STUDENT FINANCIAL AID OFFICE
AUDIT OF INTERNAL CONTROLS FOR FINANCIAL AID AWARDS

THE UNIVERSITY OF NEW MEXICO

Report 2007-08
February 20, 2008

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ABBREVIATIONS

FAFSA	Free Application for Federal Student Aid
FTC	Federal Trade Commission
GLB	Gramm-Leach-Bliley Act
IA	Internal Audit Department
NACUBO	National Association of College and University Business Officers
NASFAA	National Association of Financial Aid Administrators
SFA	Student Financial Aid Office
UNM	The University of New Mexico

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EXECUTIVE SUMMARY

As part of Internal Audit (IA)'s 2007 Audit Plan, IA reviewed Student Financial Aid Office (SFA)'s internal controls for financial aid disbursement. SFA at the University serves over 25,000 students using Banner software in the awarding of financial aid. The Bursar's Office actually disburses the aid.

IA interviewed selected staff of SFA and tested a sample of awarded students' files to evaluate internal controls. Based upon the audit procedures performed, we found SFA appears to have controls to assure financial awards to students are proper. We believe the following items could add to the effectiveness and efficiency of the financial aid program at the University.

POLICIES AND PROCEDURES MANUAL

The Director of SFA should update and organize the existing on-line SFA policies and procedures into a comprehensive on-line manual. The SFA Office has agreed to organize and update the SFA policies and procedures into a comprehensive on-line manual.

NEW SFA EMPLOYEE TRAINING

The Director of SFA should formalize and standardize training for new employees. The SFA Office will implement a standard training program for new Financial Aid Advisors and Officers.

SFA CONFLICTS OF INTEREST TRAINING

The Director of SFA should provide conflicts of interest training to SFA employees. Conflict of interest training will be part of the standard training for new Financial Aid Advisors and Officers.

BANNER SUPPORT

The Director of SFA should provide cross training for Banner software support. The SFA Office will work to identify key Banner tasks that can be assigned to other SFA staff.

UNIVERSITY-WIDE ISSUES

The SFA Director should have more authority and input for the branches and professional schools SFA representatives as to hiring, disciplining, and directing. Per the Interim Executive Vice President for Academic Affairs/Provost, when vacancies occur, the Director of Financial Aid will retain sign-off authority for the hiring of branch financial aid staff. Per the Executive Vice President for Health Sciences Center, in the future, when vacancies occur at the School of Medicine and the Colleges of Pharmacy and Nursing, the Director of Financial Aid will have sign-off authority for the hiring of replacement financial aid staff.

The Interim Chief Information Officer should complete the disaster recovery/business continuity project as soon as possible. The Interim Chief Information Officer will create a plan for Banner Disaster recovery.

University Counsel and the Vice President for HSC/UNM Finance/University Controller should complete the policy addressing the Gramm-Leach-Bliley Act. The Policy Office Manager will develop a policy for the University to become GLB compliant including necessary training.

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INTRODUCTION

BACKGROUND

Over 25,000 students at the University of New Mexico (UNM) receive some form of financial aid (assistance) yearly. The total amount of financial assistance including scholarships has grown from $136,078,135 for fiscal year 2003-04 to $148,879,446 in fiscal year 2005-06.

Besides the main SFA office, the University has financial aid offices at four of the branches: Gallup, Los Alamos, Taos, and Valencia, and at three of the professional schools: Law, Medicine, and Pharmacy. Organizationally, these financial offices report to the branches' or professional schools' administration.

SFA provides financial assistance in the form of grants, work-study, and loans. A separate department administers scholarships at the University. Grants are aid with no required repayment. Work-study awards require student to work in some capacity to receive the aid. Loan aid requires repayment in the future for amounts of aid borrowed.

To accomplish delivery of financial aid to students, the student first completes a Free Application for Federal Aid (FAFSA) to start the process. Based on awarding criteria and the completed application, SFA determines the type and extent of financial aid awarded to the student.

The University uses the Department of Education regulations and guidelines as well as the State of New Mexico regulations and guidelines in administering financial aid awards to students. To help administer the SFA program, the University uses the Banner Financial Aid software package. The software is part of the Banner suite of modules the University is installing or has installed.

PURPOSE

The purpose of the audit is to determine whether SFA has the necessary controls in place to comply with Federal and State regulations and guidelines, and with University policies and procedures for awarding financial aid to students.

SCOPE

The scope is limited to student awards excluding scholarships for fiscal year 2006-07. We audited the SFA awarding process; we did not audit the Bursar's Office that is responsible for disbursing financial aid.

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OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

SFA POLICIES AND PROCEDURES MANUAL

The hard-copy SFA manual does not include policies and procedures available on-line. SFA provided Internal Audit (IA) with a hard copy policies and procedures manual; however, the manual does not contain a majority of the content of the on-line policies and procedures. Lack of a comprehensive manual could lead to inefficient application of pertinent policies and procedures within the department thereby affecting the level of service to students.

The United States Department of Education provides guidance to those offices and individuals responsible for managing, keeping records of, accounting for, and reporting on the use of federal funds at institutions that participate in the Title IV, Federal Student Aid programs (FSA programs) through the Blue Book. Chapter 12 of the Blue Book states:

> Finally, a comprehensive, well-written policies and procedures manual can
>
> - document how and when the school establishes specific policies and procedures;
> - provide a single location for the school's policies and procedures;
> - serve as a valuable reference during a program review or audit;
> - provide the basis for the orientation and training of new employees and the refreshing of the skills of current employees.
>
> An excellent model for creating an institutional policies and procedures model is available from The National Association of Financial Aid Administrators (NASFAA). We encourage those individuals responsible for participating schools' business operations to join with their colleagues in financial aid in creating a comprehensive FSA policies and procedures manual for their schools….*NASFAA's Policies & Procedures Tools* show how to create and maintain a policies and procedures manual for the proper administration of student financial aid in an electronic age. The *Tools* include a user-friendly electronic template for a *Policies & Procedures Manual* and a wide array of other aids for formulating, implementing, evaluating, and revising policies and procedures. It is a well-stocked toolbox to help build a financial aid foundation.

Elements of a policies and procedure manual exist on-line within SFA. We believe SFA can use the NASFAA model to better organize the on-line policies and procedures. Updates of policies and procedures would be easier to maintain and control and the hard copy of the manual could be eliminated. Since the manual would be on-line, the manual's use could enhance the productivity of the staff.

Recommendation 1

The SFA Director should update and organize the on-line policies and procedures by consolidating all pertinent policies and procedures into a comprehensive on-line manual using the NASFAA's policies and procedures model as reference. Develop an update process to keep the electronic version relevant and complete.

Response from the Director of Student Financial Aid

The Director of Financial Aid will work with his Management Team to organize and update the Policies and Procedures Manual into a comprehensive on-line manual. Staff will utilize on-line tools available from the U.S. Department of Education and the National Association of Student Financial Aid Administrators (NASFAA) to organize and update the manual. The Director of Financial Aid expects this action to be complete by the end of December 2008.

NEW SFA EMPLOYEE TRAINING

SFA does not have standardized training for new employees. Currently supervisors provide one-on-one training but SFA does not have standardized training available. The lack of a standardized training program may contribute to inconsistency in training, as the new employee may not receive all relevant information. This in turn could affect delivery of service to students.

Recommendation 2

The Director of SFA should develop a standardized training program for new employees incorporating the revised policies and procedures manual. The training should include a process to document attendance for the training.

Response from the Director of Student Financial Aid

The Director of Financial Aid will work with his Management Team to implement a formal, standardized training program for new Financial Aid Advisors and Officers. The SFA Coach, from the U.S. Department of Education, is already being utilized for new employee training. As well, two new employees will attend the SWASFAA Boot Camp Training this December. The formalized training will include the following standard components:

> *a. UNM New Employee Orientation*
> *b. SFA Coach (online training)*
> *c. Banner Training*
> *d. SFA Conflict of Interest Training*
> *e. SWASFAA Boot Camp (Regional FA Association Training each December)*
> *f. Review of Policies and Procedures Manual (see completion day in #1 above)*

The Administrative Assistant, new Accountants, Technical and Student Employment staff will attend the UNM Employee Orientation; complete SFA Coach online, receive Banner Training and attend other training opportunities appropriate to their duties. The new employee-training program will be in place by March 2008.

SFA CONFLICT OF INTEREST TRAINING

SFA does not have annual conflict of interest/ethics training. Section 1, "Conflicts of Interest," Policy 3720, University Business Policies and Procedures Manual (UBP) states,

> Employees of the University shall maintain the highest standards
> of business ethics in transactions with the University, with state,
> federal, and local governments, and with the public. Employees
> are expected to perform their duties faithfully and efficiently and
> never to give rise to suspicion of improper conflict with interests of
> the University. Subject to specific University administrative
> policies, employees must avoid any conflict of interest that may
> affect their independent judgment in the impartial performance of
> their duties and may <u>not</u> use their positions to enhance their direct
> or indirect financial interest or use confidential information learned
> as employees for anyone's private gain.

While each employee in SFA is required to sign a "Code of Responsibility for Employees" form, there is no organized training for conflict of interest/ethics training for SFA employees. The first paragraph of the form states,

> As an employee of the Office of Student Financial Aid, it is
> essential for you to maintain the confidentiality of any information
> which you may have access to in the course of your employment.
> In addition to this requisite, all persons employed by the Office of
> Student Financial Aid must agree not to award financial aid or any
> other type of assistance to themselves, friends, or any member of
> their family. They must also agree not to work on any record or
> file for themselves, friends, or family members.

The training will help the employee understand their responsibilities and types of ethical issues that could arise. The lack of conflict of interest/ethics training could lead to violations involving conflicts of interest obligations and may contribute to financial losses to the University as well as unwanted publicity.

Recommendation 3

The Director of SFA should develop a training program for conflict of interest/ethics using the statement contained in the Code of Responsibility for Employees form as a starting point. The training should emphasize possible conflicts of interest/ethics scenarios to help employees avoid such issues in their job.

Response from the Director of Student Financial Aid

The Director of Financial Aid will work with his Management Team and the Vice President for UNM Human Resources to develop conflict of interest training for SFA employees. This training shall be in place by the end of May 2008 and will be incorporated into the New SFA Employee Training.

BANNER SUPPORT

SFA may not have enough Banner-trained personnel within the department to backup the two departmental Banner technical support personnel: the Associate Director of SFA, and the Financial Aid Manager. SFA management expressed concern about the number of employees trained in Banner that can provide technical support when the Associate Director of SFA or the Financial Aid Manager is not available. Lack of sufficient backup personnel could affect the level of service to students.

Good operating procedures include backup to key personnel especially in the area of operating systems. This is a major planning element of a disaster recovery plan.

Recommendation 4

The Director of SFA should assure that additional SFA personnel are trained in Banner technical support to backup the current technical staff.

Response from the Director of Student Financial Aid

The Director of Financial Aid is working with the Associate Director and Financial Aid Manager to identify key Banner tasks that can be assigned to other SFA staff and to document standard operating procedures (SOPs) for major Banner FA functions. To date, Funds Management set-up, Common Origination and Disbursement and Return of Title IV Funds have been handed off to other staff. SFA is in the process of hiring a term FA Manager to free up the FA Manager for at least a year, to work closely with the Associate Director in documenting the SOPs and providing back-up for other key Banner FA functions. The Financial Aid Manager for Student Employment is also becoming proficient in Banner HR/Payroll, which will go live in January 2008. Additionally, the Enrollment Management Division is implementing a One-Stop Service for Students. Over time, there will be cross-training opportunities for employees to gain

additional Banner expertise in other areas of the Division. While this effort will be on going, the Director of Financial Aid expects significant back-up expertise to be developed by the close of December 2008.

UNIVERSITY-WIDE ISSUES

Branches and Professional Schools' SFA Representatives Reporting Relationships

The branch and professional schools SFA representatives have a working, but not a reporting, relationship to the SFA Director. The current reporting relationship goes through the chain of command for the respective branch or professional school. The SFA Director is responsible for the SFA program for the University as a whole. This is evidenced by the "Eligibility and Certification Approval Report" to the US Department of Education which lists the President and the SFA Director as the "officials" for the University. This report is the official document from the Department of Education listing the University's eligibility for participation in financial aid programs.

The application for the Participation Program Agreement (PPA) asks who the financial aid director is; they "...must be a capable individual designated to be responsible for administering all the Title IV, HEA programs and coordinating those programs with the institution's other Federal and non-Federal programs of student financial assistance." While the SFA Director is responsible for the University SFA, the Director has no authority or input over the hiring, disciplining, and directing of the SFA representatives in the branches and professional schools. Presently, the SFA Director's role is one of coordinator rather than director for the SFA representatives.

Recommendation 5

The University should develop a reporting relationship where the SFA Director will have more authority and input over the branch and professional school SFA representatives as to hiring, disciplining, and directing.

Response from the Executive Vice President for Health Sciences Center and the Interim Executive Vice President for Academic Affairs/Provost

Response from the Executive Vice President for Health Sciences Center:

The School of Medicine and College of Pharmacy retain student financial aid staff specifically to support the needs of the students in their respective school/college. The College of Nursing shares a Main Campus financial aid officer with the UNM Law School. This financial aid officer is hired by the Director of Financial Aid and currently paid primarily by the central Student Financial Aid Office. In the future when vacancies occur at the School of Medicine and the Colleges of Pharmacy and Nursing, the Director of Financial Aid will have sign-off authority for

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the hiring of replacement financial aid staff. Daily supervision of the financial aid officers will remain with the individual school/colleges but an annual review of a sample of student financial aid files will be conducted by central financial aid management staff to assure that policies and procedures are being followed with respect to the awarding of financial aid and that professional judgment decisions are being properly documented. A written report will describe the process used in the review and document the observations and recommendations for improvement.

Response from the Interim Executive Vice President for Academic Affairs/Provost:

Likewise, the Branch Campuses hire and retain financial aid officers to help support the financial needs of their students. When vacancies occur the Director of Financial Aid will retain sign-off authority for the hiring of Branch financial aid staff. Daily supervision of the financial aid officers will remain with the individual Branch Campuses but an annual review of a sample of student financial aid files will be managed by central financial aid management staff to assure that policies and procedures are being followed with respect to the awarding of financial aid and that professional judgment decisions are being properly documented. Central Student Financial Aid Managers will train Branch Campus Financial Aid supervisors/coordinators in conducting a review (at another Branch) and will serve as a resource for this activity. A written report will be required to describe the process used in the review and to document the observations and recommendations for improvement.

The SFA Director has excellent relations with both the branches and the professional schools and sets policies and procedures that must be followed conscientiously. Central oversight and responsibility resides with the Main Campus Student Financial Aid Office. If there are issues with adherence to these policies and procedures, the SFA Director will address these directly with either the Vice President for Rio Ranch Operations and Branch Academic Affairs (to whom the branch Executive Directors report), or the EVP for Health Sciences (to whom the financial aid officers in the health sciences ultimately report). By March 31, 2008, we will communicate to all branch and professional school administrations these chains of authority and our willingness and intention to exercise, when necessary, intervention in hiring decisions, discipline, and direction of these operations.

Scanning/Imaging Capabilities-All SFA Locations

Scanning capabilities for documentation is not available at all SFA branch locations and professional schools. When SFA implemented Banner, the standard for student documentation changed from hard copy to scanned/imaged documentation stored on-line. All SFA locations (branches, medical/law, etc.) should have the capability to scan. UNM is using a secure web-based document management solution, Singularity by Hershey. They are phasing in the scanning capabilities at the branches. By not having all the branches and locations with scanning capabilities, there could be delays in retrieving necessary documentation affecting the effective administration of the SFA function.

Recommendation 6

The Executive Vice President for Health Sciences Center and the Interim Executive Vice President for Academic Affairs/Provost working with the SFA Director should continue the process of phasing in scanning capabilities for the remaining branches and professional schools as soon as possible.

Response from the Executive Vice President for Health Sciences Center and the Interim Executive Vice President for Academic Affairs/Provost

Response from the Executive Vice President for Health Sciences Center:

The School of Medicine has a Scanner, but financial aid documents are not currently being scanned because the School of Medicine has not yet identified a suitable location where scanned documents can be physically archived. The College of Nursing currently scans internal documents regarding Nursing scholarships. Their financial aid officer scans Nursing students' financial aid documents and/or collaborates with Main Campus to have documents scanned. The College of Pharmacy routinely transports financial aid documents to Main Campus where these documents are scanned into the Main Campus system. Pending funding from the Office of Financial Aid, the College of Pharmacy anticipates collaborating with Main Campus to implement a system whereby Pharmacy would have the capability to scan documents into the Main Campus system directly from Pharmacy.

Response from the Interim Executive Vice President for Academic Affairs/Provost:

Management agrees with this recommendation. Branch and professional schools have faced stiff challenges and Banner transition issues that have delayed complete scanning implementation. However, we can set June 30, 2008 as a realistic deadline for full scanning implementation in these units.

<u>Banner Disaster Recovery Plan</u>

We interviewed SFA staff and reviewed the Information Technology Services (ITS) web site to determine if a disaster recovery plan for Banner existed; we did not find one. If a systems failure occurs the University needs to be able to deliver financial aid to students.

A disaster recovery plan is standard operating procedure for Information Technology Systems (ITS). The National Institute of Standards and Technology's (NIST) "Contingency Guide for Information Technology Systems" states in its introduction:

> Information technology (IT) and automated information systems are vital
> elements in most business processes. Because these IT resources are so

essential to an organization's success, it is critical that the services provided by these systems are able to operate effectively without excessive interruption. Contingency planning supports this requirement by establishing thorough plans and procedures and technical measures that can enable a system to be recovered quickly and effectively following a service disruption or disaster.

IT contingency planning refers to a coordinated strategy involving plans, procedures, and technical measures that enable the recovery of IT systems, operations, and data after a disruption. Contingency planning generally includes one or more of the approaches to restore disrupted IT services:

1. Restoring IT operations at an alternate location
2. Recovering IT operations using alternate equipment
3. Performing some or all of the affected business processes using non-IT (manual) means (typically acceptable for only short-term disruptions).

An example of a disaster recovery plan from the University of Arkansas (UofA) states:

This disaster recovery plan has the following primary objectives:

1. Present an orderly course of action for restoring critical computing capability to the UofA campus within 14 days of initiation of the plan.
2. Set criteria for making the decision to recover at a cold site or repair the affected site.
3. Describe an organizational structure for carrying out the plan.
4. Provide information concerning personnel that will be required to carry out the plan and the computing expertise required.
5. Identify the equipment, floor plan, procedures, and other items necessary for the recovery.

By not having a plan in place in case of a systems failure, delays will occur in restoring service to the University community resulting in additional costs and unwanted publicity. While there is an ITS disaster recovery/business continuity project listed on the Information Technology Services (ITS) web site, it is not known why the project has not been completed. In September 2007, the Interim Chief Information Officer said the project had been dormant for quite a while and was in the process of being revitalized.

Recommendation 7

The Interim Chief Information Officer should complete the disaster recovery/business continuity project including the disaster recovery plan as soon as possible.

Response from Interim Chief Information Officer

The Banner Disaster Recovery Plan has been re-activated; however, full development and subsequent implementation of this plan will be the responsibility of the Director of Information Assurance. We are in the final stages of completing this hire. The development of this plan, along with a review of IT related policies (See CFA Audit report) will be the highest priorities for the Director of Information Assurance4. We will have an initial plan completed by September of 2008 and a final plan implemented by March 2009.

<u>Gramm-Leach-Bliley Act (GLB)</u>

Previously in audit report, 2006-18, Department of Parking and Transportation Services, Audit of Information Systems, dated April 6, 2006, we addressed the lack of policy for complying with GLB. GLB policy and procedures is 4 years behind implementation at UNM. The Acting President at the time assigned responsibility for addressing this issue to the University Counsel and the Associate Vice President for Financial Services/Controller. Violations of the GLB could subject UNM to civil and criminal penalties by Federal Trade Commission (FTC) enforcement.

Because higher education institutions participate in financial activities, such as making Federal Perkins Loans, Federal Trade Commission (FTC) regulations consider them financial institutions for GLB Act purposes. On the National Association of College and University Business Officers' (NACUBO) web site, GLB is discussed, " The GLB Act broadly defines 'financial institution' as any institution engaging in the financial activities enumerated under the Bank Holding Company Act of 1956, including "making, acquiring, brokering, or servicing loans" and "collection agency services." The act subjects higher education institutions to the provisions of the Act related to the administrative, technical, and physical safeguarding of customer information. The deadline for complying with GLB was May 23, 2003.

The University Policy Office received the University policy review from University Counsel. The Manager of the University Policy Office is forming a team to develop the policy working with the Executive Vice President for Administration to pick the management to be in charge of the policy development. The Manager thinks the policy may be complete by April 2008.

Recommendation 8

University Counsel and the Vice President for HSC/UNM Finance/University Controller should complete the process to make the University compliant with GLB and train the departments affected by GLB by the established implementation date of April 2008 or sooner.

Response from University Counsel and the Vice President for HSC/UNM Finance/ University Controller

The administration concurs with the recommendation that the University become compliant with GLB including the training of employee and management affected by GLB. The UNM Policy Office has been charged to develop a policy that defines roles and responsibilities pertaining to the data security, employee training, and other requirements of GLB. The policy will be implemented July1, 2008 or sooner.
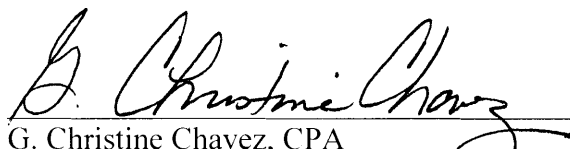
CONCLUSION

Based upon the audit procedures performed, we found the department appears to have controls to assure financial awards to students are proper. We believe the following items could add to the effectiveness and efficiency of the financial aid program at the University.
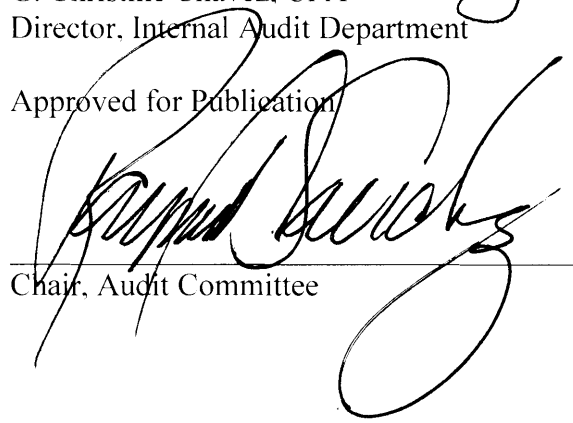
- Organize and compile existing SFA policies and procedures into a comprehensive on-line manual.
- Formalize and standardize training for new employees.
- Provide conflicts of interest training to SFA employees.
- Provide cross training for Banner software support.
- Give the SFA Director more authority over the SFA representatives at the branches and professional schools.
- Extend scanning/imaging capabilities to all SFA locations as soon as possible.
- Complete the disaster recovery/business continuity project as soon as possible.
- Complete the policy addressing the GLB Act.

APPROVALS

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Approved for Publication

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