

September 2012

The Office of Internal Audit & Compliance's (OIAC) mission is to support the University System of Georgia management in meeting its governance, risk management and compliance and internal control (GRCC) responsibilities while helping to improve organizational and operational effectiveness and efficiency. The OIAC is a core activity that provides management with timely information, advice and guidance that is objective, accurate, balanced and useful. The OIAC promotes an organizational culture that encourages ethical conduct.

We have three strategic priorities:

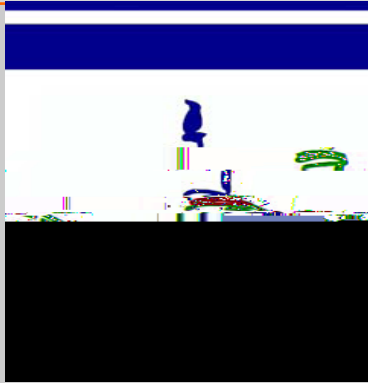
1. Anticipate and help to prevent and to mitigate significant USG GRCC issues.
2. Foster enduring cultural change that results in consistent and quality management of USG operations and GRCC practices.
3. Build and develop the OIAC team.

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From the Chief Audit Officer John M. Fuchko, III

A New Audit Program Eligibility for Participation in Title IV Student Aid Programs



Title IV of the Higher Education Act (HEA) authorizes programs that provide student financial aid to support attendance at a variety of institutions of higher education (IHEs). These institutions include public institutions, private non-profit institutions, and private for-profit (proprietary) institutions. In order for students attending a school to receive federal Title IV assistance, **the school must:**

- x Be licensed or otherwise legally authorized to provide postsecondary education in the state in which it is located,
- x Be accredited by an agency recognized for that purpose by the Secretary of the U.S. Department of Educa-

Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Reauthorization Issues

The OIAC distributed the Title IV Financial Aid audit program to each audit shop this Summer, to be conducted during 2013. Title IV Funds include Federal Pell Grants, Military Service Grants, Teacher Education Assistance, Special Campus Based Programs, Federal Perkins Loan Program, Federal Work Study, Federal Educational Opportunity Grants, Federal Family Educational Loans, Federal Direct Student Loans, Bureau of Indian Affairs Loans, and Federal Plus Loans. Your campus may participate in some or all of these or perhaps others that are not mentioned here.

The objectives of the audit are to determine whether USG institutions are adequately administering financial aid programs in compliance with 34 CFR 668.16 guidelines and other financial aid guidance. Secondly, we seek to determine whether the institutions are in compliance with USG procedures regarding student accounts receivable and record retention.

What are the tests?

Fortunately, the criteria and standards are substantially outlined in Code of Federal Regulations Title 34 – Education Section 668.16: Standards of Administrative Capability and other financial aid guidance and also in University System of Georgia Business Procedures Manual Section 10.1.1. Succinctly, we want to ensure that the institution:

- a. Is administering the Title IV programs in accordance with statutory and regulatory provisions outlined in the regulations;
- b. Has adequate segregation of duties in administering the financial aid programs;
- c. Has knowledgeable and qualified personnel administering Title IV program(s);

Financial Aid Audit Program, *cont'd*

- d. Is acquiring, maintaining and retaining the required records and documentation to support student claims for financial aid;
- e. Is frequently evaluating the default rates to ensure that the default rates do not exceed the regulatory levels; and,
- f. Is in compliance with Satisfactory Academic Progress (SAP) policies, program participation agreements, the Free Application for Federal Student Aid (FAFSA) requirements and fund disbursement procedures.

These are a few but very important items that require scrutiny during the audit.

What you should know

Chapter 2 of the Blue Book¹ (June 2001) discusses the “General Institutional Responsibilities” of schools participating in the U.S. Department of Education’s (ED’s) Title IV student financial aid programs (Title IV programs). The chapter presents information about institutional fiscal operations and network of responsibilities; institutional eligibility; financial responsibility; administrative capability (including separation of functions); and other areas such as consumer information, institutional policies and procedures, program evaluation, return of Title IV funds, record maintenance, and disclosing student information.

Governance, Risk Management, and Compliance

by Jeanne Severns

This month's column focuses on the importance of procedures and internal controls for the budgeting process. We will discuss authorized budget procedures, aspects of internal budgetary controls, and will reference the tools necessary to meet USG requirements for budget development.

Typically, when we speak about governance, the conversation centers around common core management concepts:

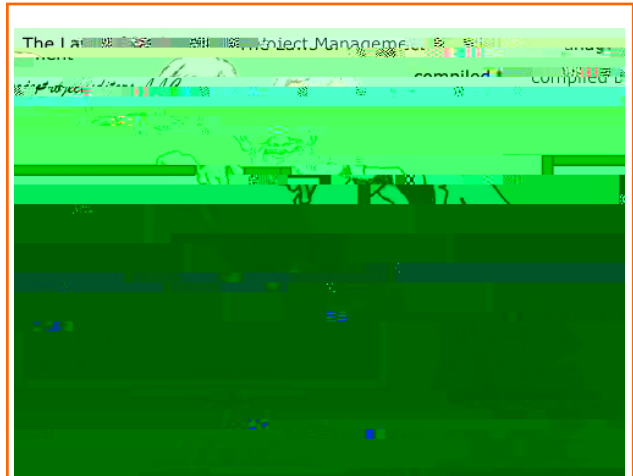
- x Leadership, guidance, and a tone at the top,
- x Achieving objectives,
- x Overseeing and monitoring operations,
- x Ensuring compliance with laws and accountability for behavior, and
- x Legal and ethical behavior.

We agree that the importance of effective governance in achieving an organization's goals is unquestionable. It's the "How do we get there?" part that should be given appropriate attention.

While each of the aforementioned components of a successful governance program are vital to the overall health of any organization, effectively and efficiently managing the financial resources of the institution may be the foremost objective for leadership to accomplish. The USG budget process, outlined in the USG Business Procedures Manual, Section 8.0, is the tool for planning, reviewing, monitoring, amending, and reporting budgetary revenue and expenditures.

Internal controls in the budget process are designed to achieve the following:

- x Assign responsibility for budget development and execution,
- x Authorize resources to meet planned expenses,
- x Validate and approve expenditures against a valid budget,
- x Ensure data within the financial system are consistent with Board-approved budgets and Presidential guidance and,



- x Monitor budget performance.

These internal controls help to provide early warning of financial or other risks as reflected in budget performance to management.

Budgetary controls should be documented through written procedures. The USG has several tools to assist institutions with developing these materials. We recommend institutions budget procedures incorporate the following:

- x When developing your budget, follow the steps outlined in Section 8.0 of the USG Business Procedures Manual.
- x When electronically documenting your budget, follow the steps outlined in the Governor's Office of Planning and Budget Annual Budget Instruction Manual.
- x When executing your budget, follow the steps mandated in the June 6, 2012 correspondence from Chancellor Huckaby to USG Presidents regarding budget hearings, quarterly financial reports, and external audits.

Governance, Risk Management and Compliance, *cont'd*

- x Establish a budget committee to include executive leadership and department heads from all functional areas. The committee's purpose is to develop an annual budget that is ultimately recommended to the President.
- x Use conservative and consistent student enrollment projections when developing the budget. Enrollment projections should take into account the impact of changes in Federal financial aid such as the availability of Pell Grants for summer classes and similar trends.
- x Ensure approved budgets are properly loaded into the PeopleSoft Financials ERP application or other official financial system, and that only a limited number of individuals are provided the authority to override the budget

The Georgia 2012 Conference for College and University Auditors, held July 30 and 31, was attended by more than 80 higher education audit and finance professionals from across the southeast. Of the many highlights of the conference was the Presidents Panel discussion, featuring four USG Presidents:

the right information at the right time. Dr. Rossbacher shared the “canary in the coal mine” metaphor; in that an effective auditor should be the first person who alarms the institution of potential risks and effective mitigation strategies. Dr. Papp described the intellectual attributes an audit or finance professional should possess, including social intelligence¹, stating that to be successful, auditors need to possess social skills that would engender trust and confidence with their colleagues. Dr. Papp mentioned many of these views are similarly voiced in Stephen M.R. Covey, Jr.’s The Speed of Trust which outlines 5 different types of trust and how an environment of trust helps all parties function more efficiently. The Presidents also stressed the role that Auditors should play in helping educate Faculty, Staff and Administrators about proper audit processes and procedures, internal controls and governance that would lead to good audit findings.

What are some of the most significant management and governance issues affecting the USG?

Dr. Rossbacher shared her thoughts on institutional accountability, and balancing internal audit’s accountability to the governing Board while also recognizing them as “part of the team”. Dr. Peterson discussed managing the expectations of the internal audit function, assigning staff to where there is value added, and working with the individuals to develop processes for compliance and control. Another area of concern was shared by Dr. Papp, in that dwindling funding and austerity programs continue to challenge institutions, saying that if an institution has good people in a bad system, the system will struggle along, but function; conversely, if there are bad people, even in a good system, the system will break. Dr. Rossbacher agreed and added that people facing increasing economic pressure can be pushed beyond the boundaries of their typical behavior. Dr. Sethna expressed that increased compliance and monitoring is one great challenge of the future. He reflected on Deming’s fourteen points of quality management, which focus on consistency, continuity, pride of workmanship, and identifying the point of origin when an error is detected².

What words of wisdom would you like to share with Auditors?

The Presidents responded largely in agreement, stating the takeaway from this discussion and situations such as the issues at Penn State is that bad decision making creates a culture in an organization of apathy. People may avoid speaking the truth due to fear of reprisal or the belief that nothing will be done. Dr. Sethna emphasized the value of Hotline reporting and the value offered by its anonymity. His preference is for people to use the chain of command within the organization, but finds great value in resources such as the Hotline. In addition, he cited the value of the dual reporting relationship with the Chief Auditor and the Presidents, which provides safety and va

