

# School Responsibilities

## Instructor's Notes

### Time Estimate:

Lecture 35 minutes

Exercise 15 minutes

OCFO Pres. 30 minutes

Total Time: 80 minutes

*By the end of this session, you will be able to:*

- *describe ED's "bottom line" for Title IV funds management,*
- *identify major student aid management systems that schools must maintain, and*
- *locate federal regulations on financial and administrative requirements that schools must meet.*

## INTRODUCTION

This session gives an overview of the most important tasks that must be performed by schools participating in Title IV student financial aid programs. As we discuss these tasks, you will see how officials such as the President/CEO, the financial aid administrator, and the fiscal officer are responsible for specific activities.

Most of the functions are governed by regulations called the Student Assistance General Provisions, Part 668 of the Title IV regulations. We can't emphasize too often how important it is for you to read these regulations thoroughly and refer to them frequently, along with sections of the Handbook that explain the rules in more detail. **Knowing and following the rules** are the most basic responsibilities that ED expects schools to fulfill.

## ED'S BOTTOM LINE

In most organizations and businesses, we talk about the “bottom line,” which is the essential mission of the organization—whether it’s making money or putting out forest fires—and the standards for judging whether it is meeting its goals. In administering federal student financial aid programs, as directed by the Higher Education Act (HEA), ED’s bottom line is to ensure the following: (OH 1)

- Schools deliver good educational value for the students’ and the government’s investment.
- Schools strictly comply with all federal rules as a condition of using Title IV funds.
- Schools distribute the correct amount of financial aid to eligible students.

In addition to the schools’ roles, ED is required to exercise close control of federal funds.

We will take a look at each of these goals and see how Congress and ED take steps to ensure that public funds for postsecondary student assistance are used as intended.

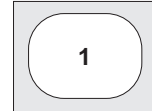
## EDUCATIONAL VALUE

Various methods are used by ED to try to ensure that students receive good value for their education investment.

- ED approves accrediting agencies, which in turn evaluate schools’ academic programs.
- ED approves certain policies of states and accrediting agencies.
- Schools are required to provide several types of consumer information to prospective students.

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- Students must meet certain minimum standards of academic preparation for postsecondary education, and enrolled students must progress toward completing their academic programs.

## COMPLIANCE WITH FEDERAL RULES

Before approving, or “certifying,” a school to participate in Title IV programs, ED performs certain gatekeeping functions to make sure that schools and programs meet statutory requirements. ED reviews a school’s financial documents, and a school must sign a Program Participation Agreement (PPA) that lists specific standards that must be met.

- ED requires schools to be recertified every four years or in the case of a major event, such as an ownership change.
- ED conducts ongoing oversight of school compliance through annual audits required at all schools and optional program reviews by ED staff or audits by ED’s Office of the Inspector General. If necessary, ED conducts investigations and litigation, and it can impose sanctions, including limiting or terminating financial aid program participation.

There are two major categories of compliance standards in the General Provisions: “financial responsibility” and “administrative capability.”

On page 5 of your Workbook, there is a chart that shows the required financial responsibility standards. [IG, pg. 13]

Please take a moment to look over this chart.

» Allow participants 2 minutes to look over the chart.

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### Program Participation Agreement

✓ 34 CFR 668.14

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- “Financial responsibility” is demonstrated when:
  - a school’s services are provided as advertised,
  - adequate administrative resources are devoted to compliance with Title IV rules, and
  - the school meets specific standards of financial soundness, including meeting all of its financial obligations.

On page 6 of your Workbook, there is a chart that shows the required administrative capability standards. [IG, pg. 14]

Please take a moment to look over this chart.

» Allow participants 1 or 2 minutes to look over the chart.

- “Administrative capability” means that the school:
  - separates the functions of authorizing and disbursing federal student aid,
  - employs qualified staff to manage Title IV programs,
  - coordinates all sources of information related to federal student aid (and resolves any discrepancies),
  - reports any Title IV fraud or abuse to appropriate authorities,
  - conducts required counseling for student aid recipients,
  - maintains low student loan default rates, and
  - does not hire any key personnel that have been debarred, suspended, or are proposed for such by a federal agency.

Two important compliance standards have their own sections in the General Provisions regulations.

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**Factors of financial responsibility**  
✓ 34 CFR 668.15

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**Standards of administrative capability**  
✓ 34 CFR 668.16

**Note to Instructor:**  
The functions of authorizing payments and disbursing or delivering funds must be divided so that, for any particular student awarded under Title IV programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family or who do not together exercise substantial control over the institution.

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✓ 34 CFR 668.25

- One of these deals with the use of “third-party servicers” that assist schools with financial aid tasks. These consultants also have their activities audited. But most important, the school that hires them must identify them to ED, and it is the school that is held responsible for their actions.
- The other compliance standard is concerned with how schools pay refunds and repayments when a TitleIV aid recipient leaves school before completing an enrollment period. Sessions 9 and 27 involve refunds and repayments.

✓ 34 CFR 668.22

You will see that you are also required to comply with some laws that are not directly related to managing Title IV programs. They are intended to accomplish some purpose supported by Congress and, thus, have been made a condition of TitleIV participation. For example, participating schools must:

- provide a drug-abuse-prevention program;
- disclose any lobbying efforts if the school receives more than \$100,000 a year in campus-based program funds; and
- report on student graduation and completion rates, expenditures for athletic programs, and other required data.

We'll give you more information on these in a later session.

## **CORRECT AWARDS TO ELIGIBLE STUDENTS**

Once students are enrolled in a school, the school must assure that all students get the aid they are eligible for, and in the correct amounts. To help with this, ED:

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- maintains a central application processing system that, each year, using a congressional formula, figures how much money a student and family should be able to contribute toward postsecondary education expenses;

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- issues regulations on minimum and maximum award amounts, student eligibility standards, and payment procedures for Title IV programs; and
- provides training, publications, and customer support services for students and school financial aid administrators.

Are there any questions so far?

**CONTROL OF FEDERAL FUNDS BY ED**

ED's oversight control of federal funds is authorized by regulations on cash management that provide standardized rules for all the Title IV programs. They set strict time frames for schools using federal money so that funds aren't out of the Treasury longer than necessary and are immediately used to pay students. These regulations are found in Subpart K of 34 CFR 668.

Now \_\_\_\_\_ and \_\_\_\_\_ from ED's Office of the Chief Financial Officer (OCFO) will explain the basics of cash management. Please turn to page 3 of your Workbook.

**PW 3****SCHOOL STRUCTURES FOR MANAGING FEDERAL STUDENTAID FUNDS**

We are back to page 4 of your Workbook. As you can see from the listing of the basic functions required of schools, each school has to have various systems in place to get it all done. You'll want to keep these concepts in mind as we go through the large amount of information in this training, making notes to yourself about your plans to implement Title IV rules at your school. (OH 2)

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You're likely to be asking yourself such questions as:

- "How should we set up our system (or work-flow plan) to accomplish that activity?"

- “What is the weekly/monthly/annual schedule for performing these tasks?”
- “What will be our school policy on this matter?”
- “Which office or staff member will be responsible for carrying out this task?”

At every school, important systems, calendar schedules, policies, and staffing decisions are needed.

Three major school officials, the CEO/President, the financial aid administrator, and the fiscal officer, are primarily responsible for designing and maintaining the financial aid systems at their school. (OH 3)

On page 7 of your Workbook, you’ll find a worksheet listing a school’s major financial aid systems. Please take a few minutes to complete the worksheet for your school.

» Allow participants 2 minutes to complete the worksheet.

Let’s hear from you now.

- Who in your school is—or will be—responsible for: (OH 4)
  - 1) Handling internal communications and coordination among all school offices (this would be persons involved in managing Title IV programs, including students and faculty)?
  - 2) Providing external communications with organizations outside the school?
  - 3) Collecting and publishing student consumer information?
  - 4) Counseling student financial aid recipients?
  - 5) Developing and updating student budgets? (OH 5)
  - 6) Processing student financial aid applications and confirming student eligibility?

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4\*

\*Fill in the initials on the overhead as participants answer CEO, FAA, FO, or more than one, if appropriate. The purpose of this is to emphasize that SFA management isn’t a simple, part-time job.

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- 7) "Packaging" student financial aid and issuing award letters?
- 8) Disbursing student aid funds, receiving student aid payments, and issuing refunds?
- 9) Tracking student academic records and checking academic progress?
- 10) Maintaining records on student eligibility and payments (known as maintaining a "clear audit trail")? (OH 6)
- 11) Reporting on expenditures?
- 12) Providing quality control—an internal oversight that checks to be sure that all functions are being handled correctly?

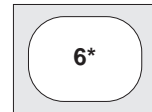
Schools are different in the way they assign staff to handle these functions. Please turn to page 4 of your Workbook.

■ **Staff assignments** will vary, depending on the size and characteristics of schools, but all schools must decide:

- who will take the lead in designing and initiating each task (seeing that it is done);
- who is finally responsible for evaluating the activity (being sure it was done properly); and
- how many people, with what qualifications, are needed to adequately meet Title IV management standards.

■ No matter who handles these management functions at your school, you'll need to design **policies**, within legal and regulatory limits, for:

- the amounts of different types of financial aid awarded to various categories of students;



\*Fill in the initials on the overhead as participants answer CEO, FAA, FO, or more than one, if appropriate. The purpose of this is to emphasize that SFA management isn't a simple, part-time job.

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- qualitative (such as grades) and quantitative (amount of time) standards for completing each educational program at your school (these are called “satisfactory academic progress standards”);
  - appeals and reinstatement (or suspension) of student aid for students who don’t meet academic progress standards; and
  - a “fair and equitable” refund policy for students who drop out.
- In addition, you’ll need **schedules** for:
- handling student admissions, financial aid applications, and award notification;
  - requesting funds from ED, disbursing aid, and returning any funds not earned by students to the appropriate Title IV program accounts or loan lenders; and
  - preparing required reports and audits in time to meet deadlines.

The financial aid calendar, in Appendix E of your Workbook, contains a series of important dates and deadlines.

We have described how ED and schools share responsibilities for Title IV program management in the following ways:

- ED enforces the law, publishes regulations, issues general policies, and follows a calendar for major administrative activities.
- Within the framework of the rules, schools set school policies, develop management systems and schedules, and assign staff responsibilities.

Are there any questions before we begin the case studies?

## CASE STUDIES

Please turn to page 8 of your Workbook. Before closing this session, we'd like for you to look at three case studies concerning the sorts of financial aid decisions that schools regularly have to make. Then we'll discuss what you think should be done in each case. You have ten minutes to complete the three case studies. References to the *Compilation of Student Aid Regulations* are given with each case study for your future reference.

- » Give the participants 10 minutes to work. Allow a total of 5 minutes to discuss the answers to each case study.

### Case Study 1: Gemma Stark

- » Concept: **Separation of functions** between the business office and the financial aid office.

Dave Sutton, the business manager of Winsom Beauty Academy, won the top prize from Publisher's Clearinghouse and cleared out his desk at Winsom giving two hours notice. George Bright, Winsom's CEO since 1995, was surprised, but he wasn't too concerned about disbursing student aid payments to the new class of 20 students that had just enrolled. The reason: The school's financial aid officer, Gemma Stark, was known to be thoroughly familiar with all of the student aid procedures at the school (she had been there for 10 years longer than George). He called Gemma to his office and said that he would have to ask her to take on the task of writing student checks, along with working up students' award packages, until Dave could be replaced. George assured Gemma that she would receive a nice bonus for this extra work, and said how glad he was to have someone on the staff who could be trusted to handle all of the important Title IV requirements.

**Q: What should Gemma reply? Why?**

**A: Gemma must remind George of one of the most important standards of administrative capability for schools using Title IV funds: "separation of**

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✓ 34 CFR 668.16(c)

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**functions.” This means that the person or office that authorizes payments to students and the person or office that disburses or delivers funds must be organizationally independent of each other.**

## Case Study 2: Minna Lake

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» Concept: The importance of **sending SFA staff to training**, especially if they don't have SFA experience. Discussion might also consider that there are times during the award year when financial aid office coverage is most critical.

Minna Lake has agreed to try something new after many years of successful cello teaching and assumed the job of student aid director at Sterling School of Music. Learning of an ED-sponsored Title IV Training workshop in the nearest ED regional-office city (about 300 miles away), she asks Strobe Leight, the school's director, to approve her travel to the workshop. Strobe says, “Minna, I just don't see how we can spare you for four days with the backlog of work that's piled up since Sergio left for the Met. You can go to some training later this year.”

✓ 34 CFR 668.16(b)

**Q: Is this a wise decision by Strobe? Why or why not?**

**A: Strobe should work with Minna to find a way for her to attend a major training series sponsored by ED. Regulations cite professional financial aid training as a key factor in evaluating the qualifications of school personnel responsible for administering Title IV programs. This is especially important for staff that are new to the profession. Although office workload must be taken into account, timely training of staff helps to ensure that their work is based on current and correct information.**

### Case Study 3: Callie Fahey

» Concept: The responsibility of school personnel to report to authorities any known cases of student fraud—this **responsibility is shared** by all who have the information.

“How disappointing that nice young man turned out to be a crook,” thought Callie Fahey, Frasker Junior College’s financial aid director. Her reaction came after Frank Linn, her counterpart at Sanger Tech, gave her evidence that freshman Jed Hart had used a false name and Social Security number to get Pell Grants at Frasker and Sanger at the same time. “Oh, well, he’s apparently left town, so it’s not my problem any more,” she shrugged.

**Q: Whose problem is it? Why?**

**A: School personnel must report to authorities any known cases of fraud involving Title IV funds. This responsibility is shared by all persons who have the information.**

Are there any final questions on a school’s student aid management responsibilities?

### BACK AT THE OFFICE

When you go back to your office, carefully read the General Provisions regulations, paying special attention to the administrative and financial standards in Sections 668.15 and 668.16. You should take an objective look at the staff employed for Title IV purposes, making sure they have the necessary resources to meet the standards required by law. You will want to closely examine your school’s procedures for planning student aid disbursements, requesting funds, maintaining the funds in proper accounts, and returning funds when necessary.

What else should you do when you return to your office?

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✓ 34 CFR 668.16(g)

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## Title IV Financial Responsibility Standards

### All Schools

*A school is financially responsible if it meets the following criteria:*

Provides all services described in its official publications and statements\*

Provides administrative resources necessary to comply with requirements for participating in Title IV programs\*

Meets all of its financial obligations,\* including payment of:

- required refunds to students and
- liabilities and debts to ED

Is current in paying any institutional debts\*

Posts an irrevocable cash reserve, acceptable and payable to ED, equal to at least 25% of the total amount of Title IV program refunds paid by the school in the previous fiscal year\*\*

Does not have as part of its most recent audit report\*:

- a statement expressing substantial doubt of the school's ability to continue as a going concern *or*
- a disclaimed or adverse opinion by the accountant

The individual who exercises significant control over the school does not owe a liability for a Title IV program violation, unless the school and the individual owing the liability meet the provisions of 668.15(d)(4)

Has not been limited, suspended, or terminated *or* has not entered into a settlement agreement to resolve a limitation, suspension, or termination within the preceding 5 years

Was not required to repay an amount greater than 5% of Title IV funds received for an award year as a result of findings during its 2 most recent program reviews or audits

Was not cited during the preceding 5 years for failure to submit acceptable audit reports in a timely manner

Did not fail to resolve satisfactorily any compliance problems identified during a program review or audit

### If a For-Profit Institution\*

Maintains an acid-test ratio of 1:1 in terms of the school's cash (excluding any irrevocable line of credit requested by ED) and current receivables to current liabilities, **and**

Has not had operating losses in either or both of its past 2 fiscal years that in sum have resulted in more than a 10% reduction in the school's tangible net worth, **and**

Has a positive tangible net worth for its most recent fiscal year,

OR

Has outstanding debt obligations that are listed at or above the second highest credit rating level by a nationally recognized statistical rating organization

### If a Nonprofit Institution\*

Demonstrates at the end of its most recent fiscal year an acid-test ratio of 1:1 in terms of the school's cash and current receivables to current liabilities, **and**

(1) Has at the end of its most recent fiscal year a positive unrestricted current fund balance or positive unrestricted net asset *or*

(2) Has not had an excess of current fund expenditures greater than current fund revenues during the past 2 fiscal years that have resulted in more than 10% reduction in the school's unrestricted current fund balance or unrestricted net assets

OR

Has outstanding debt obligations that are listed at or above the second highest credit rating level by a nationally recognized statistical rating organization

### If a Public Institution\*

*(Needs to meet only one of the following)*

Has its liabilities backed by the full faith and credit of the state or other equivalent government entity, *or*

Has a positive unrestricted current fund balance, if reporting under the Single Audit Act, *or*

Has a positive unrestricted current fund balance in the state's higher education fund as presented in the general purpose financial statements, *or*

Submits documentation from the state auditor general that it has met all of its financial obligations during the past year and has sufficient resources to meet all of its financial obligations

OR

Has outstanding debt obligations that are listed at or above the second highest credit rating level by a nationally recognized statistical rating organization

\* A school may be considered financially responsible even if the school fails to meet this standard if the school submits to ED an irrevocable letter of credit of not less than one-half the Title IV program funds received by the school for an award year *or* the school is able to establish that it has sufficient resources to ensure against its precipitous closure.

\*\* This standard does not apply if the school:

1. is located in a state that has a tuition-recovery plan that is acceptable to ED, and the school contributes to that tuition-recovery fund;
2. has its liabilities backed by the full faith and credit of the state or by an equivalent governmental entity; *or*
3. demonstrates to ED that for each of the two most recently completed fiscal years it has made timely refunds to students and has met all of the financial responsibility standards.

## Title IV Administrative Capability Standards

### A school is administratively capable if it:

- administers Title IV programs in accordance with all Title IV requirements;
- designates a capable individual to be responsible for administering Title IV programs;
- has adequate staffing for administering Title IV programs;
- communicates to the individual responsible for administering Title IV programs all information that bears on a student's Title IV eligibility;
- has written procedures for administering Title IV programs;
- administers Title IV programs with adequate checks and balances in its system of internal controls;
- divides the functions of authorizing Title IV payments and disbursing/delivering Title IV funds so that the functions are carried out by at least two (2) organizationally independent individuals;
- establishes and maintains required Title IV records;
- for purposes of determining student eligibility for Title IV assistance: establishes, publishes, and applies reasonable standards for measuring whether a student is maintaining satisfactory academic progress in completing his/her educational program;
- develops an adequate system for resolving discrepancies in information related to a student's application for Title IV assistance;
- refers to ED's Office of Inspector General information indicating when an applicant for financial aid, employee, or agent of the school might have engaged in fraud or other criminal misconduct in connection with Title IV programs;
- provides adequate financial aid counseling to Title IV Program applicants;
- submits all required Title IV program reports in a timely manner, including required fiscal reports and financial statements;
- does not demonstrate any significant problems in its ability to administer Title IV programs;
- does not have any individual affiliated with the school who is/has been debarred or suspended or is engaging in any activity that is cause for suspension or debarment under Executive Order 12549 or the Federal Acquisition Regulation;
- for a school that seeks initial participation in a Title IV program: does not have more than 33% of its students withdraw during an academic year;
- has a cohort default rate\* of less than 25% under the Federal Family Education Loan Program and/or Direct Loan Program for each of the three (3) most recent fiscal years and equal to or less than 15% under the Federal Perkins Loan Program; and
- does not appear to lack the ability to administer Title IV programs competently.

\*If a school is determined not to be administratively capable on the basis of this standard only, ED will provisionally certify the school's participation in Title IV programs.