dates to dates the institution posted those funds to the students' accounts. We found PSC often posted the disbursements late and did not change the anticipated date of disbursement to the later, actual date of disbursement. When this occurs, students incur additional loan interest costs for unsubsidized loans. Likewise, the Department incurs additional interest expense for subsidized loans when funds are held longer than the three days allowed.

Recommendation

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

- 6.1 Calculate and pay imputed interest costs for excess cash retained in fiscal year 2003-2004.

PSC Comments – PSC submitted a letter from FSA dated April 20, 2006, which stated that PSC successfully closed out the 2003-2004 Direct Loan Program Year. PSC did not concur with our recommendation to pay imputed interest costs for excess cash retained in fiscal year 2003-2004.

OIG Response – We removed our recommendation to PSC to complete the process to close the Direct Loan program. PSC did not provide additional information to change our recommendation to pay imputed interest costs for excess cash retained.

FINDING NO. 7 – Changes in Student Status Were Not Reported to NSLDS

PSC did not report student enrollment changes to NSLDS. NSLDS reported that PSC usually sent back Student Status Confirmation Reports (SSCRs) or roster files without making corrections or updating the status of students. The SSCR is used to determine if the student is eligible for an in-school deferment or must be moved into repayment. Because SSCRs were not reported accurately, unofficial withdrawals went unreported. Failure to update a student's status delays the date a student should enter repayment status for loans and the Department incurs

additional interest costs for subsidized loans that should be paid by the student. According to 34 C.F.R. § 685.309, the SSCRs should be completed by the school and returned to the Secretary within 30 days.

Recommendation

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

- 7.1 Develop and implement policies, procedures, and management controls to ensure that SSCRs are completed accurately and returned timely.

PSC Comments – PSC stated it has implemented management controls and a new software system which will enable SSCR reports to be submitted timely six times per year.

OIG Response – We have added a recommendation in Finding 8 below to have FSA ensure that PSC follows through with properly administering the Title IV programs, to include accurate reporting of student enrollment changes to NSLDS.

FINDING NO. 8 – PSC Did Not Meet Administrative Capability Standards for Title IV Programs

PSC did not administer the Title IV programs in accordance with the HEA and regulatory requirements. Specifically, PSC did not: (1) properly account for and administer the Perkins Loan program, (2) disburse aid to only eligible students, (3) identify students who withdrew unofficially and return unearned Title IV aid to the Department, (4) complete verification for all selected students, (5) return credit balances, (6) properly administer the Direct Loan program, and (7) report changes in student status to NSLDS.

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.” 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).
- “Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls” 34 C.F.R. § 668.16(c)(1).

- “Establishes and maintains records required under this part and the individual Title IV, HEA program regulations” 34 C.F.R. § 668.16(d).
- “Shows no evidence of significant problems that affect, as determined by the Secretary, the institution's ability to administer a Title IV, HEA program and that are identified in—
1) Reviews of the institution conducted by the Secretary . . .” 34 C.F.R. §668.16(j)(1).
According to 34 C.F.R. § 668.82(c)(1)—

The failure of a participating institution or any of the institution's third-party servicers to administer a Title IV, HEA program, or to account for the funds that the institution or servicer receives under that program, in accordance with the highest standard of care and diligence required of a fiduciary, constitutes grounds for—(1) An emergency action against the institution, a fine on the institution, or the limitation, suspension, or termination of the institution's participation in that program.

We attributed this failure to meet administrative capability standards to (1) frequent staff turnover, (2) a lack of adequate policies, procedures, and internal controls, and (3) unresolved findings from the 2003 A-133 Single Audit Report in the areas of bank statement reconciliation, cash management, Return of Title IV funds, and Pell grants not properly reported. We concluded that the lack of capability to administer Title IV programs was so significant that the \$11.4 million in Department of Education funds received for Title IV and other programs during 2003-2004 may be at risk of misuse.

Recommendations

We recommend that the Chief Operating Officer of FSA—

- 8.1 Continue PSC on provisional certification.
- 8.2 Place PSC on the reimbursement payment method.
- 8.3 Take appropriate action under 34 C.F.R. Part 668, Subpart G, to fine, limit, suspend or terminate PSC's participation in the Title IV programs.
- 8.4 Provide technical assistance to PSC to develop and implement policies, procedures, and management controls for Recommendations 1.1, 3.1, 4.1, 5.1 and 7.1
- 8.5 Conduct follow-up site visits as necessary to ensure that PSC continues to follow through with properly administering the Title IV programs.

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

- 8.6 Ensure personnel are trained in the requirements of the Title IV Program.
- 8.7 Contract with a consultant, acceptable to the Department, to perform a 100 percent file review for years 2003-2004, 2004-2005, and 2005-2006 to determine if additional Title IV funds were improperly disbursed, and reimburse the Department accordingly.

8.8 Reimburse the Department \$477,029 as shown in Enclosure 1. This figure is the total amount questioned in all previous recommendations.

PSC Comments – PSC stated that with assistance from its new administration and the Department, it would become compliant with all Title IV regulations. PSC further stated it has already made great strides in becoming compliant. PSC feels it would be unfair to the new administration to place PSC on reimbursement and severely detrimental to the student body to terminate PSC’s participation in the Title IV program. PSC accepts financial responsibility for \$430,078 as shown in Recommendations 2.1, 3.2 (with modification), and 3.3 and requests a payment plan acceptable to all parties to return these funds to the Department.

OIG Response – PSC’s administration appears committed to bringing its Title IV program into compliance with federal laws and regulations. We added Recommendations 8.4 and 8.5 that FSA provide technical assistance to PSC to develop and implement policies, procedures, and management controls and to monitor PSC’s continued improvements.

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of the audit was to determine whether PSC complied with the Title IV program requirements for student eligibility, verification, Return of Title IV funds, Perkins requirements, and Direct Loan requirements. Our review covered PSC’s fiscal year July 1, 2003, through June 30, 2004.

To accomplish these objectives, we reviewed—

- The HEA, regulations, and policies applicable to the Title IV programs;
- PSC’s policies, procedures, and practices for managing the Title IV programs;
- Data obtained from PSC’s Financial Aid, Business, and Registrar’s offices and its Perkins Loan servicer, Campus Partners;
- Transaction-level extracts of data from COD and NSLDS;
- PSC’s A-133 Single Audit Reports for the years ended June 30, 2003, and 2004;
- Fiscal reports provided by PSC and the Department; and,
- PSC’s bank statements from our audit period.

We interviewed PSC’s consultant, officials from the Financial Aid, Business, and Registrar offices, and FSA’s Case Management and Oversight.

We randomly selected 20 student files from a population of 891 Title IV recipients during our audit period and reviewed them to determine if eligibility and disbursement requirements were met. We also reviewed an additional 20 randomly selected students from a population of 421 Title IV recipients who had been flagged for verification to determine if the verification process was completed. We obtained a list of 163 students who earned zero credit hours for at least one semester and reviewed those files to determine if Title IV aid was received and if the Return to

Title IV calculations were done. We performed a Return of Title IV calculation for 88 of the 134 students who required the calculation.

To test PSC's cash management, we requested a list of student disbursements from PSC to match a Direct Loan drawdown request, but PSC was not able to comply with our request. Instead, we used the same 20 student files that were randomly selected for eligibility. We compared the dates of disbursement shown in NSLDS/COD to the dates the institution disbursed the funds to the students to determine if funds were held longer than three days.

To determine if PSC properly administered credit balances within 14 days, we requested a list of students who had credit balances at the end of the fiscal year. We judgmentally reviewed 8 of 72 student accounts that had the higher credit balances.

To achieve the audit objectives, we relied in part on computer-processed data contained in PSC's POISE accounting system. We performed limited testing of the POISE disbursement data by comparing it to the NSLDS/COD data. We relied on the Department's disbursement data. For student transcript data, we relied on PSC's data.

We did not rely on PSC's internal controls because of the significance of the findings.

We conducted onsite work at PSC's offices in Little Rock, Arkansas, from July 11 through July 22, 2005, and August 22 through September 2, 2005.

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

Enclosure 1: Questioned Costs

Recommendation	Reason	Amount
2.1	Return of aid for lack of satisfactory academic progress	\$ 289,861
3.2	Return of Title IV funds for official withdrawals	\$ 19,090
3.3	Return of Title IV funds for unofficial withdrawals	\$ 127,265
4.2	Return of aid for incomplete verification	\$ 35,222
5.2	Credit balances resulting from unpaid scholarships	\$ 5,591
	Total Questioned Costs	\$ 477,029¹

¹ Recommendations 3.3 and 4.2 each include an amount of \$862 for the same student.



PHILANDER SMITH COLLEGE

OFFICE OF THE PRESIDENT

September 10, 2006

Sherril L. Demmel
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General
1999 Bryan Street
Harwood Center, Suite 1440
Dallas, TX 75201-6817

Dear Ms. Demmel:

In response to your letter dated August 11, 2006, please find enclosed Philander Smith College'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. We are certain that our responses have adequately addressed the concerns of the report.

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

Sincerely,

A large black rectangular redaction box covers the signature of the sender, Walter M. Kimbrough, Ph.D.

Walter M. Kimbrough, Ph.D.
President

Finding NO. 1 – PSC Did Not Maintain Proper Accounting for Perkins Loan Funds

RESPONSE:

Philander Smith College is currently in a contractual agreement with Education Management Consultants to liquidate the Federal Perkins Loan. Due to the complexity of the liquidation process, it has taken PSC longer than anticipated to end this program. As of August 31, 2006, Education Management Consultants has assigned \$291,706.37 in Federal Perkins funds back to the Department of Education.

Philander Smith College has already terminated its participation in the Federal Perkins Loan program. We anticipate full closure of this program on or before December 31, 2006.

Finding NO. 2 – Title IV Aid Was Disbursed to Ineligible Students

RESPONSE:

- 2.1 Philander Smith College concurs with this finding. In June of 2005, upon the arrival of the new Director of Financial Aid a Satisfactory Academic Progress Policy (SAP) was approved and implemented. The new policy includes all required components. To remain in compliance, the Director will monitor SAP at the end of each Spring term and students will be notified in writing as to their status. Philander Smith College has strengthened its policies, procedures and management controls to ensure that the SAP policy will be implemented.

- 2.2 Philander Smith College does not concur with this recommendation as further information negates the original documentation in the student's folder that suggests the student was incarcerated. Philander Smith College, through its General Counsel (See Appendix A) has received information that the student was not incarcerated in the Arkansas Department of Correction at any time in 2003 and 2004. Furthermore, the documentation used by the Office of Inspector General personnel during their site visit was fraudulent and was not on official letterhead from the Arkansas Department of Correction. In addition, there is evidence to support that the student endorsed refund checks during his alleged incarceration. Therefore, it is our belief that the student was enrolled at Philander Smith College and entitled to the Title IV aid available to him at that time. Please find attached communication from PSC General Counsel regarding student.

Finding NO. 3 – Returns of Unearned Title IV Funds Were Not Administered

RESPONSE:

- 3.1 Effective Fall 2005, student withdrawals are handled at minimum monthly, but typically at the time the student withdraws, particularly if the student has withdrawn prior to the 60% point of the semester.

The Director of Financial Aid along with the Business Office will determine the student's responsibility and properly notify him/her of funds (if any) that are going to be returned to whom and when. Documentation is given to the Business Office and a manual check is issued back to the proper program. Copies of the checks are attached to the documentation supporting the just cause for the return of the Title IV funds and are placed in the student's financial aid folder. The Business Office is responsible for returning proceeds within 30 days.

At the close of "enrollment verification", Philander Smith College considers all students enrolled with said hours. Students can be withdrawn from the class by the professor for non-attendance. Philander Smith College performs a second check of students at the midterm point in the semester. Faculty reports those students to the Registrar's office and all others are considered still in class. Therefore, the grade earned at the end of the semester is the student's grade.

At the close of each semester, the Registrar's office conducts a review to determine if students actually earned zero hours or walked away. In line with the College's policy, if the student is still participating in class at the midterm, the grade issued at the end is the grade earned.

For the 04-05 school year, Title IV return calculations were performed and funds returned to the proper programs.

After reviewing the OIG Audit, Philander Smith College revised its withdrawal policy outlined in the catalogue. The new policy is below.

Withdrawal From the College

Students withdrawing from PSC are required to file a Notice of Withdrawal From College Form. This form may be obtained from the Office of the Registrar and must be properly signed by all parties listed on the withdrawal form. The date the student initiates the withdrawal process will be the official withdrawal date, not the date the completed form is returned to the Registrar's Office.

If a student withdraws from PSC during the first five weeks of classes (the refund period), all courses will be dropped from the student's record and the student may receive tuition and fees refund in accordance with the refund schedule. (Please consult the Tuition Refund Policy in this catalogue for additional information.) The last day to officially withdraw from the College without a grade penalty is listed in the "Academic Calendar" and can be obtained in the Registrar's Office. Students who fail to officially withdraw by the published date will be reported as having failed the course work for the semester and grades of F will appear on their official transcripts. Furthermore, at the close of the Enrollment Verification period it is the assumption of the College that the student is

present and that the grades submitted by the faculty member are the result of the coursework completed by the student for that class. Students who have questions about withdrawing should contact the Registrar's Office and the Financial Aid Office to determine the effect on their Title IV eligibility.

If, at the end of a semester, a student's transcript indicates he has earned zero hours, Philander Smith College will determine if the student actually completed the course. The Registrar will maintain for its files a statement from the student and the teacher that documents that the student completed the entire semester and the grades reported are the grades earned.

*Catalogue Amendment (p9), Fall 2005.
Effective August 15, 2005*

PSC has strengthened its policies, procedures, and management controls between offices to ensure that withdrawn students are identified and that Title IV refunds are calculated accurately and returned to the Department.

- 3.2 Philander Smith College does not concur with this finding. Please find attached documentation for the 10 students that shows PSC is only responsible for returning \$12,892.34 which represents the R2T4 calculations for those 10 students. (See Appendix D)
- 3.3 The Philander Smith College catalogue for 2003-2005 states, "a student who enrolls and fails to officially withdraw will be liable for all changes incurred for the semester." The catalogue further states, "if excessive absences occur during the first nine weeks of the semester, the instructor shall withdraw the student from the class and shall record a grade of "WP" or "WF" as determined by the student's progress at the time. After nine weeks, the instructor shall record a grade of "F." It is the belief of Philander Smith College that the grades submitted at the end of the semester are the grades earned by all students. The student who failed to withdraw from the college is responsible both financially and academically for that semester. With that said, Philander Smith College did not have a procedure in place to determine whether or not the grades reported were earned or not, therefore, Philander Smith College concurs with this finding.

Finding NO. 4 – Verification Was Not Completed For All Selected Students

RESPONSE:

- 4.1 Effective Fall 2005, the school began utilizing a new FAMS software. This software has a mechanism in place that prevents an aid administrator from disbursing aid to a student who is selected for verification unless all required documents are on file. While it is an automated process, it still requires human interaction and requires the aid officer to populate two different sections of the software prior to the disbursing of aid for a “selected” student.

A current copy of the revised Policy and Procedural Manual can be provided to the Department of Education that outlines the procedures in place that ensures the office remains in compliance with verification.

Philander Smith College has strengthened its policies, procedures and management controls to ensure that verification is completed on selected students by the Central Processing System.

- 4.2 Philander Smith College does not concur with this recommendation as there is not sufficient evidence to support the \$35,222 in question. The worksheets provided by the OIG staff do not indicate the students in question or their findings as to the \$35,222.

Finding NO. 5 – Credit Balances Were Not Properly Administered

RESPONSE:

- 5.1 After reviewing the OIG Audit, Philander Smith College revised its withdrawal policy outlined in the catalogue. The new policy is below:

Student Excess Aid Refund Policy

Philander Smith College uses student accounts to assess charges and apply payments against those charges. If a student's account balance is a credit, it is the policy of the College to refund the credit to the student in a timely manner (under most circumstances). Credit balances caused by financial aid are refunded only after a careful review of the student's account and eligibility for aid. If a credit balance refund is due the student, the refund is made to the student within the time frame required by federal regulations. The refund will be issued in the form of a check made payable to the student and issued by the Business Office. If a credit balance refund is due as the result of a PLUS Loan, the refund will be issued in the form of a check made payable to the borrower.

A student who receives a refund based wholly or partly on financial aid, and later changes enrollment status, may be required to repay all or part of the aid received to the College or to the appropriate federal or state aid programs. Students receiving federal aid other than Federal Work-Study funds who withdraw or change enrollment status (increase or decrease semester hours taken) will have federal aid adjusted in accordance with formulas prescribed by the Federal Title IV Program, or College policy, whichever is applicable.

A student may choose to have a credit balance applied to future semesters by submitting a letter in writing to the Business Office.

IMPORTANT NOTE: *Credit balance refunds due students are processed after enrollment verification each semester (consult the semester schedule of classes for this date). Eligibility for a refund depends on several factors and will be determined by the Office of Financial Aid. Changes in any of these factors, such as dropping courses or withdrawing from the College, could result in delays in receiving a refund or the reduction of the student's aid package, thereby removing a potential credit balance.*

Return of Federal Title IV Funds Policy

Philander Smith College returns unearned funds received from Federal student assistance programs to the proper program accounts or lenders in accordance with Federal Title IV student assistance regulations, as amended, under 34 CFR, section 668.22(d) of the Reauthorization of the Higher Education Act of 1965.

The student receiving assistance from Federal Title IV programs is required to complete a minimum number of hours for which assistance was received. If the student completely withdraws from school during the semester or stops attending, but fails to officially withdraw, the student may be required to return the unearned part of the funds received to help pay educational expenses for the semester. Liability for return of Federal Title IV funds will be determined according to the following guidelines:

1. *If the student remains enrolled and attends class beyond the 60% mark of the semester in which aid is received, all federal aid is considered earned and not subject to this policy.*
2. *If the student completely withdraws from all classes before completing 60% of the semester, a pro-rated portion of the federal aid received must be*

returned to the federal aid programs equal to the percentage of the semester remaining.

3. *If the student does not officially withdraw from classes, and stops attending all classes, a pro-rated portion of the federal aid received, based on the documented last date of attendance, must be returned to the federal aid programs. If the college is unable to document the last date of attendance, one-half of all federal aid received during the semester must be returned to the federal aid programs.*

Return of Federal Title IV funds will be distributed according to statutory regulations. Worksheets provided by the U.S. Department of Education will be used to determine the amounts and order of return. If a student's share of the return amount exists, the student will be notified and allowed 45 days from the date of determination to return the funds to the Business Office of the College for deposit into the federal programs accounts. If the student does not return the amount owed within the 45-day period, the amount of overpayment will be reported to the U.S. Department of Education (DOE) via the National Student Loan Database (NSLDS) and the student will be referred to the DOE for resolution of the debt. Unearned aid will be refunded to the appropriate program(s), if necessary based on these regulations.

PSC has strengthened its policies, procedures, and management controls to ensure that the handling of credit balances complies with regulatory requirements.

- 5.2 We have reviewed the three students representing the questioned \$7625.79. Please find documentation to support the corrections to their student ledger accounts and the return of funds to the proper program, if applicable attached. See Appendix C.

Philander Smith College has reviewed all credit balances as of August 1, 2005. Philander Smith College anticipates closure of this project on or before December 31, 2006. If the credit balance is a result of Title IV aid, the funds will be returned to the appropriate program or student, if applicable.

Finding NO. 6 – PSC Did Not Properly Administer the Direct Loan Program

RESPONSE:

- 6.1 Philander Smith College is in possession of a close out letter for 2003-2004. Letter dated April 2006. See Appendix B.
- 6.2 Philander Smith College does not concur with this recommendation as the 2003-2004 school year has been closed.

Finding NO. 7 – Changes in Student Status Were Not Reported to NSLDS

RESPONSE:

7.1 The Registrar's Office submits the SSCR reports six times a year. The office now has the capability to submit timely information on behalf of the school as a result of the college's purchase of the new software system. The Registrar is keenly aware of this obligation and is committed to ensuring this task is completed. The Registrar will review the information and update each student record according to the federal regulations. Upon receipt of acceptance of the submitted SSCR, the Registrar will send a copy of the acknowledgement to the Director of Financial Aid for his records.

The months of submission are: August, December, February, March, May and June.

Finding NO. 8 – PSC Did Not Meet Administrative Capability Standards for Title IV Programs

RESPONSE:

Effective June 6, 2005 Philander Smith College hired a new Director of Financial Aid. Mr. Page brings over 13 years of financial aid experience to Philander Smith College and has been charged with implementing policies and procedures that will bring Philander Smith College into compliance with all Title IV regulations. The institution has received numerous audit findings over the last 3-4 years and due to high turnover within the office it was unable to implement the necessary changes to become in compliance.

Mr. Page, with the assistance of the new leadership at Philander Smith College, will ensure that all audit findings are resolved and all written policies and procedures are implemented and followed. Periodic audits conducted by Mr. Page will ensure this. Training in the financial aid office is on-going and the office has received a commitment from the administration at Philander Smith College, as well as outside agencies, to make sure it is up to date and knowledgeable about all Title IV regulations. The staff is encouraged and does participate in the state, regional and national financial aid associations.

As the Department of Education is aware, this administration and the Director of Financial Aid were not employed at Philander Smith College during the audit year in question. Therefore, we are asking for a reasonable amount of time to implement and create the positive change that is needed not only in the financial aid office but the campus community as a whole. In one year alone, the current administration has made great strides in bringing Philander Smith College into compliance with the Title IV aid program. While it would be unfair to the new administration to place Philander Smith College on reimbursement, it would be severely detrimental to our student body to terminate Philander Smith College’s participation in the Title IV program. Our issues did not evolve over night, thus our corrections won’t take place over night. The new Financial Aid team can and will make the office 100% compliant with your assistance.

Although Philander Smith College does not concur with all of the recommendations outlined in the draft report, we do accept the following financial responsibility.

2.1	Return of aid for lack of satisfactory academic progress	\$289,861.00
3.2	Return of Title IV funds for official withdrawals	\$12,892.34
3.3	Return of Title IV funds for unofficial withdrawals	\$127,325.00
	Total Questioned Cost	\$430,078.34

We ask that the Department of Education look favorably upon our new administrative team and its efforts and allow us to return these funds on a payment plan acceptable to all parties.

Philander Smith College respectfully asks that no action be taken to fine, limit, suspend, place on reimbursement, or terminate its participation in the Title IV program. We are confident that the new administrative team in place can effectively administer all phases of the Title IV Federal program.

We have a total commitment from the students, faculty and staff of Philander Smith College to comply with all regulatory requirements. The Financial Aid Office (and its Director and staff) and the Business Office (and its Comptroller and staff) are working hand in glove to ensure that sufficient policies, procedures, and practices are in place to meet all federal guidelines.