Avoiding Pitfalls in Student Financial: Aid Without Learning the Forms

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Today's Presenters

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Overview

- Heightened Cash Monitoring
- Administrative Capability
- Financial Responsibility
- Program Review

Heightened Cash Monitoring

- **Heightened Cash Monitoring 1**

  A school makes disbursements to eligible students from institutional funds and submits disbursement records to the Common Origination and Disbursement System, then draws down the FSA funds.

- **Heightened Cash Monitoring 2**

  No longer get money under the advanced payment method. A school will make disbursements to students and then submit a Reimbursement Payment Request to the Department to get those funds.

Heightened Cash Monitoring

- In 2015, the Department started publicizing a list of schools on HCM1 and HCM2
- In March 2016, 493 U.S. schools were on that list
  - 428 were on HCM1
  - 65 were on HCM2

Reason for HCM1 or 2

- **Administrative Capability**
- Financial Responsibility
- Audit Late / Missing
- **Program Review – Findings (Severe Findings)**
- Accreditation Problems

Administrative Capability

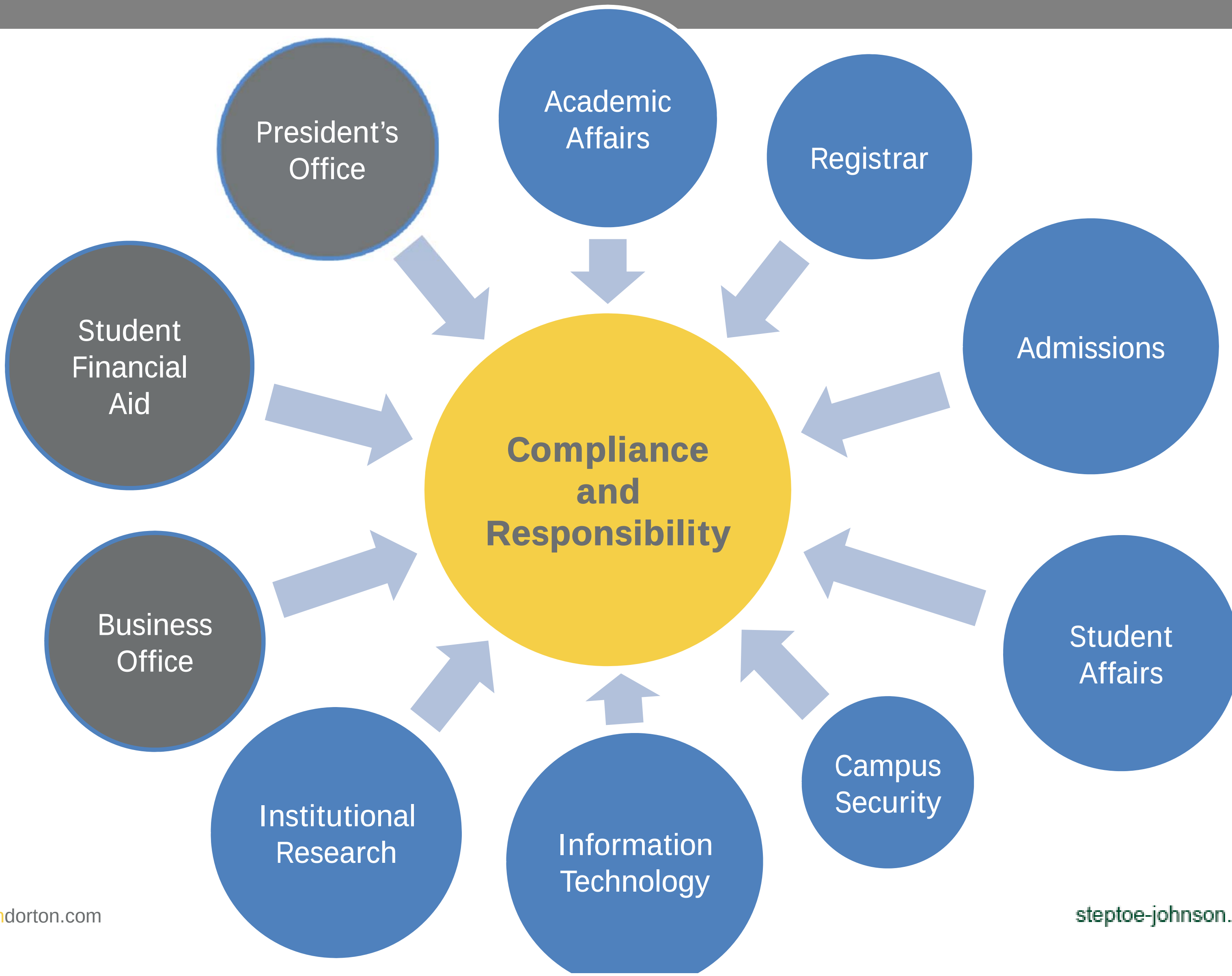
To participate in any **Title IV** program, a school must demonstrate that it is **administratively capable** of managing its basic operations.

Network of Responsibilities

Managing FSA program funds is a **school-wide** responsibility.

FSA program funds are provided to the school, and all offices at a school must work together to ensure successful program management.

Network of Responsibilities



Primary Responsible Offices

FSA program management generally takes place in three functional areas:

Office of the Chief Executive	Chief Financial Aid Officer	Chief Business Officer

(CEO, President, Chancellor, etc.)

President/CEO’s Office

- **Ultimate responsibility** for a school’s FSA programs
- Authority and responsibility delegated to other offices
- Strong leadership fosters an environment to promote an effective and responsive financial aid program

Best Practices for President's Office

- **Understand the Program Participation Agreement (PPA)**
  - Lists laws, regulations, and policies governing FSA programs
  - Must have a current PPA signed by the school's President, CEO, or Chancellor and an authorized representative of the Department of Education
  - Provisional status
- **Review it annually**

Financial Aid Office

- Assigned most of the responsibility for administering FSA programs
- Limited role in the institution's fiscal operation
- Reconcile student financial aid data provided to the business office
  - Payments Made
  - FSA Funds Returned
  - Expenditures Reported
- Report changes to ED effecting eligibility status

Best Practices for Financial Aid Office

- Have a relationship with the Department of Education
  - Go visit them so they know who you are!
- Have a relationship with your external auditor
  - The auditor can be a great resource for you.
  - They want to help you!
- Make sure your team attends training annually
- Document all your processes and internal controls
  - Internal controls were always required, however the new Uniform Grant Guidance requires that controls be documented.

Business Office

- Most FSA-related fiscal operations
- Provides critical services managing both federal and nonfederal financial aid programs
- Administers the accounting, recordkeeping, and reporting functions
  - Including cash management
- Strong internal controls and sound business and financial management practices

Business Office

Coordinate activities and cooperate with the Financial Aid Office in:

- Projecting cash needs
- Processing cancellations and institutional refunds
- Obtaining authorization to pay FSA funds
- Being aware of the changes in FSA laws and regulations
- Submitting accurate and timely reports
- Reconciling Title IV funds

Best Practices for Business Office

- Develop a strong relationship with the director of student financial aid
- Stay up to date on changes in financial aid that impact your office/responsibilities
- Understand the audit findings and assist with processes to address the findings
- Develop standard reconciliations to be performed on a regular basis
- Assist with the documentation of internal controls
- Understand the rules surrounding financial responsibility – calculate the ratios on a regular basis

Summary

- Managing FSA Funds is a **school-wide** responsibility
- All offices must work together to ensure successful program management
- Primary responsibility - President/CEO, CFO, and the Financial Aid Director

Financial Responsibility

Financial responsibility standards can be divided into two categories:

- General standards – basic standards used to evaluate school's financial health, *and*

- Performance and affiliation standards, which are standards used to evaluate a school's past performance and to evaluate individuals affiliated with the school

Financial Responsibility

A **public school** is considered financially responsible if its debts and liabilities are backed by the full faith and credit of the state or another government entity.

Financial Responsibility

A **proprietary or private nonprofit school** is considered financially responsible if the Department determines that:

- The school has a composite score of at least 1.5
- The school has sufficient cash reserves to make the required refunds, including the return of Title IV funds
- The school is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover FSA program debts and liabilities; and
- The school is current in its debt payments.

Financial Responsibility

The Department does **not** consider a school to be financially responsible if:

The audited financial statements expressed an **adverse, qualified or disclaimer** opinion, or the auditor expressed doubt about the continued existence of the school as a **going concern.**

Financial Responsibility

Composite Score

Primary Reserve Ratio
Measure of the school's viability and liquidity

= Adjusted equity (net assets) / Total expenses

Equity Ratio
Measure of a school's capital resources and its ability to borrow

= Modified equity (assets) / Modified expenses (assets)

Net Income Ratio
Measure of the school's profitability

= Income before taxes (Change in net assets) / Total (unrestricted)revenues

Financial Responsibility

Composite Score Scale

1.5 to 3.0 **Financially responsible** with further oversight

1.0 to 1.4 **In the "Zone"**

The school is considered financially responsible, but additional oversight is required

-1.0 to .9 **Not financially responsible**

Must submit a letter of credit of at least 50% of its FSA funding. The school may be permitted to participate under provisional certification with a smaller letter of credit with a minimum of 10% of its FSA funding and additional oversight.

Financial Responsibility

Alternative Standards for Participation:

- Letter of Credit Alternative
- Zone Alternative
- Provisional Certification

Financial Responsibility

Letter of Credit Alternative is applicable if:

- Does not meet one or more of the general standards or
- Has an adverse audit opinion

The school can submit an irrevocable letter of credit to the Department of Education for 50% of the FSA program funds received during the most recent completed fiscal year.

Financial Responsibility

Zone Alternative

- Can stay in the Zone for up to 3 years
- If fall below 1.0 for 1 of the 3 years, then school must satisfy another alternative to keep participating

Financial Responsibility

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Requirements when operating in the Zone Alternative:

- Request and receive funds under the cash monitoring or reimbursement method
- Provide timely information regarding certain oversight and financial events
- May be required to submit financial statement and compliance audit earlier than normal
- May be required to provide information about its current operations and future plans

Financial Responsibility

Provisional Certification (3 year max)

- Required to submit a letter of credit, payable and acceptable to the Department for 10% - 100% of the FSA program funds received by the school during its most recent fiscal year; and

- Demonstrate that it has met all of its financial obligations and was current on debt payments for its two most recent fiscal years.

Important: A school that is required to post a letter of credit will be placed on heightened cash monitoring or reimbursement

Top 10 Audit and Program Review Findings

Top Audit Findings

1. Repeat Finding – Failure to Take Corrective Action
2. NSLDS Roster Reporting – Inaccurate/Untimely Reporting
3. Return to Title IV (R2T4) Calculation Errors
4. Return to Title IV (R2T4) Funds Made Late
5. Verification Violations

Top Audit Findings

6. Pell Grants – Overpayment/Underpayment
7. Student Credit Balance Deficiencies
8. Entrance/Exit Counseling Deficiencies
9. Qualified Auditor’s Opinion Cited in Audit
10. G5 Expenditures Untimely/Incorrectly Reported

Top Program Review Findings

1. Verification Violations
2. Return to Title IV (R2T4) Calculation Errors
3. Student Credit Balance Deficiencies
4. Entrance/Exit Counseling Deficiencies
5. Crime Awareness Requirements Not Met
6. Satisfactory Academic Progress Policy Not Adequately Developed/Monitored

Top Program Review Findings

7. NSLDS Roster Reporting – Inaccurate/ Untimely Reporting
8. Inaccurate Recordkeeping
9. Drug Abuse Prevention Program Requirements Not Met

**NEW!

* 10. Consumer Information Requirements Not Met

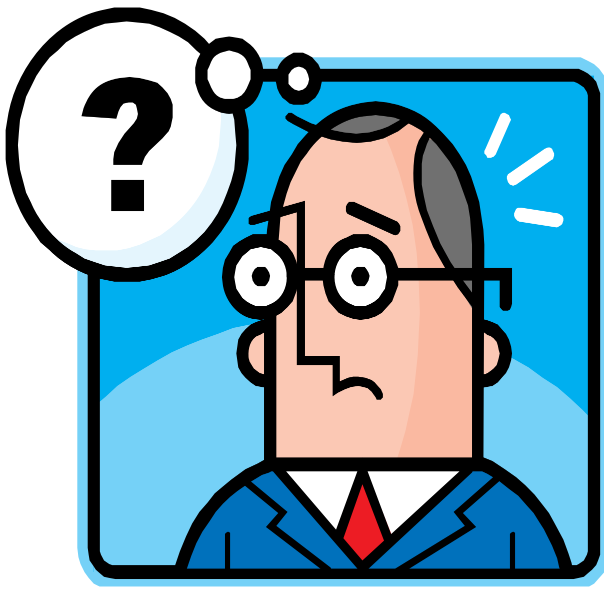
Return to Title IV (R2T4) Funds Made Late

Tie

Findings on Both Lists

- Return to Title IV (R2T4) Calculation Errors
- Return to Title IV (R2T4) Funds Made Late
- NSLDS Reporting – Inaccurate/Untimely Reporting
- Verification Violations
- Student Credit Balance Deficiencies
- Entrance/Exit Counseling Deficiencies

QUESTIONS?



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