

KEEPING THE FAO OFF THE FRONT PAGE!
SUSAN DIMOTAKIS, ASSOCIATE DIRECTOR FA, UCLA
Regents of the University of California

Federal/State Regulations, Institutional Policies and Priorities, Fiscal Management and Key Controls—Audit/FAO Partnership

Agenda

- Financial Aid Office and Federal/State Regulations
- Administrative Capability
- Institutional Policies and Priorities
- Information Technology and the FAO
- Fiscal Management/Reconciliation and Key Controls
- Partnership between Internal Audit/Advisory Services and the FAO

FAO & Federal/State Regulations

- Federal/State Regulations are constantly changing
 - ▣ Major Federal changes occur about every five years
 - ▣ Federal/State calculations and regulations change annually and must be implemented for the following award year (draft regulations are posted in August/implementation is in January for following academic year)
- Each Financial Aid Office must implement changes to remain in compliance and retain eligibility
 - ▣ Policies and Procedures manuals must be updated and all staff trained

FAO & Federal/State Regulations

- IT systems must be modified
 - In vendor-supported system, annual upgrade support is provided for fee; new functionality must be tested by in-house financial aid users and staff trained
 - In school-supported systems, FA staff must interpret Federal regulations, provide specifications to programmers, fully test new functionality prior to implementation (go-live), and retrain all financial aid staff
- New laws are often 'distantly' related to financial aid and FA offices must collaborate/delegate authority to other campus entities

FAO & Federal/State Regulations

- Fire/Safety annual report: generally delegated to campus police
- Foreign income reporting: collaboration with Sponsored Research and Development/Gifts/Accounting departments
- Consequences of non-compliance: potential loss of eligibility to participate in Title IV/State aid programs or, in less severe circumstances, repayment of improper student payments to Federal or State agency
 - UCLA: ~\$240 Million in Direct Loans annually; ~\$50 Million Pell Grant program; ~\$80 Million Cal Grant program
 - If students are improperly paid and then billed—customer relations suffer; if not billed—institution must cover costs

Administrative Capability

- Federal statute requires that every participating institution maintain a minimum 'Administrative Capability' to manage Federal Title IV Programs
 - <http://cfr.vlex.com/vid/668-16-standards-administrative-capability-19762378>
 - Regular assessments should be conducted to assure that minimum Administrative Capability standards are met
 - In the current nationwide economic environment, applications for financial aid are increasing while university budgets are decreasing—a prescription for 'front page headlines'?

Institutional Policies and Priorities

- Financial Aid is evolving in the public university sector and new Enrollment Management priorities are guiding the awarding of University Scholarships
 - ▣ Priorities may shift and include broad goals: academic ('best and brightest'), diversity (socioeconomic, geographic), leadership, ability to overcome hardship, community service, and many other characteristics
 - ▣ Financial Aid Offices must be flexible and quick in responding to changing priorities while maintaining compliance with fund restrictions and proper fiscal controls

Institutional Policies and Priorities

- Institutional scholarships/grant funds come from two primary sources in the UC-system
 - ▣ Return to Aid from tuition/fees – utilized for need-based grant assistance awarded in accordance with the Education Finance Model (UCOP)
 - ▣ Scholarships from Regents/Foundation gifts and endowments
 - Each gift/endowment is subject to the terms and conditions/restrictions of the donor/university gift agreement
 - Broad criteria for restrictions: major, GPA, socioeconomic, community service; respect Proposition 209

Institutional Policies and Priorities: Types of Scholarships

- Need-Based: donor or agency requires that student meet Federal (usually) or Institutional definition of need
- Merit-Based: no requirement for the student to demonstrate need; scholarship is awarded through publicized, competitive process
- **ALL** scholarships (need- or merit-based) must be coordinated with need-based assistance (Federal regulation)

Federal Regulations

(U. S. Department of Education)

$$\text{NEED} = \text{COST OF ATTENDANCE}$$

Minus

$$\text{EXPECTED FAMILY CONTRIBUTION}$$

[determined by Federal Methodology from data reported by the student/family on the Free Application for Federal Student Aid (FAFSA) annually]

- If a student has need-based assistance (including Federal Title IV grant/work-study/loan or California State grant), the student's total **NEED** may not be exceeded (Federal regulation)

Institutional Policies and Priorities: Typical Financial Aid Award

- Example: Cost of Attendance = \$31,646
- Expected Family Contribution = \$4,200
- Need = \$27,446
 - ▣ Pell Grant (Federal) \$ 1,400
 - ▣ Cal Grant (State) \$12,192
 - ▣ UCLA Grant \$ 4,654
 - ▣ Work Study (Federal) \$ 2,000
 - ▣ Subsidized Loan (Federal) \$ 5,500 (maximum)
 - ▣ Unsubsidized Loan (Federal) \$ 1,700 (meets need)
 - ▣ TOTAL \$ 27,446

Institutional Policies: Coordination of Scholarships with Financial Aid Award

- Student receives \$10,000 merit- or need-based scholarship (internal or external source)
- Award is adjusted to:
 - ▣ Pell Grant \$ 1,400
 - ▣ Cal Grant \$12,192
 - ▣ UCLA Grant \$ 3,854
 - ▣ Scholarship \$10,000
 - ▣ TOTAL \$ 27,446

No Loans or Work-Study (Self-Help) and UCLA Grant reduced

Institutional Policies: Coordination of Scholarships with Financial Aid Award

- UCLA's current policy follows. Various institutions may choose to treat scholarship (internal and external) differently in their overall award packages.
 - Student's need-based loans will be reduced, dollar for dollar, and replaced with scholarship funding
 - Student's work-study will be reduced, dollar for dollar, and replaced with scholarship
 - If the student has no need-based loans or work-study, the student's university grant must be reduced, dollar for dollar, to allow receipt of the scholarship (Federal regulations)
- Scholarships may not reduce or replace the Expected Parent or Student Contribution (Federal regulations)
- Federal unsubsidized loans (student and/or parent) may be used to replace Expected Parent/Student Contributions

Institutional Policies: University Scholarship Two Awarding Models

- Centralized—all scholarship funds for student support are controlled and awarded by a central office in compliance with donor restrictions
 - Financial Aid Office (FAO) for undergraduates
 - Graduate Division (GD) for graduates
- Decentralized—most scholarship funds are controlled by Colleges, Departments, and Divisions across the campus

Institutional Policies: Scholarships Advantages/Disadvantages

- **Centralized**
 - Scholarships are awarded according to restrictions via a centralized application and evaluation process
 - Donor restrictions that include departmental requirements (major, GPA, etc.) are reviewed and utilized to identify and award recipients
 - Allows the university to attain broad university enrollment management goals
 - Large cross-trained staff in a central department allows for better key-controls in awarding of student support and fiscal management

Advantages/Disadvantages

(continued)

□ Decentralized (UCLA)

- Multiple scholarship application processes; students must complete many applications
 - Advantage if a particular application deadline is missed
 - Disadvantage as work is duplicated for both students and administrators of scholarships
- Departmental staff turnover may result in lack of training or knowledge of scholarship restrictions
- University enrollment management goals are difficult to facilitate with this model

Information Technology and FAO

□ Multiple Information Technology solutions are utilized

- Backbone is an integrated Student Information System (SIS)
 - Admissions
 - Financial Aid Management System → requires extensive annual updates (new Federal calculations/regulations)
 - Bursar/Student account module → interface to General Ledger
 - Registrar

Information Technology and FAO

- Stand alone (or integrated) web applications to interface information to students
- Common Data Warehouses (reporting databases)
 - Operational reports
 - Dashboard (high-level statistical reports)
 - Utilized for data extraction, i.e., for Federal/State-mandated reports
- Data imaging systems and databases
- Communications databases (automated e-mail and tracking)
- Shadow databases?

Fiscal Management/Reconciliation & Key Controls

- Administrative Capability
- Federal Blue Book standards for accounting and reconciliation
 - ▣ Excess cash standards
 - ▣ Program reconciliations: monthly for loan programs
 - ▣ Program reporting: 30-days
- State of California – California Student Aid Commission reconciliation and cash requirements
- University of California SAS 112 key controls

Institutional Key Controls: Awarding and Fiscal Management of Scholarships

- Institutional scholarship policy
 - ▣ Defines roles and responsibilities of campus entities with respect to fund raising, gift acceptance, awarding and fiscal management of scholarships
- Control department develops a public, competitive process for the scholarship application, evaluation and awarding
 - ▣ Review may be completed by faculty committee or qualified staff
 - ▣ Department submits scholarship recipient names to FAO or Grad Division (equivalent to writing a check from a bank account) for awarding via the FAM system → disburses to student's account

Institutional Key Controls: Awarding and Fiscal Management of Scholarships

- ▣ FAO/Grad Division:
 - reviews information for accuracy
 - awards the scholarship via the Financial Aid Management (FAM) system to the student
 - award is coordinated with the student's financial aid to assure compliance with Federal regulations
- ▣ Funds are disbursed directly from FAM to the student's account **only** if the student is enrolled in classes and meets all other disbursement criteria

Institutional Key Controls: Awarding and Fiscal Management of Scholarships

- Department reviews the accuracy of awards and payments on the General Ledger and is responsible for Monetary Transfers of Funds (MTF) from the Foundation to the University account (quarterly)

- MTF reviewer responsible for second review of scholarship restrictions and recipient eligibility

- For funds controlled by the Financial Aid Office, the Scholarships Unit awards funds (first restriction check) and the Fiscal Operations Unit completes MTFs and the second review of restrictions

Big Picture: Tie-Ins

- FAO is subject to multiple governing 'bodies'— Federal statutes, State legislation, UC Office of President policies, and local University controls
- Various statutes and policies are often not synchronized and change rapidly
- FAO must ensure Administrative Capability for Federal purposes while also meeting State and Institutional requirements
- How?

FAO/Internal Audit & Advisory Services Partnership

- FAO Responsibilities
 - EDUCATION: Resources are required to allow Professional FA staff to remain abreast of changing Federal/State and institutional regulations and policies
 - Communications from the Department of Education (Federal Student Aid)
 - Membership and participation in national/state-wide professional financial aid organizations (NASFAA, CASFAA)
 - Ongoing education (webinars) and professional conferences
 - Subscriptions to professional list serves and journals

FAO/Internal Audit & Advisory Services Partnership

- ▣ **COMMUNICATION:** Professional FA staff provides training to internal staff and institutional stakeholders (Departments, IT Services, Audit & Advisory Services)
 - Annual training for Federal policy changes (FAO staff)—reduce silos—cross-training essential for compliance
 - Annual training for Departments on Scholarship processes
 - Annual work-study training for departments/off-campus organizations
 - Annual updates of Policy and Procedures manual
 - Annual updates of all FA Office publications (consumer information)

FAO/Internal Audit & Advisory Services Partnership

- ▣ **COLLABORATION:** FAO collaboration with other university entities
 - Information Technology
 - Student Accounting/Finance
 - Admissions/Registrar
 - Departmental/College scholarship committees, Development (fund-raising)/Gift Accounting units and Grad Division
 - Professional schools (Law, Medical, Dental, UC Extension, Business)
 - Campus-wide committees with impact on policies affecting utilization of funds for student support (including Internal Audit & Advisory Services)

FAO/Internal Audit & Advisory Services Partnership

- ▣ **MAXIMIZE EFFECTIVENESS OF IT SYSTEMS:** help to reduce risk to the university for non-compliance
 - Develop strong documentation for IT Systems and all changes (user and developer specific)
 - Partner with Internal Audit and Advisory Services to audit IT systems: include mainframe and systems utilized by FAO in business operations (including shadow systems)
 - Security of protected personal information (SSN)
 - Robustness of software/hardware
 - Sufficiency of developer resources to meet Administrative Capability
 - Compartmentalization/access protection: separation of duties!

FAO/Internal Audit & Advisory Services Partnership

□ QUALITY ASSURANCE AND AUDITS

- FAO undertake internal Quality Assurance reviews of significant business processes
 - Verification reviews
 - Awarding reviews
 - Fiscal management/reconciliation reviews
 - Operational reports/audits
 - Reporting audits

FAO/Internal Audit & Advisory Services Partnership

■ Internal Audit and Advisory Services

- IA is key to reviewing high-risk areas Federal and State requirements within the FAO to identify program weaknesses before A-133 audits, Federal, or State Program reviews
- IA is key in reviewing compliance with donor restrictions for student support scholarships
- IA is resource to FA in determining Administrative Capability
- IA is an advocate for FAO with University administrators if deficiencies are identified
 - IT resources
 - Staff resources
 - Collaboration/inclusivity issues

FAO/Internal Audit & Advisory Services Partnership

□ Without the collaborations—what can happen

- Errors: can always happen
 - May require repayment of improperly disbursed funds
 - Result in lack of confidence that Administrative Capability standards are met
 - Poor relationships with students—our customers!
 - Identify as early as possible (FAO/IT & AS) to mitigate further issues
- Loss of Administrative Capability
 - Institution may become ineligible to participate in Federal and State programs (loss of > \$350 Million at UCLA)

FAO/Internal Audit & Advisory Services Partnership

- ▣ Fraud
- ▣ Loss of the University's reputation and ability to continue operations ☹
- ▣ Partnerships/collaborations between FAO/Internal Audit and Advisory Services will reduce risk and keep the University off the front page!

Resources

- ▣ Federal Program Review Guide
<http://www.ifap.ed.gov/programrevguide/attachments/2009ProgramReviewGuide.pdf>
- ▣ Blue Book (to be updated in 2012; not posted yet)
<http://ifap.ed.gov/bbooks/102005BlueBook.html>
- ▣ FSA Handbook
<http://ifap.ed.gov/fsahandbook/1213FSAHandbookCompleteActiveIndex.html>
- ▣ Information for Financial Aid Professionals (IFAP)
<http://ifap.ed.gov/ifap/>

Resources

- ▣ National Association of Student Financial Aid Administrators <http://www.nasfaa.org>
- ▣ Cal Grant Program Manual
<http://www.csac.ca.gov/doc.asp?id=981>
- ▣ UCOP
- ▣ Campus SAS-112 key controls and Policies/Procedures

Contact

?

Susan Dimotakis
Associate Director, IT Systems and Fiscal Operations
UCLA Financial Aid Office
sdimotakis@saonet.ucla.edu
(310) 206-9316
