March 1, 1995

Dr. Robert Berdahl, President
The University of Texas at Austin
P.O. Box T, Main Bldg. 400, Mail Code 53400
Austin, Texas 78713-7389

Dear Dr. Berdahl:

The University has accurately reported its significant accounts in the University's financial statements. The significant accounts were current unrestricted funds revenues ($570 million) and expenditures ($581 million). Accurate financial statements are a tool for decision-making and analysis of operations. The accuracy of the State of Texas' financial statements depends on the accuracy of the financial statement information provided by state entities.

The University has established a system to ensure compliance with most federal regulations for its major federal programs and selected nonmajor federal programs, and this system is working. The system helps ensure that the University properly administers the programs and will continue receiving federal funding. The University received approximately $140 million through its major federal programs during fiscal year 1994. Nonmajor programs tested amounted to $7.2 million.

However, the University should enhance controls over procedures to comply with student financial aid regulations. In addition, the Office of Student Financial Services should strengthen controls over data processing.

The attached findings and University responses will appear in the *1994 Financial and Compliance Audit Results* report. This report contains the results of all agencies and universities we visited during the statewide financial and compliance audit.

When this report is published in May 1995, copies will be distributed to the board chairperson and executive director or president at each agency and university included. Additional copies can be obtained from Production Services at 479-4700.

If you have any questions, please call me at 479-4700.

Sincerely,

Brenda W. Thompson, CPA
Project Manager

BWT:ggh

cc: Mr. Mike Vandervort, CPA, Director of Internal Audit

Key Points of Report

The University of Texas at Austin
1994 Statewide Financial and Compliance Audit

March1995

Overall Conclusion

The University has accurately reported its significant accounts in the University's financial statements. The significant accounts consisted of current unrestricted funds revenues ($570 million) and expenditures ($581 million). The University has established a system to ensure compliance with most federal regulations for its major federal programs and selected non-major federal programs, and this system is working. The University received approximately $140 million through its major federal programs during fiscal year 1994. Non-major programs tested amounted to $7.2 million. However, the University should enhance controls over procedures to comply with student financial aid regulations, and the University's Office of Student Financial Services should strengthen controls over data processing.

Key Facts And Findings

- The University's Office of Student Financial Services should not receive loan proceeds from the lenders of the *Federal Family Education Loan Program (FFELP)*. Student Financial Services personnel could process loans and retain the loan proceeds. In fiscal year 1994, the University processed approximately $75.4 million in *FFELP* loan checks.

- The University should inform students that authorization for payment of institutional debt is not a requirement for *FFELP* or *Federal Pell Grant Program* disbursement.

- The University should provide timely exit counseling information to all *FFELP* recipients and report all enrollment changes within the 60-day federal requirement.

- The University's Office of Student Financial Services should strengthen compensating controls over data processing. Documentation and monitoring activities should be increased for the program modification, program promotion, and job submission functions. In fiscal year 1994 the University disbursed over $90 million in student financial aid.

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Internal Control Issue

Internal Control Issue 1:

Strengthen Controls Over Data Processing

Compensating controls over data processing should be strengthened in the Office of Student Financial Services (OSFS). Within the decentralized data processing environment at The University of Texas at Austin, OSFS programmers are responsible for placing programs into production and also running these programs against production data. Programmer performance of these functions results in a control weakness and, at a minimum, requires adequate compensating controls. However, compensating controls were found to be weak as exemplified by the following:

- Program modifications are not consistently documented.
- An audit trail of program promotions is not retained.
- Management does not review job submissions.

When data processing activities are decentralized, OSFS management is responsible for ensuring the existence of adequate compensating controls for their data processing resources. The lack of such controls increases the likelihood that data from the financial aid system could be deleteriously altered.

<u>Recommendation</u>: We recommend that OSFS management strengthen compensating controls over data processing. Specifically, documentation and monitoring activities should be increased for the program modification, program promotion, and job submission functions.

<u>Management's Response</u>: We agree that program modifications are not consistently documented. In the future, we will compile electronic documents indicating the program revisions or new programming agreed upon during senior administrative staff meetings. Current year documents will be available electronically. Previous years' documents will be printed to hard copy, filed, and deleted from electronic storage.

We agree that program promotions are not permanently retained and monitored ("program promotions" are when computer programs are taken from the testing mode on test data to the actual programming mode on real data). When this takes place, an electronic record is created. This information is retained on-line for approximately six weeks. We will print a report of this information on a monthly basis to maintain a complete history of program promotions. The OSFS Associate Director will be responsible for monitoring this information. The Associate Director of OSFS will review listings of computer program job submissions at least monthly.

We plan to initiate all new procedures as soon as possible. All procedures described will be fully implemented by Fall 1995.

Federal Compliance Issues

Recommendations addressed in other sections of this report impact controls over federal funds, especially for the University's most significant federal programs funded by the U.S. Department of Education.

Federal Compliance Issue 1:

Office Of Student Financial Services Should Not Receive Loan Proceeds From Lenders

The University's Office of Student Financial Services should not receive loan proceeds from the lenders of the *Federal Family Education Loan Program* (CFDA 84.032). The office both processes the loan applications and receives the loan proceeds from the lenders. This increases the risk that office personnel could process unauthorized loans and retain the loan proceeds when they are received.

Title 34 of the Code of Federal Regulations (CFR), section 668.14(d)(1)-(2), requires an institution to ensure that its procedures for administrating the student financial aid programs include an adequate system of internal checks and balances.

Recommendation: We recommend that the Office of Student Financial Services not receive loan checks. All loan checks should be delivered directly from the lenders to the Bursar's Office, which should continue disbursing these checks to borrowers.

Management's Response: We agree that the functions of awarding financial aid and handling proceeds from loans should be performed by separate departments. Although we have these functions separated within the Office of Student Financial Services, we will start a new procedure requiring the lenders to send the checks directly to the Office of Accounting. This new procedure will be on a trial run for the Summer 1995 semester and fully implemented by the Fall 1995 semester.

Federal Compliance Issue 2:

Payment Authorizations For University Obligations Must Be Optional

The University may not require *Federal Pell Grant Program* (CFDA 84.063) and *Federal Family Education Loan Program - FFELP* (CFDA 84.032) recipients to authorize payment of outstanding university obligations. The statement on the Financial Aid Notification (FAN) letter, which authorizes outstanding university obligations to be deducted from the students' award proceeds, does not state that this authorization is optional. Students must sign the statement in order to receive their award proceeds. As a result, student financial aid funds are being used for items other than educational expenses.

Title 34 of the Code of Federal Regulations (CFR), sections 690.78 (a)(1)-(2) and 682.604 (d) states that institutions may use *Federal Pell Grant Program* and *FFELP* awards to pay charges other than tuition and fees and room and board (if provided by the school) only if the student authorizes such payment in writing. However, the institution may not require the student to authorize such payments. Payments may only be made for educational expenses.

Recommendation: We recommend that the University not require students with financial assistance to authorize payment of outstanding university obligations. The University should make students aware that authorization for payment of institutional debt is not a requirement for *FFELP* or *Federal Pell Grant Program* disbursement. This can be done by rewording or omitting the related certification statement contained on the FAN.

Management's Response: We agree to revise the Financial Aid Notification form so that the student will clearly recognize that having institutional debts deducted from his/her financial aid is an option. This will be fully implemented for the 1995-1996 school year.

Federal Compliance Issue 3:

Provide Timely Exit Counseling Information

The University is not providing timely exit counseling (loan repayment) information to all recipients of the *Federal Family Education Loan Program* (CFDA 84.032). Inadequate exit counseling procedures could result in an increased loan default rate. Timely exit counseling information was not provided for 85 percent (17 of 20) of the student files tested. Seven files did not contain any exit counseling documentation, while ten files showed exit counseling was not provided in a timely manner.

Title 34 of the Code of Federal Regulations (CFR), section 682.604 requires that the institution conduct timely exit counseling with each borrower who ceases to be enrolled at least half-time. Documentation of this counseling must be maintained in the student's file.

Recommendation: We recommend the University provide timely exit counseling information to all students who cease to be enrolled at least half-time and that documentation be maintained in the student files.

Management's Response: *We agree that the borrowers who were unable to attend an exit counseling session were not mailed the required materials in the time specified. The materials were mailed to them as soon as this was discovered. We now have in place a program to identify those students who have dropped to less than half time. We will ensure that they will have the appropriate exit counseling session or materials on a timely basis.*

Federal Compliance Issue 4:

Report Enrollment Changes

The University is not reporting all enrollment changes for the *Federal Family Education Loan Program* (CFDA 84.032) within the 60-day federal requirement. Enrollment changes occur when a student graduates, withdraws, drops a class, or is expelled. Noncompliance with this requirement may result in delayed loan repayment to lenders.

The 60-day notification requirement was not met for 70 percent (14 of 20) of the student files tested. Procedures are not sufficient to report spring graduates within the 60-day requirement.

Title 34 of the Code of Federal Regulations (CFR), section 682.610 requires the institution to report enrollment changes to the guaranty agency within 60 days. If an institution does not expect to report enrollment changes on the student status confirmation report within the next 60 days, that institution must notify the guaranty agency or lender by letter within 30 days.

Recommendation: We recommend the University report enrollment changes to lenders within the 60-day requirement. Timely reporting of students who graduate in the spring semester can be achieved by submitting a list of confirmed graduates to the guarantor.

Management's Response: *We agree that some enrollment changes were not reported within the 60 day requirement. The circumstance affected only Spring '94 graduates. We have adjusted our procedures so that a list of spring graduates will be reported to the guarantor or lender within 60 days after the student record is updated for spring graduation.*

Audit Scope

Material accounts audited at the University of Texas at Austin were identified based upon their significance to the financial statements of the State of Texas. We gained an understanding of their internal control structures, including the general control environment, cash receipts, cash disbursements, payroll/personnel, and journal vouchers. We tested current unrestricted funds revenues ($570.3 million) and expenditures ($580.7 million).

We performed procedures to determine compliance with selected general and specific requirements for the following major programs: *SPAWAR/Omnibus Contract* ($42.6 million), the *Federal Family Education Loan Program* ($75.4 million), *Basic Energy Science Grants* ($11.6 million), and the *Federal Pell Grant Program* ($10.3 million). Our procedures included testing selected controls over these programs as well as gaining an understanding of the controls over two of the University's nonmajor programs: the *Federal Perkins Loan* program ($5.8 million) and the *Federal Work Study* program ($1.4 million). These programs comprise over 56 percent of the University's total federal funding.