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An Audit Report on Student Financial Aid at Four-Year Public Universities

Phase 2 of the Student Financial Aid Reviews

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December 13, 2000

Members of the Legislative Audit Committee:

At least 775 students did not receive the full state financial aid consideration for which they were eligible due to problems at two of four audited universities. We noted problems at Southwest Texas State University (SWTSU) and Texas Woman's University (TWU) in two programs (*Toward Excellence, Access, and Success [TEXAS] Grant* and *Texas Public Education Grant [TPEG] Emergency Loan*). In addition, survey responses from other universities (responses were received from 52 percent of the universities surveyed) show that the risk of similar problems exists at universities throughout the State. In contrast, our audits at The University of Texas at Arlington (UTA) and the University of North Texas Health Science Center (UNTHSC) found adequate processes in place for state student financial aid programs.

State universities reported spending approximately \$14 million in fiscal year 2000 for the *TEXAS Grant* program and \$79 million in fiscal year 1999 for the *TPEG Emergency Loan* program. As state student financial aid funding increases, it will become more important to prevent problems and their impact on students.

Specific problems detected during our audit at four universities include the following:

- SWTSU and TWU did not identify 198 qualified students (SWTSU [184] and TWU [14] for the *TEXAS Grant*, although their universities had \$159,727 in remaining funds available. Subsequently, these funds were disbursed to students at other universities.
- One university, SWTSU, charged students an interest rate exceeding the statutory limit of 5 percent for delinquent *TPEG Emergency Loans*, resulting in \$268,113 in additional interest charged to students for fiscal years 1995 through 1999.
- It is not clear if 577 students at SWTSU and an unknown number at TWU in 1999 and 2000 (reviewed in July 2000) were consistently informed of the state-mandated emergency loan deferment option, which can allow some students to continue their education. The universities lack written operating procedures to ensure that students in financial need are informed of and considered for this option.
- TWU and SWTSU limited the maximum amount of an emergency loan to half of a student's tuition and fees instead of the full amount as required by statute. Even though this method allows the universities to provide emergency loans to more students, it is not in compliance with state law.

Our detailed audit findings are attached. We provided specific recommendations in management letters to the four audited higher education institutions. Each institution has responded to our recommendations and agreed to implement them.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

What are the *TEXAS Grant* and *TPEG Emergency Loan* programs?

The *TEXAS Grant* was created by the 76th Legislature to help first-time college students who meet high academic standards and are from low-income families. (See attachment for more information.)

The purpose of the *TPEG Emergency Loan* program is to supply emergency loans to college students whose educational costs are not met in whole or in part from other sources. The *TPEG Emergency Loan* program is funded by a percentage of TPEG funds (10 percent) allocated by the educational institution.

Attachment/als/tgc

SAO Report No. 01-010

Overview

Figure 1

775 Students at Two Universities Did Not Receive Full State Financial Aid Consideration	
Southwest Texas State University	
TEXAS Grant	184
TPEG Emergency Loan	577
Texas Woman's University	
TEXAS Grant	14
TPEG Emergency Loan	Unknown
Total	775

Source: State Auditor's Office

At least 775 students did not receive the full state financial aid consideration for which they were eligible due to problems at two of the four audited universities. We noted problems at Southwest Texas State University (SWTSU) and Texas Woman's University (TWU) in two programs (*Toward Excellence, Access, and Success [TEXAS] Grant* and the *Texas Public Education Grant [TPEG] Emergency Loan*). In addition, survey responses from other universities show that the risk of similar problems exists at universities throughout the State.

In fiscal year 2000, the first year of the *TEXAS Grant*, 6,123 Texas public university students received over \$14 million in *TEXAS Grant* funds. In fiscal year 1999, Texas public universities disbursed approximately \$79 million in *TPEG Emergency Loans*.

Section 1:

Errors Exist in *TEXAS Grant* Financial Need and Academic Eligibility Determinations Made by Universities

SWTSU and TWU did not identify 198 qualified students (184 students at SWTSU and 14 students at TWU) for the *TEXAS Grant*, although those universities had

\$159,727 remaining in available *TEXAS Grant* funds. The funds were subsequently disbursed to students at other universities. The problem with eligibility determination at SWTSU involved financial need requirements, while the problem at TWU involved academic requirements.

In addition, those 198 students not identified as qualified may never benefit from the *TEXAS Grant*. One *TEXAS Grant* eligibility requirement states that a student must have completed fewer than 30 hours of college credit when initially accepted for the grant. Because these 198 excluded students will have completed one year of college before reapplying for financial aid, most will have more than 30 hours' credit and will no longer qualify for the *TEXAS Grant*.

Other universities may not be identifying all academically eligible students. A survey of other

Texas public four-year universities that participate in the *TEXAS Grant* and *TPEG Emergency Loan* programs indicates a risk exists that additional state universities are

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also using processes for the *TEXAS Grant* that might not identify all academically eligible students. (See Section 7 for survey results.)

Section 2:

Additional Interest Was Charged for Delinquent Emergency Loans

We reviewed four universities administering the *TPEG Emergency Loan* program and found SWTSU charged 15 percent annual interest on delinquent emergency loans. This resulted in \$268,113 in additional interest charges for fiscal years 1995 through 1999. The program statute, Texas Education Code, Section 56.053 (a)(2), indicates that universities should charge an interest rate of no more than 5 percent. We recommended that SWTSU obtain advice from its university system legal department to resolve this situation.

Section 3:

There Is a Lack of Formal Procedures for Notifying Students of Emergency Loan Deferment Options

For emergency loans awarded in the 1999-2000 school year (reviewed in July 2000), 577 students at SWTSU and an unknown number at TWU have defaulted in payment and could be denied subsequent enrollment. TWU and SWTSU do not have or follow written operating procedures to ensure that students are consistently informed of and considered for the required *TPEG Emergency Loan* program's deferment option. Lack of documentation prevented us from determining the exact number of students forced to leave the two audited universities due to this situation. (Forty-four percent of universities responding to our survey do not provide the deferment option to their students. See Section 7.)

Texas Administrative Code, Title 19, Chapter 21, does not require universities to defer emergency loans; however, Texas Education Code, Section 56.055, does. The overriding Education Code requires that "an institution shall defer repayment of emergency loans under this section." The Legislature may wish to address the discrepancy between the Texas Administrative Code and the Texas Education Code to clarify this issue for universities.

Section 4:

Some Universities Limit the Maximum Amount of Emergency Loans

TWU and SWTSU limited the maximum amount of an emergency loan to half of a student's tuition and fees instead of the full amount of tuition and fees as required by statute. This method allowed the universities to provide more emergency loans to more students. Both universities allowed individual students to obtain multiple emergency loans in a semester; students were required to settle delinquent loans before additional loans were approved. However, this practice was not in compliance

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with Texas Education Code, Section 56.053(a)(3). The Code requires that “the maximum loan per student shall not be less than an amount equal to the tuition and required fees for the courses in which the student is actually enrolling.”

Section 5:

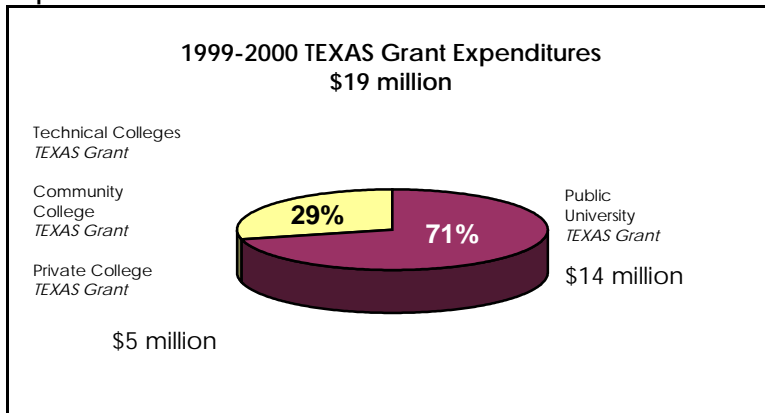
TEXAS Grant Facts and Figures

Section 5-A:

How Were TEXAS Grant Funds Allocated?

The Higher Education Coordinating Board (Coordinating Board) allocated funds to each university based on estimates of the number of qualified students at each school.

Figure 2
Seventy-one percent of the fiscal year 2000 TEXAS Grant expenditures were at state universities.



Source: Higher Education Coordinating Board

(Figure 2 gives a brief understanding of the fund allocation. For more detail, see Section 6.) In December 1999, after the initial identification of qualified students, schools returned funds not distributed to students.

The funds returned to the Coordinating Board were reallocated to requesting schools that still had qualified students that could benefit from the aid. Therefore, the TEXAS Grant funds did get to students that qualified for and needed the aid, but some students were overlooked at specific schools.

Texas universities spent all of the TEXAS Grant funds, but some schools did not use all of their allocated funds. Instead, students at other schools received this excess aid. This could be due to two factors:

- Fewer students qualified than anticipated at certain schools.
- Certain schools incorrectly identified some students as ineligible.

Section 5-B:

How Were TEXAS Grant Funds Used at the Universities We Audited?

Of the four schools audited, Southwest Texas State University and Texas Woman’s University returned TEXAS Grant funds that could have benefitted qualified students. This resulted from the schools not correctly identifying all eligible students who applied for aid. (Figure 3 depicts the use of funds reviewed at the audited universities.)

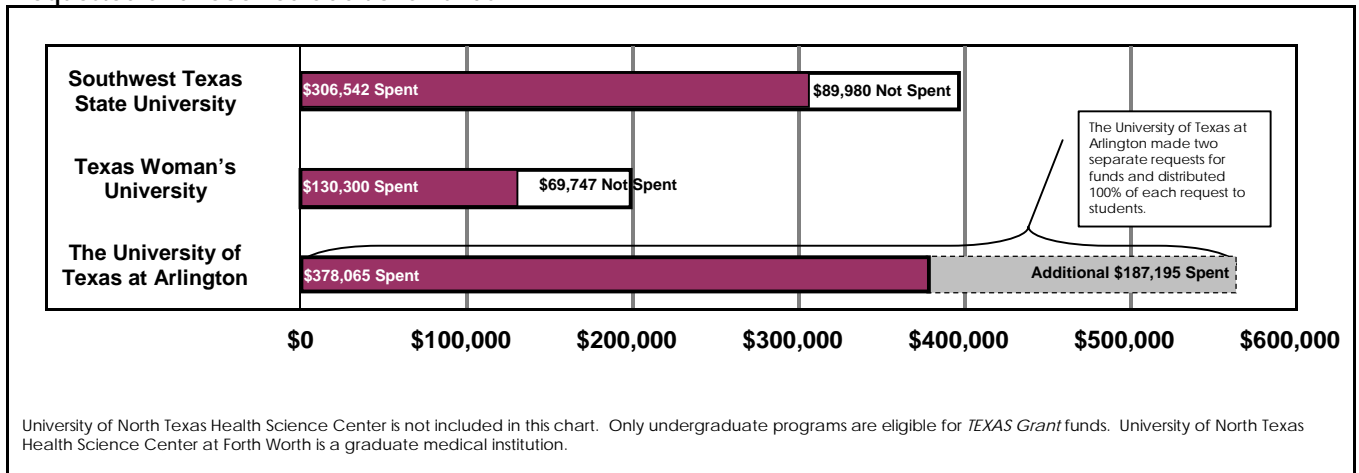
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- SWTSU disbursed to its students \$306,542 of its initial allocation of \$396,522. The university returned \$89,980 in unspent funds (23 percent) to the Coordinating Board for reallocation to other schools. We identified 184 eligible students that were not identified by SWTSU. The returned funds could have financed tuition and fees for approximately 39 of these students.
- TWU disbursed \$130,300 of its initial allocation of \$200,047. The university returned \$69,747 (35 percent) of the funds for reallocation. We identified 14 potentially eligible students not identified by TWU. Unspent funds could have covered all 14 students, with additional funds remaining.
- In contrast, The University of Texas at Arlington (UTA) spent all of its initial allocation of \$378,065. In addition, because other schools had returned funds, UTA requested and received an additional \$187,195 in *TEXAS Grant* funds. The total amount of *TEXAS Grant* funds given to UTA and disbursed to its students totaled \$565,260. UTA used all initial funds provided, plus additional funds received, to fund as many qualified students as possible; nonetheless, 109 potentially eligible students did not receive *TEXAS Grants* due to lack of funding.
- Finally, the University of North Texas Health Science Center (UNTHSC) received \$7,440 in *TEXAS Grant* Funds, but did not have any qualified students. All of these funds were returned to the Coordinating Board.

Figure 3

Southwest Texas State University and Texas Woman’s University returned *TEXAS Grant* funds to the Higher Education Coordinating Board despite having qualified students who would have benefitted from the funds. In contrast, The University of Texas at Arlington spent all of its initial allocation of \$378,065. UTA then requested and received additional funds.



University of North Texas Health Science Center is not included in this chart. Only undergraduate programs are eligible for *TEXAS Grant* funds. University of North Texas Health Science Center at Fort Worth is a graduate medical institution.

Source: Higher Education Coordinating Board

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For a summary of the *TEXAS Grant* fiscal year 2000 expenditures with the percentages of allocated funds not spent, see Table 1.

Section 6:

Fiscal Year 2000 *TEXAS Grant* Expenditures by University

Table 1

Fiscal Year 2000 Expenditures by University							
University	Original Allocation from the Higher Education Coordinating Board ¹	Original Allocation Spent	Original Allocation Not Spent	Percentage of Original Allocation Not Spent	Second Allocation Requested and Spent	Total Spent	
Angelo State University	\$ 245,296	\$ 245,000	\$ 296	0.12%	\$ 0	\$ 245,000	
Lamar University – Beaumont	312,573	276,222	36,351	11.63%	0	276,222	
Midwestern State University	155,989	155,989	0	0%	0	155,989	
Prairie View A&M University	269,111	269,111	0	0%	70,295	339,406	
Sam Houston State University	298,284	298,284	0	0%	936	299,220	
Southwest Texas State University	396,522	306,542	89,980	22.69%	0	306,542	
Stephen F. Austin State University	357,822	357,822	0	0%	297,500	655,322	
Sul Ross State University	236,365	162,509	73,856	31.25%	0	162,509	
Tarleton State University	200,642	200,642	0	0%	1,858	202,500	
Texas A&M University	495,652	495,652	0	0%	715,731	1,211,383	
Texas A&M University – Commerce	284,888	280,140	4,748	1.67%	0	280,140	
Texas A&M University – Corpus Christi	211,061	211,061	0	0%	211,510	422,571	
Texas A&M University at Galveston	23,815	20,000	3,815	16.02%	0	20,000	
Texas A&M International University	133,960	133,960	0	0%	131,180	265,140	
Texas A&M University – Kingsville	479,875	362,108	117,767	24.54%	0	362,108	
Texas A&M University – Texarkana ²	7,440	0	7,440	100%	0	0	
Texas Southern University	565,609	291,293	274,316	48.50%	0	291,293	
Texas Tech University	463,799	463,799	0	0%	76,032	539,831	
Texas Tech University Health Sciences Center ²	7,440	6,286	1,154	15.51%	0	6,286	
Texas Woman's University	200,047	130,300	69,747	34.87%	0	130,300	
University of North Texas	438,496	438,496	0	0%	109,946	548,442	
University of North Texas Health Science Center at Forth Worth ²	\$ 7,440	\$ 0	\$ 7,440	100%	\$ 0	\$ 0	

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Fiscal Year 2000 Expenditures by University						
University	Original Allocation from the Higher Education Coordinating Board ¹	Original Allocation Spent	Original Allocation Not Spent	Percentage of Original Allocation Not Spent	Second Allocation Requested and Spent	Total Spent
University of Houston – Clear Lake ²	7,440	0	7,440	100%	0	0
University of Houston –Downtown	365,562	294,587	70,975	19.42%	0	294,587
University of Houston – University Park	943,079	\$ 900,967	42,112	4.47%	0	900,967
University of Houston – Victoria ²	7,440	0	7,440	100%	0	0
The University of Texas at Arlington	378,065	378,065	0	0%	187,195	565,260
The University of Texas at Austin	689,150	689,150	0	0%	670,982	1,360,132
The University of Texas at Brownsville	233,984	24,960	209,024	89.33%	0	24,960
The University of Texas at Dallas	121,457	101,760	19,697	16.22%	0	101,760
The University of Texas at El Paso	884,434	884,434	0	0%	231,576	1,116,010
The University of Texas Health Science Center – Houston ²	0	0	0	0%	0	0
The University of Texas Health Science Center at San Antonio ²	7,440	0	7,440	100%	0	0
The University of Texas Medical Branch at Galveston ²	0	0	0	0%	0	0
The University of Texas – Pan American	1,173,490	1,173,490	0	0%	921,355	2,094,845
The University of Texas of the Permian Basin	103,893	39,375	64,518	62.10%	0	39,375
The University of Texas at San Antonio	648,069	648,069	0	0%	125,000	773,069
The University of Texas at Tyler	7,440	7,440	0	0%	20,000	27,440
West Texas A&M University	175,636	172,500	3,136	1.79%	0	172,500
TOTALS	\$ 11,538,705	\$ 10,420,013	\$ 1,118,692		\$3,771,096	\$ 14,191,109
¹ The original allocation from the Higher Education Coordinating Board is based on the estimated number of qualified students. ² These universities offer only upper division courses and did not have any students eligible for the <i>TEXAS Grant</i> .						

Source: Higher Education Coordinating Board

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Results of Returned Surveys

We surveyed 31 Texas public four-year universities to determine whether the risk of similar problems identified in our audit could potentially occur at other universities. We received responses from 52 percent of the universities surveyed. (Survey results are shown in Table 2.) We found that:

- Seven universities indicated that they do not offer a deferment option to students participating in the *TPEG Emergency Loan* program. The *TPEG Emergency Loan* statute requires that universities provide loan deferment options to students.
- All of the 16 universities that responded indicated that they use transcripts and/or certification letters to determine which students completed the advanced or recommended high school curriculum for *TEXAS Grant* eligibility. However, 9 of the 16 universities are not using the Texas Education Agency (TEA) stamp, which is generally required by the Coordinating Board to verify appropriate academic coursework taken.
- Seven universities indicated that they have changed their method for disbursing *TEXAS Grants* during the second year of the program to better identify eligible students and to streamline processing.

Table 2

Survey Results				
University	No Deferment Option	Not Using TEA Stamp	Changed Texas Grant Process 2nd Year	Response Received
Angelo State University		✓	✓	Y
Lamar University – Beaumont		✓	✓	Y
Midwestern State University				N
Prairie View A&M University				N
Sam Houston State University	✓			Y
Stephen F. Austin State University				N
Sul Ross State University	✓	✓		Y
Tarleton State University				N
Texas A&M University				N
Texas A&M University – Commerce				N
Texas A&M University – Corpus Christi				N
Texas A&M University – Galveston				N
Texas A&M International University			✓	Y
Texas A&M University – Kingsville	✓	✓	✓	Y

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Table 2

Survey Results				
University	No Deferment Option	Not Using TEA Stamp	Changed Texas Grant Process 2nd Year	Response Received
Texas A&M University – Texarkana	✓			Y
Texas Southern University		✓		Y
Texas Tech University				N
University of North Texas				N
University of Houston – Clear Lake	✓			Y
University of Houston – Downtown	✓		✓	Y
University of Houston – University Park			✓	Y
University of Houston – Victoria				N
The University of Texas at Austin		✓		Y
The University of Texas at Brownsville				N
The University of Texas at Dallas		✓		Y
The University of Texas at El Paso				N
The University of Texas – Pan American				Y
The University of Texas of the Permian Basin		✓		Y
The University of Texas at San Antonio	✓	✓	✓	Y
The University of Texas at Tyler				N
West Texas A&M University				N
Note: Southwest Texas State University, Texas Woman's University, and The University of Texas at Arlington are not listed because they were included in our audit. Medical Institutions were not included.				

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Objectives, Scope, and Methodology

Objectives

The objectives of the student financial aid audit were to:

- Determine whether qualified students who apply for aid are receiving state and federal financial aid.
- Determine compliance with applicable state and federal laws.
- Identify potential good practices that can be shared with other universities.

Scope

We audited three Texas public four-year universities and one medical institution:

- The University of Texas at Arlington
- Texas Woman's University
- Southwest Texas State University
- University of North Texas Health Science Center

We reviewed university policy and performance management and information management pertaining to student financial aid. Our review of policy and performance management at all four universities resulted in a few recommendations for university management. Our information management review resulted in no exceptions at all four universities and a potential good practice being used at TWU. (TWU currently uses an imaging software that allows all student files to be accessed electronically. This saves time in processing student files and lowers the risk of lost student information. We did not evaluate the cost effectiveness of this approach.)

We reviewed the following state student financial aid programs: *Toward Excellence Access and Success (TEXAS) Grant*, *Texas Public Education Grant (TPEG)*, and *TPEG Emergency Loan*.

We completed preliminary federal compliance testing at Southwest Texas State University and The University of Texas at Arlington. Federal compliance work for all four universities will be finalized in April 2001.

Methodology

Our audit methods included:

- Interviewing over 30 staff members
- Testing documents and automated systems
- Observing financial aid processes
- Reviewing operating policies and procedures
- Verifying reported data against university records
- Gaining online access to a university system
- Consulting with external parties (including the Higher Education Coordinating Board and the Texas Education Agency)
- Performing statistical sampling of data to test state and federal compliance

We obtained and tested data for Fall 1999 and Spring 2000. However, when appropriate, we also obtained pertinent data for prior years.

Additionally, we surveyed 31 financial aid office directors at four-year state universities to determine common financial aid processes for state student financial aid programs. We received responses from 52 percent of the universities.

We performed fieldwork between April and September 2000. All work was conducted in accordance with *Government Auditing Standards*.