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Group 3 report



UNITED STATES GENERAL ACCOUNTING OFFICE
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8112 FEDERAL OFFICE BUILDING
FIFTH AND MAIN STREETS
CINCINNATI, OHIO 45202

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Code 104004

MAY 12 1975

Dr Cecil L Yarbrough
Regional Commissioner of
Education
Department of Health, Education,
and Welfare
Region IV, Room 544
50 Seventh Street, NE
Atlanta, Georgia 30323

Dear Dr Yarbrough

We have completed a survey of the administration of the National Direct Student Loan Program, the Educational Opportunity Grants Program, the Supplemental Educational Opportunity Grants Program, and the College Work-Study Program by Northern Kentucky State College, Highland Heights, Kentucky. We wanted to determine if Department of Health, Education, and Welfare regulations were being followed and if effective internal controls were established by the institution.

We reviewed Department of Health, Education and Welfare regulations, discussed overall program administration with responsible college officials, tested internal controls, and examined cash reconciliations relating to Federal funds accounts. We also analyzed 35 of 357 financial aid records of students receiving Federal aid in fiscal year 1974 to determine eligibility and to compare student needs with corresponding financial assistance. Most of these 35 students have received aid in fiscal year 1975 as well as in prior academic years.

GRANTS TO UNQUALIFIED STUDENTS

Since fiscal year 1971, Northern Kentucky State College has entered into an annual written agreement with the Commissioner of Education to administer the student aid program. Our analysis of financial aid records for 35 students showed that between April 1972 and May 1974

[Survey To Determine if HEW Regulations Were Being Followed]

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- twelve foreign students who did not meet the citizenship or residency requirements received aid totalling over \$33,000,
- seven students who did not show a financial need on their application received over \$9,000, and
- six additional students received over \$2,000 in excess of their stated needs

Since the financial aid director responsible for making these questionable transactions resigned his position prior to our survey, we were not able to determine why he approved the financial assistance to these students. We believe however that inadequate internal controls contributed to the occurrence of these deficiencies. A more detailed discussion of the above findings follows.

Aid to ineligible foreign students

The written agreement between the Commissioner of Education and Northern Kentucky State College prohibits Federal aid to students who are not citizens of the United States or who temporarily reside in the United States without the intent of becoming a permanent resident. We analyzed the financial aid records of 12 foreign students who received Federal aid since April 1972 and found all 12 were ineligible for assistance. Two of the 12 foreign students explicitly stated on their financial aid applications that they had temporary visas. While the remaining 10 applications generally did not indicate the students' visa classification, a college official informed us that all were in this country on temporary visas. These 12 ineligible foreign students received over \$33,000 in Federal financial assistance. The public accounting firm engaged by the college to conduct a student financial aid program audit informed us that as many as 30 ineligible foreign students may have received Federal aid between July 1970 and June 1974.

Awards without documented need

The agreement with the Commissioner of Education specifies that Northern Kentucky State College use the College Scholarship Service, an activity of the College Entrance Examination Board, in assessing student financial needs. For subscribing postsecondary institutions, College Scholarship Service reviews student aid applications and evaluates both the student and family's ability to contribute to educational expenses.

Despite its agreement with the Commissioner of Education, the college did not always use the service in assessing current financial needs of students applying for financial aid. In addition, sufficient student expense and resource information was not always available for Northern Kentucky State College to make its own assessment. The failure of the college to use the service or to effectively perform its own assessment resulted in seven students receiving over \$9,000 without documented financial needs. One of these students received over \$2,300 in assistance based on an incomplete application that did not indicate either the student's expenses or resources.

Disbursement in excess of stated needs

Students eligible for Federal financial aid must be in need of such assistance to pursue their courses of study. Need is defined by the Office of Education as the difference between the cost of education at a particular college, and the amount of money a student and family can make available from their income and assets to meet that cost.

Analysis of financial aid records showed that six students received over \$2,000 in excess of their stated needs. Although college officials estimated the needs of two of these students, financial assistance totalling about \$950 in excess of the estimate was granted. The remaining four students generally submitted expense and resource data on their applications, however, the college established awards without adequately determining their needs. These students then received cash disbursements ranging between \$130 and \$375 in excess of their estimated needs.

INADEQUATE INTERNAL CONTROLS

Office of Education regulations require colleges participating in the Federal financial aid programs to maintain adequate records of transactions under each of the programs. These records shall include sufficient information to indicate the basis of each student aid application approval or disapproval.

During the tenure of the financial aid director responsible for making the questionable transactions described above, the college did not maintain adequate accounting records. In addition, the college administered the student financial aid program without segregating the responsibility for maintaining financial records and preparing and issuing financial aid checks. Since the college did not always use the College Scholarship Service as agreed, or make its own need assessment, there were also many instances of inadequate documentation of approval or disapproval decisions.

In July 1974, Northern Kentucky State College initiated corrective action to prevent the recurrence of deficiencies such as those described in this letter. However, the college continues to administer the student financial aid program without

--adequate accounting records,

--adequate segregation of duties between financial aid accounting and disbursement functions, and

--written evidence of some College Work-Study award authorizations.

Need to maintain
adequate accounting records

Northern Kentucky State College is not maintaining adequate accounting records to provide ready visibility of program financial status. We noted that the college work-study control account was not kept up to date and college officials could not readily provide us with the current work-study expenditures. Although individual student work-study subsidiary accounts had been maintained by the financial aid office, these individual accounts were not periodically summarized and posted to the control account. In response to our request for fiscal year 1975 work-study expenditures as of January 10, 1975, the college had to summarize its individual accounts for all biweekly work-study disbursements since August 1974. Their summary showed that over \$23,000 in work-study funds had been disbursed without appropriate entries to the control account. The failure of Northern Kentucky State College to maintain an adequate control account and periodically update the financial status of the College Work-Study Program could result in exceeding the available program funds.

Need to segregate accounting
and disbursement duties

Prior to 1974, the Northern Kentucky State College business office was responsible only for preparing financial aid checks while the financial aid office disbursed the checks and maintained the corresponding accounting ledgers. During calendar year 1974, the business office assumed greater responsibility under the financial assistance programs and hired a financial aid accountant. Except for some college work-study accounting functions which remain in the financial aid office, the accountant maintains required financial aid ledgers and books of account. Contrary to accepted internal control procedures relating to the segregation of accounting and disbursement functions, the financial aid accountant also prepares and disburses aid checks and records them in the books of account.

Need for written work-study authorizations

Students that receive college work-study awards from the financial aid office are generally included on the college payroll based on a memorandum to the payroll office. However, some of these awards, made after the start of the school term, are verbally transmitted to the payroll office by a financial aid office employee. This employee also maintains individual work-study subsidiary accounts based on a biweekly payroll schedule prepared by the payroll office. In this situation, the lack of written evidence for some work-study authorizations constitutes an internal control weakness and could result in disbursements to ineligible students.

LACK OF ADMINISTRATIVE PROCEDURES

Office of Education regulations require participating institutions to develop written administrative procedures for each of the financial aid programs. In May 1974, a Department of Health, Education and Welfare consultant visited Northern Kentucky State College to assess its student financial assistance program. The consultant noted that the college did not have written administrative procedures and recommended that the college document procedural guidelines as soon as possible. As of March 1975, the college had not documented administrative procedures for the program.

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Intermittently since January 1974, Rankin and Rankin, Certified Public Accountants, Covington, Kentucky, have been conducting an audit of the Northern Kentucky State College student aid program. The audit covers the period from July 1970 through June 1974. In their report to be issued around May 15, 1975, they intend to identify additional internal control weaknesses and disbursements made (1) to ineligible foreign students, (2) without documented need, and (3) in excess of identified student needs. We limited our review to preclude unnecessary duplication of Rankin and Rankin's efforts.

CONCLUSIONS

From April 1972 to May 1974 Northern Kentucky State College failed to comply with Department of Health, Education, and Welfare regulations by awarding Federal aid to ineligible foreign students and not adequately documenting student needs before disbursing financial aid. Furthermore, the college did not maintain adequate records of transactions under the three programs.

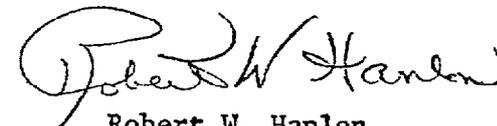
Apparently, the lack of adequate internal controls and documented procedures played a significant part in permitting the identified deficiencies to occur. For example, the absence of these controls and procedures appear directly related to the (1) inadequate financial aid accounting records and (2) insufficient information to determine the reasons for aid application approvals. Though the college has taken some corrective action, it continues to administer the three programs without documented procedures and still lacks adequate internal controls.

RECOMMENDATIONS

We recommend that you (1) take appropriate action to obtain reimbursement from Northern Kentucky State College of the \$33,000 in awards to ineligible foreign students that we identified and any additional awards to ineligible foreign students identified by Rankin and Rankin, and (2) contact Rankin and Rankin, preferably before the issuance of their report, to determine the status of their audit since the Regional Audit Director should be aware of significant deficiencies noted during an audit.

We would appreciate being advised of corrective actions taken or planned. If you have any questions, we will be glad to discuss them with you or your representatives.

Sincerely,


Robert W. Hanlon
Regional Manager