Key Points Of Report

The Lamar University System
1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

Lamar System is generally complying with the significant bond covenants of its 13 outstanding bond issues ($26.4 million). However, the System should continue its efforts to increase housing revenues to ensure payment of debt service requirements. In addition, the three Lamar University components are generally complying with federal regulations regarding the Federal Family Education Loan ($3.7 million) and the Federal Pell Grant ($3.3 million) student financial assistance programs. However, areas for improvement were identified at all three components. Lamar-Beaumont (LUB) should address its eight issues identified in this report, including improving controls over cash management and the preparation of its Annual Financial Report.

Also, the components' prior year issues involving fixed assets, salaries paid proportional to funding source, and personnel documentation have been resolved. Based on work performed by Lamar System Internal Audit (Report No. AU1094), the prior year issue related to timely appropriation reconciliations is still outstanding.

Key Findings

- Lamar-Beaumont does not have cash management procedures to ensure that requests for reimbursement are only made for current expenditures. Also procedures are not in place to prevent excess cash from being requested. An excess cash balance of $88,292 existed at the University, of which a portion was returned, and $49,991 was inappropriately retained by the University.

- Lamar-Beaumont is not ensuring that its federal grant expenditures are appropriate and allowable. These inappropriate and unallowable expenditures represent questioned costs totaling $9,831.79.

- Lamar-Beaumont did not submit an accurate 1994 Annual Financial Report (AFR) to the State Comptroller. Specifically, the University submitted its 1993 Schedule of Federal Financial Assistance in its 1994 AFR. The 1994 Schedule of Federal Financial Assistance and the AFR also contained other errors.

- Lamar-Beaumont's Student Financial Aid Office should not receive loan proceeds from lenders. The office both processes the loan applications and receives the loan proceeds from the lenders. During fiscal year 1994, the University processed $3,705,149 in FFELP loan checks.

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Bond Issue

Bond Issue:

Continue Efforts To Increase Housing System Revenues And Control Costs

(Prior Audit Issue)

Lamar University-Beaumont's Housing System revenues were not sufficient to pay both the Housing System operating expenses and the debt service requirements of the Housing bonds. This resulted in a $4,000 operating deficit at the end of fiscal year 1994. Although the University's ability to meet future principal and interest payments could be threatened if expenditures continue to exceed revenues, it appears that management has implemented a plan to eliminate the deficit.

During fiscal year 1994, Housing System operations improved significantly. Despite a six percent decline in enrollment at Lamar-Beaumont, housing revenues increased by six percent and operating expenditures decreased by five percent. In addition, monthly budget to actual reports were used to monitor performance and marketing efforts were expanded to increase enrollment and on-campus housing occupancy.

Recommendation: Management should continue its efforts to increase revenues and control costs. This will ensure that both the Housing System operating expenses and future principal and interest payments on the bonds will be met.

Management's Response: Management concurs with the auditor's recommendation that continuing efforts need to be made to address the housing deficit by both increasing revenues and constraining costs. Lamar University-Beaumont has implemented and will be diligent in pursuing programs to improve revenues by raising the occupancy rate, including: recruiting students from outside of the Golden Triangle area; increasing the use of housing scholarships; and increasing the attractiveness of student residence activities. In addition, management is working to decrease expenses by proposing the elimination of the Assistant Vice President for Auxiliary Services position and one cashiering position. A new Vice President of Student Affairs position is proposed, which would assume responsibility for student housing. By doing this, management intends to create closer ties between housing and student life, thereby increasing the attractiveness of student life in a residence facility. The new consolidated student bill soon to be available from the Student Information System will eliminate the need for a separate cashiering function to service housing bills.

Federal Compliance Issues

Federal Compliance Issue 1:

Improve Cash Management Procedures

The University does not have adequate cash management procedures to ensure that requests for reimbursement are only made for current expenditures and to prevent excess cash from being requested. The University held an excess cash balance totaling $88,292 for 53 days. At that time, the University returned $38,301, but inappropriately retained $49,991. The remaining $49,991 is composed of $1,682.95 of unallowable expenditures which are questioned costs and $48,307.97 of unresolved reconciling items that had been previously disallowed by the Department of Education. Inadequate cash management procedures may result in the University having to pay interest on federal funds and in the loss of future federal funding.

Requests for reimbursement of federal funds should only be made for the amount of current expenditures, which are supported by the accounting records. In addition, the *Office of Management and Budget (OMB) Circular A-110* requires procedures to minimize the time between the transfer of funds from the U.S. Treasury and the disbursement by the University. Any excess cash on hand should be returned to the Department of Education within three working days.

Recommendation: The University should improve its cash management procedures to ensure that requests for reimbursement are only made for current expenditures and to prevent excess cash balances. Any excess cash must be returned within three working days. In addition, the University should return the questioned costs of $1,682.95 to the Department of Education and determine if any interest is due since June 20, 1994, when the funds were received. The University should also immediately contact the Department of Education in an attempt to resolve the reconciling items totaling $48,307.97 and, if applicable, return any associated questioned costs.

Management's Response: Management concurs with this recommendation. Management recognizes the need to properly manage cash balances in grant accounts. Management believes that procedures in place are appropriate and sufficient to prevent excess cash balances. The situation described in the audit was a result of errors rather than procedural or policy flaws. An excess cash balance of $88,292 accumulated during the audit period of which $38,301 was returned to the Department of Education and $49,991 was retained due to unresolved reconciling items. The Supervisor of Research & Grants will immediately contact the DOE to resolve the reconciling items and return any questioned costs. This issue will be resolved by March 31, 1995.

Management's research into the questioned costs of $1,682.95 indicates that they were never collected from the agency. Of the $1682.95, all but $637.60 has been addressed by the DOE and adjustments have been made to the grant accounts. The $637.60 has been credited by management to the Grant through journal entry on Feb. 16, 1995.

Federal Compliance Issue 2:

Ensure Grant Expenditures Are Appropriate And Allowable

The University is not ensuring that its federal grant expenditures are appropriate and allowable. A total of $4,230.44 federal grant expenditures made during the last month of the grant appear inappropriate. In addition, a total of $5,601.35 federal grant expenditures are unallowable because they were incurred after the grant's ending date. Since the University received federal reimbursement for these expenditures, these inappropriate and unallowable expenditures represent questioned costs totaling $9,831.79.

Inadequate controls may result in the University having to pay interest on federal funds that were inappropriately requested and in the loss of future federal funding. For fiscal year 1994, the University had a total of $11.3 million in federal program expenditures.

The Office of Management and Budget (OMB) Circular A-21 defines allowable costs as those that are reasonable and allocable to the grant. In addition, *Title 34 of the Code of Federal Regulations (CFR), section 80.23,* states that a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. The grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Recommendation: We recommend that the University implement procedures to ensure that federal expenditures are appropriate and allowable. The procedures should ensure that expenditures are not made for inappropriate items at the end of grants and are not charged after the end date of grants, in accordance with the federal guidelines. The University should return the questioned costs totaling $9,831.79 to the Department of Education and determine if any interest is due.

Management's Response: Management concurs with the recommendation that procedures to protect against inappropriate expenditure of federal grant funds must be maintained. The Supervisor of Research and Grants, is charged with the responsibility to see that procedures are followed. Since the audit period, management has implemented a new accounting system with enhanced controls and reporting capabilities. Among these controls is the ability to put an immediate freeze on accounts as the project period lapses, preventing the entry of inappropriate requisitions and purchase orders. The Supervisor of Research and Grants is responsible to monitor accounts and impose a freeze when budgets are at minimal levels or when the project period expires. Additionally, the new system provides on line access to account information which can be used to assess account status far more expeditiously than under the system operative during the audit period. These procedures and capabilities have been in effect since September 1, 1995. Research and Grant accountants review each requisition for propriety and must approve requisitions before P.O.'s are issued. Management is confident that the new controls, combined with the procedures which have been in force and which have in the vast majority of cases provided appropriate protection, will ensure compliance with regulations.

Management agrees, upon completion of review with the DOE, to return the unallowable expenditures totaling $9,831.79 and any interest due. The Supervisor of Research & Grants is responsible for this task. This exercise is in process and should be completed by March 31, 1995.

Federal Compliance Issue 3:

Ensure Accuracy And Timeliness Of Annual Financial Report

The University did not submit an accurate annual financial report to the State Comptroller. The University submitted its prior year Schedule of Federal Financial Assistance in its current year Annual Financial Report. Additionally, portions of the annual financial report contained errors due to the University's failure to adhere to the *Comptroller's Reporting Requirements for Colleges and Universities.*
Specifically, we noted the following errors as they pertained to the 1994 Schedule of Federal Financial Assistance:

- Various program names, numbers, and expenditure amounts were incorrectly stated within the schedule.

- Note 2 incorrectly reported total pass-through amounts of $1,257,210 as Federal Revenues - per Exhibit C, instead of including the amount as a reconciling item to the note. As a result, Federal Revenues and Additions to Fund Balance have been overstated.
- Although the 1994 Federal Schedule D-5 was completed, it was not scheduled to be submitted until January 19, 1995.

The annual financial report, including the Schedule of Federal Financial Assistance, represents management's assertions regarding financial position and results of operations for the fiscal year. Comptroller's reporting requirements and guidelines prescribe standard accounting procedures and terminology to ensure consistent and accurate reporting among agencies. The accuracy of the report is a reflection of management's ability to provide reliable and useful financial information.

Recommendation: We recommend that the University submit a complete and accurate annual financial report to the State Comptroller within the required time frames. Reviews of the annual financial reports should be performed at both the University and System level to ensure that report content and format is free from errors and is in compliance with Comptroller's reporting requirements.

Management's Response: *Lamar University-Beaumont management and System Office management concur with the finding. While copies of the Fiscal Year 1994 annual financial report were reviewed, an incorrect Schedule D-5 was inadvertently included in the copy sent to the printers. The Controller of Lamar University-Beaumont will increase controls over the master copy in future years to prevent a recurrence of this problem. The Controller of Lamar University-Beaumont has transmitted by facsimile on January 19, 1995 the correct schedule to the State Comptroller. In the future, the Controller of Lamar University-Beaumont will insure that pass-through amounts are correctly reflected in Exhibit C.*

Federal Compliance Issue 4:

Financial Aid Office Should Not Receive Loan Proceeds From Lenders

The University's Student Financial Aid Office 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 administering the student financial aid programs include an adequate system of internal checks and balances.

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

Management's Response: The University concurs with this recommendation and beginning with the 1995-96 year will transfer all responsibilities associated with loan *check receipt to the Bursar's Office. Bursar is responsible for implementing procedures by May, 1995.*

Federal Compliance Issue 5:

Delay Disbursements To First-Time Borrowers

The University did not delay the initial disbursement of *Federal Family Education Loans Program (FFELP)* (CFDA 84.032) loans to all first-time borrowers. Disbursements were not delayed for the required 30 days in 20 percent (4 of 25) of the student files tested.

Title 34 of the Code of Federal Regulations (CFR), section 682.604, requires that the first installment of *FFELP* proceeds to a student who is enrolled in the first year of an undergraduate program of study and who has not previously received a Stafford or SLS loan, not be released until 30 days after the first class day. Failure to properly delay disbursements to first-time borrowers could result in the distribution of loan funds to ineligible borrowers.

Recommendation: We recommend that the University delay disbursements to all first-time borrowers as required.

Management's Response: The University concurs with this recommendation. Current procedures to delay the release of loan proceeds to first-time, first-year borrowers will be enhanced to ensure federal compliance. Financial Aid Officer/Loan Coordinator is responsible for implementing procedures by March, 1995.

Federal Compliance Issue 6:

Award Proceeds May Not Be Withheld

The University may not withhold award proceeds from *Federal Pell Grant Program* (CFDA 84.063) and *Federal Family Education Loan Program (FFELP)* (CFDA 84.032) recipients who have outstanding university obligations. Current University check disbursement procedures require payment of any outstanding university obligations before a student may receive his or her loan proceeds.

Institutions may not withhold award proceeds from *Federal Pell Grant* and *FFELP* recipients who meet the eligibility requirements as set forth in *Title 34 of the Code of Federal Regulations (CFR), sections 682 and 690*. Payment of outstanding university obligations is not a requirement for the distribution of award proceeds.

Recommendation: We recommend that the University not withhold federal award proceeds from students who have outstanding university obligations. There are alternatives that the University may utilize for the collection of student's outstanding obligations, such as restricting registration, withholding grades, or notifying a collection agency.

Management's Response: The University concurs with this recommendation. The University will alter its policy regarding the release of student aid checks to comply with federal regulations. Federal awards in excess of direct institutional/educational *expenses will be promptly released to students regardless of other institutional monetary obligations. Bursar is responsible for implementing procedures by February, 1995.*

Federal Compliance Issue 7:

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 (FFELP)* (CFDA 84.032). Inadequate exit counseling procedures could result in an increased loan default rate. Twenty-four percent (6 of 25) of the students files tested indicated that the student did not receive timely exit counseling. One of the six files did not contain documentation of exit counseling.

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. If a student does not attend a counseling session, exit counseling information must be mailed within 30 days to the student. Documentation of this counseling must be maintained in the student's file.

Recommendation: We recommend that 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. Procedures to identify students who withdraw from the University and who cease to be enrolled at least half-time should be enhanced to ensure compliance.

Management's Response: The University concurs with the recommendation that exit counseling must be provided on a timely basis. During the SIS implementation, procedures to identify and notify these students will be enhanced. Financial Aid Officer/Loan Coordinator is responsible for implementing procedures by May, 1995.

Federal Compliance Issue 8:

Report Enrollment Changes In A Timely Manner

The University is not reporting all enrollment changes for the *Federal Family Education Loan Program (FFELP)* (CFDA 84.032) within the required time frames. 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 52 percent (13 of 25) of the student files tested; 4 of the 13 had not been reported at all. Current procedures are not sufficient to report students who withdraw or cease to be enrolled at least half-time in a timely manner.

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 required time frames. Procedures should be established to ensure that enrollment change notification other than student status confirmation reports is submitted within 30 days.

Management's Response: The University concurs that borrower enrollment changes must be reported to lenders/guarantors on a timely basis. Procedures/supervision of the loan programs will be enhanced to ensure compliance. Financial Aid Officer/Loan Coordinator is responsible for implementing procedures by May, 1995.

Lamar University-Orange

Federal Compliance Issues

Federal Compliance Issue 1:

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 (FFELP)* (CFDA 84.032). Inadequate exit counseling procedures could result in an increased loan default rate.

Eighty-five percent (17 of 20) of the files tested for students who graduated, ceased to be enrolled at least half-time, or withdrew did not contain documentation of exit counseling.

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

Recommendation: We recommend the University provide exit counseling information to all students who graduate, cease to be enrolled at least half-time, or withdraw. Documentation of this counseling should be maintained in the student files.

Management's Response: We concur with the auditors' finding. However, in a majority of the files that were sampled, students that had ceased enrollment or dropped below half-time on the Orange campus were still enrolled in the System for at least six (6) hours and therefore, not scheduled for exit interviews. The auditors explained that the only enrollment that can be considered is that on the Orange campus because we are separate financial aid entities.

To ensure that Lamar University-Orange is in compliance with Federal regulations, the Financial Aid Office will request a monthly report of all drops and withdrawals, on the Orange campus only, from the Admissions and Records Office. This report will be examined by personnel in the Financial Aid Office and compared to the list of borrowers. If a borrower has dropped below the minimum required hours, he/she will be scheduled for an exit interview and mailed a notice of said interview along with information packet from the appropriate guaranteeing agency by the tenth (10th) of each *month. Copies of all information mailed or discussed with student in person will be maintained in the student files. This procedure will commence beginning January 1, 1995.*

Federal Compliance Issue 2:

Report Enrollment Changes To Lenders

The University is not reporting all enrollment changes for the *Federal Family Education Loan Program (FFELP)* (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 65 percent (13 of 20) of the files tested because procedures are not sufficient to report students who graduated, cease to be enrolled at least half-time, or withdrew.

Title 34 of the Code of Federal Regulations (CFR), section 682.610, requires that the institution notify the guaranty agency within 60 days when the school discovers that a loan recipient has ceased to be enrolled at least half-time. 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 guarantors within the 60-day requirement. The University should revise its procedures to ensure all students who graduate, cease to be enrolled at least half-time, or withdraw are reported within the required time frame.

Management's Response: *We concur with the auditors' finding. However, in a majority of the files that were sampled, students that had ceased enrollment or dropped below half-time on the Orange campus were still enrolled in the System for at least six (6) hours and therefore, not reported to the lenders or appropriate guaranteeing agencies within the sixty (60) day federal requirement. The auditors explained that the only enrollment that can be considered is that on the Orange campus because we are separate financial aid entities.*

To ensure that Lamar University-Orange is in compliance with Federal regulations, the Financial Aid Office will request a monthly report of all drops and withdrawals, on the Orange campus only, from the Admissions and Records Office. This report will be examined by personnel in the Financial Aid Office and compared to the list of borrowers. If a borrower has dropped below the minimum required hours, he/she will be reported to the lender or the appropriate guaranteeing agency by the tenth (10th) of each month. Copies of enrollment change notifications will be maintained in the student files. This procedure will commence beginning January 1, 1995.

Federal Compliance Issues

Federal Compliance Issue 1:

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 (FFELP)* (CFDA 84.032). Inadequate exit counseling procedures could result in an increased loan default rate. Twelve percent (3 of 25) of the student files tested did not receive timely exit counseling.

Title 34 of the Code of Federal Regulations (CFR), section 682.604, requires that the institution conduct exit counseling with each borrower who ceases to be enrolled at least half-time. If a student does not attend a counseling session, this information must be mailed to the student within 30 days. Documentation of this counseling must be maintained in the student's file.

Recommendation: We recommend that 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. Procedures should be developed to identify students who withdraw from the University and who cease to be enrolled at least half-time.

Management's Response: Management concurs with the audit recommendation. Under the supervision of the Director of Financial Aid, Lamar University-Port Arthur will order the computer report SFA008 to identify students who withdraw from the university or cease to be enrolled at least half-time. The SFA008 lists all students who dropped hours or withdrew within a specified time frame. This report will be cross-checked with a listing of Stafford Loan recipients bi-monthly. The Student Information System computer (on-line for Spring 1995) will have the FOCUS program, Registration Audit Report, to perform the similar function as the SFA008. Students who have withdrawn or dropped below half-time will have exit counseling or exit counseling material mailed to them within thirty days. Documentation of the exit counseling will be maintained in the student's folder. Implementation will begin after the submission of the Fall 1994 Student Status Confirmation Report is submitted to the Texas Guaranteed Student Loan Corporation

Federal Compliance Issue 2:

Report Enrollment Changes In A Timely Manner

The University is not reporting all enrollment changes for the *Federal Family Education Loan Program (FFELP)* (CFDA 84.032) within the required time frames. 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 28 percent (7 of 25) of the student files tested; 1 of the 7 had not been reported at all. Procedures are not sufficient to report students who withdraw or spring graduates within a timely manner.

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 required time frames. Timely reporting of students who graduate in the spring semester can be achieved by submitting a list of confirmed graduates to the guarantor. Procedures should also be developed to identify students who withdraw from the University or who ceased to be enrolled at least half-time.

Management's Response: Management concurs with the audit recommendation. Under the supervision of the Director of Financial Aid, Lamar University-Port Arthur will use the SFA008 computer report on a bi-monthly basis to identify students who withdraw or drop below half-time within the specified time frame by cross checking this report with a list of Stafford loan recipients. After submission of the Fall 1994 Student Status Confirmation report the institution will notify Texas Guaranteed Student Loan Corporation and other guarantors by letter within 30 days if submission of a Student Status Confirmation report is not expected within the next 60 days. A list of students who graduate on December 16, 1994 for the Fall 1994 semester will be submitted within 30 days after graduation (January 15, 1995) to the Texas Guaranteed Student Loan Corporation.

Audit Scope

Lamar System

The primary focus of our audit was on Lamar System's 13 outstanding bond issues, totaling $26.4 million. For each bond issue, we tested the bond-related disclosures in the Fiscal Year 1994 Annual Financial Report and verified compliance with significant bond covenants.

Lamar University Components

The primary focus of our audit was on the three Universities' two largest student financial assistance programs: the *Federal Family Education Loan Program (FFELP)* and the *Federal Pell Grant Program*. We tested the administrative controls relating to the major federal programs. Specific procedures were used to test compliance with federal requirements. We also performed follow-up procedures on prior year management letter comments related to fixed assets, salaries paid proportional to funding sources, personnel documentation, and timely appropriation reconciliations. For fiscal year 1994, the total dollar value of the programs at each university is as follows:

	PELL	FFELP
Lamar-Beaumont	$ 2,583,848	3,705,149
Lamar-Orange	$ 620,081	0
Lamar-Port Arthur	$ 132,362	$ 16,473