Direct Loan Program Review
(Fieldwork ended November 13, 2012)

Audit Report
and
Management’s Responses

Issue date May 31, 2013

Prepared by: Alamo Colleges’ Internal Audit Department
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<th>AUDIT REPORT AT A GLANCE</th>
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<td><strong>Objectives</strong> were to determine if the:</td>
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<td>Processes and controls are appropriate, effective, and efficient for the -</td>
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<td>Manual application process</td>
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<td>Banner Financial Aid Module security/access was appropriate and compliant with state requirements</td>
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<td><strong>Scope</strong> included</td>
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<td>Financial aid year 2011-2012 student loan activities</td>
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<td>Banner Financial Aid Module security and access in March 2012</td>
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<td><strong>Key Recommendations</strong></td>
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<td>Improve the Direct Loan Program processes and controls for:</td>
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<td>Manual applications</td>
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<td>Improve the District’s information resources security program (processes and controls) for the Banner Financial Aid Module to comply with Texas Administrative Code Chapter 202 Subchapter C for Institutions of Higher Education (TAC 202 Sub C)</td>
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<td><strong>Potential risks for Alamo Colleges if these are not addressed</strong></td>
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<td>Student success could be impacted by delayed loan disbursements</td>
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<td>Partial non-compliance with federal and/or state requirements -</td>
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<td>34 CFR Part 686 Student Assistance General Provisions, Subpart C Student Eligibility</td>
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<td>Higher Education Act Section 455 Terms &amp; Conditions of Loans, Subsection (k)(2) Fiscal Controls and Fund Accountability</td>
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<td>TAC 202 Sub C Security Standards for Institutions of Higher Education</td>
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<td>Regulatory non-compliance issues could jeopardize the -</td>
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<td>Department of Education’s annual awards of about $30 million in loans to District students</td>
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<td>Colleges’ academic program accreditations</td>
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<td>Inefficient use of resources for processes that could be automated using Banner</td>
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<td><strong>Management’s Responses Overview</strong></td>
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<td>Management has or will complete the eight recommendations by August 2013.</td>
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<td>As of October 2012, the Student Financial Aid (SFA) Office was reorganized so that there is a Director solely responsible for the administration of the Direct Loan Program for all Colleges. In addition, a Sr. Financial Analyst was hired to perform direct loan reconciliations between the Department of Education Systems and Banner, and to ensure that loan awarding, disbursement, reconciliation, and drawdown processes provide maximum availability of funds to students and to Alamo Colleges.</td>
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<tr>
<td>The Banner Security Matrix for Student Financial Aid (SFA) has been updated to exclude access to any party who no longer needs or who should not have access. User access has been defined by roles within SFA so that it is appropriate for the position held by a staff member.</td>
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<td>The Banner auto-packaging feature was used for 2013-14 awards to eligible returning students. A Banner workflow is under development to provide online loan application submission and tracking. Processes related to fiscal accounting and funding have been strengthened and procedures will be documented.</td>
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<td>When financial aid data is extracted from Banner for special-purpose reports, the District IT Services Department will provide batch totals. This will enable the requesting department to verify the accuracy and completeness of information prior to using the report.</td>
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BACKGROUND
Student loans began with the Higher Education Act (HEA) of 1965 Title IV Part B Federal Family Education Loan Program. They were the largest source of federal student aid in 2012 according to the U.S. Department of Education. The program is administered using Chapter 34 of the Code of Federal Regulations (CFR) including Part 600 Institutional Eligibility, Part 668 Student Assistance General Provisions, and Part 685 William D. Ford Federal Direct Loan Program.

In 1993, the U.S. Department of the Treasury began providing funds directly to students and parents through participating schools. Funds to cover the costs of education included:

- Subsidized loans for students with financial need; with reduced interest costs
- Unsubsidized loans for students regardless of financial need; without interest reductions
- PLUS loans for parents with dependent undergraduate children; without interest reductions

Schools are responsible for determining student eligibility and for disbursing funds. To do so, they use the Free Application for Federal Student Aid, student higher education academic records, and the National Student Loan Data System. Loans are based on the school’s cost of attendance, expected family contribution, and other income sources. Awards cannot exceed a student’s unmet need. The student’s grade level and dependency status also affect the maximum loan amounts available.

The Student Financial Aid Department (SFA), known as the Student Financial Services Department prior to November 2012, administers the Direct Loan Program for Alamo Colleges. The staff manually verifies a student’s eligibility. They also determine the amount and type of loan(s) to offer.

STUDENT AND FINANCIAL IMPACTS OF ALAMO COLLEGES’ DIRECT LOAN PROGRAM
In fiscal year 2012, Alamo Colleges disbursed $131 million in Title IV HEA Funds. Pell Grants accounted for 71 percent of the total while loans represented about 26 percent. The District manually reviewed over 6,800 paper loan applications, of which 1,000 were denied, for aid year 2012. Students qualified for and accepted over $29 million in loan proceeds.

The loan programs present significant risks for the Colleges because of the number of students served, the amounts involved, and the borrower default rate sanctions. Proper administration and adequate controls for this program are required to ensure compliance with federal regulations, continued access to this and other federal funds, and student success.

AUDIT RESULTS SUMMARY
Alamo Colleges could improve efficiency by integrating the SFA Department direct loan operating activities with the Financial Aid Module. This would allow Alamo Colleges to optimize the Banner System’s functionality.

During the Banner conversion in 2010, SFA Department Management decided not to implement the Financial Aid Module functions/controls for automated loan packaging. Instead, manual practices were created to handle the loan program similar to those used for the Legacy SIS PLUS Application. A target of ten weeks was established by the SFA Department to process these manual applications. This does not appear to be a reasonable service delivery for the students.

The Business Process Analyses (BPAs) developed during the Banner conversion were brief and not supported by procedures. The two BPAs developed for the Direct Loan Program did not address the manual application process.
AUDIT RESULTS SUMMARY CONTINUED
The current manual application process cannot efficiently handle over 6,800 applications each year. This requires more than one full-time staff equivalent, which costs approximately $54,000 annually. The process design inefficiencies included:

- Transcribing data from Banner onto applications
- Manually evaluating student eligibility
- Calculating the award amount(s)
- Selecting the type of loan(s) to offer
- Keying the results into Banner

In addition, the current process lacks several controls, including no procedure for the manual loan application process. The SFA Department Management oversight could be improved to ensure applications are processed accurately and within the ten-week target established.

The current manual loan application process is also not very effective. Of the thirty-two 2012 applications reviewed:

- Five had no errors
- Seven reflected inconsistent practices by the SFA Department staff in completing the forms, which could be attributed to the lack of a procedure
- Twenty, or 62 percent, had errors in the data transcribed from Banner to the forms
  - Nine did not impact loan awards
  - Three potentially impacted loan awards due to student classification and enrollment
  - Eight part-time students received awards based on full-time enrollment

Neither cost of attendance nor loan awards were adjusted for students enrolled less than full-time. In contrast, Pell Grant awards were prorated based on enrollment.

In most instances, Banner System controls reduced the potential of inaccurate loan awards. However, some errors may not be detected by Banner, including student classification (freshman or sophomore) and terms with less than full-time enrollment. Potentially, this could represent more than nine percent of the applications handled.

Transcribing information from Banner to the paper application also created delays in processing the loans. For the sample reviewed, loan processing time frequently took much longer than ten weeks. Six students waited over three months from the time they submitted their applications until they received their first loan disbursement for 2012.

The accounting and funding controls should be more effective. The Banner grant fund codes for recording loan activity were not created timely for aid year 2012, which caused over $9 million in classification errors. Alamo Colleges’ experienced delayed reimbursement of more than $10 million for loans disbursed in fall 2011. Monthly reconciliations that would have identified the cash flow issues were not prepared timely.

The District needs to improve its Banner System security to fully comply with Texas Administrative Code 202, Subchapter C Standards for Institutions of Higher Education. The security practices for the Financial Aid Module should be more effective and are not very efficient. The March 2012 security report reflected inappropriate class structure and user access.
RECOMMENDATION:

1. Improve the loan application processes and controls by:
   - Using Banner System functionality to automate this segment of the Direct Loan Program
   - Completing appropriate Business Process Analyses (BPAs)
   - Documenting procedures
   - Improving the Student Financial Aid Department Management oversight of this program
   - Implementing District Executive Management approval of the cost of attendance schedules
   - Obtaining clarification on adjusting cost of attendance or loan award for part-time enrollment

1. MANAGEMENT’S RESPONSE: Accept

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<th>Senior Leader:</th>
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<tr>
<td>Vice Chancellor for Finance &amp; Administration (Snyder)</td>
<td>District Director of Student Financial Aid (Whitis)</td>
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Action Plan:
The application process for Direct Loans has been revised to include the following:

- For 2013-14, all Direct Loan awards for returning borrowers are using the Banner auto-package feature. This will reduce the number of manual applications by over 3,000.
- New borrowers will still have to complete an application but it has been placed online using a fillable PDF form that will be submitted as an Email to Student Financial Aid. (April 2013)
- Plans are being developed to create a Banner workflow to track loan applications. The time from submission to completion will be documented to review for improvement.
- Appropriate BPA’s are being developed for the new processes and will be incorporated into the SFA Policy and Procedure (P&P) Manual. As processes change, these will be updated by the responsible Director in conjunction with the Associate Director for Compliance & Training. (July 2013)
- In addition to the BPA’s will be a narrative that documents the process that will also be part of the P&P manual. (July 2013)
- As of October 2012, the Student Financial Aid Office was reorganized so that there is a Director solely responsible for the administration of the Direct Loan Program for all Colleges.
- SFA is hiring a Sr. Financial Analyst to perform direct loan reconciliation between the Common Originations and Disbursements, Banner, and G5 Systems. This person will work closely with Finance & Fiscal Services to ensure the loan awarding, disbursement, reconciliation, and drawdown processes provide maximum availability of funds to students and to Alamo Colleges. (May 2013)
- Cost of Attendance (COA) budgets are prepared each year in accordance with Department of Education guidelines (Vol 3, Chp 2, 1213, pg 3-33 – 3-40). The District Director of SFA approves them prior to submission to the Coordinating Board for acceptance. Alamo Colleges uses an average cost of attendance based on periodic surveys of the student population and local housing costs. These estimated costs are combined with Board approved tuition and fee rates for the COA.
- Recent federal portions of the statewide A-133 audit have documented that COA budgets should be adjusted to match the students’ actual enrollment. Alamo Colleges will comply with these findings for other higher education institutions. (July 2013)

Conclusions – Business Process Analyses (BPAs)
Automation would have significantly reduced the manual effort required to verify student eligibility and determine loan awards. During the Banner conversion in 2010, the Student Financial Aid (SFA) Department Management evaluated and decided not to implement the Banner functions/controls for automated loan packaging. Instead, the practices applied were a continuation of those used with the Legacy SIS PLUS Application.
Direct Loan Program Processes and Controls – Manual Application Continued

Two Business Process Analyses (BPAs) were created for the Direct Loan Program. However, neither of these BPAs addressed the manual loan processing activities.

Conclusions – Processes and Controls

The manual application process was missing controls and several control deficiencies were noted:

- No written procedures for manual loan activities
- Limited instructions on the four-page loan application form
- No SFA Department Management review of applications processed for accuracy and timeliness
- Denied loan applications were not centrally located
- Loan applications were mailed or transported to the District Office, which caused delays

Of the thirty-two loan applications reviewed:

- Five had no errors
- Seven reflected inconsistencies by the SFA Department staff in completing the forms, which could be attributed to no documented procedures
- Twenty, or 62 percent, had errors in the data transcribed from Banner to the forms
  - Nine did not impact loan awards
  - Three potentially impacted loan awards due to student classification and enrollment
  - Eight part-time students received awards based on full-time enrollment

Neither cost of attendance nor loan awards were adjusted for students enrolled less than full-time. In contrast, Pell Grant awards were prorated based on enrollment.

The details of the audit testing results were provided to the SFA Department Management. They determined that no adjustments or recoupments were required. Fortunately, the Banner System has controls to reduce the risk of inaccurate loan awards. While loans are awarded for an academic year, adjustments can be made in a subsequent term. However, there are some errors that would not be detected by the Banner System. These include errors in a student’s classification level (freshman or sophomore) and part-time versus full-time enrollment.

The manual transfer of data from the Banner System onto the paper application form contributed to delays in processing student loans. Twenty-five, or 78 percent, of the applications reviewed exceeded the ten-week processing target established by the SFA Department.

The processing of student loans was also delayed by manual calculations performed by SFA Department staff. Total earned academic hours were reduced by remedial hours; however, this was done inconsistently. In February 2012, a consultant suggested to SFA Department Management that this adjustment was not necessary since students were allowed up to thirty remedial hours.

Conclusions – Cost of Attendance

The cost of attendance is an important component in determining a student’s financial need as it sets a limit on the total aid received. The following exceptions were noted in the calculation of cost of attendance:

- No annual review and approval by District Executive Management
- Summer term calculation changes resulted in a higher cost of attendance
- No cost of attendance or loan award adjustment for students enrolled less than full-time
Direct Loan Program Processes and Controls – Manual Application Continued

Conditions – Business Process Analyses (BPAs)

The District developed two BPAs for the Direct Loan Program. The Applicant Processing BPA provided a high-level overview for the handling of all financial aid. The Loan Process BPA explained the Banner transactions once the Department of Education approves the loan request. This BPA focused on configuring Banner, entering award amounts, and creating loan origination files for the Department of Education.

The District SFA Department Management stated that a decision was made during the Banner System conversion not to automate the direct loan certification process. This discussion and decision were not documented. According to the SFA Department District Director and the Banner Financial Aid Analyst, the determination to process applications manually was based in part on the potential impact to Alamo Colleges’ loan default rate. Issues encountered during implementation of the Financial Aid Pell Grant process also affected their decision.

Conditions – Processes and Controls

Alamo Colleges’ SFA Department required students applying for a loan to complete a four-page paper application. The first two pages included eligibility requirements, descriptions of the loans available, and limited instructions for completing the application. The form prominently displayed a notice to “allow 10 weeks for processing”. The third page of the application required personal information to be completed by the student or parent. The College and District SFA Departments completed the fourth page to determine eligibility and loan awards.

The College SFA Departments received the application, logged the receipt in Banner, verified completeness, determined eligibility, notified ineligible students of denials, and sent the applications of eligible students to the District SFA Department for further processing. The denied applications were kept at the College SFA Departments. The applications of eligible students were either mailed or hand delivered to the District SFA Department.

The District SFA Department staff reviewed the section completed by the College, checked the National Student Loan Data System (NSLDS) website, determined unmet need, and entered loan awards in Banner Award Maintenance RPAAWRD Form. The NSLDS website was reviewed to ensure a student’s aggregate maximum loan amount was not exceeded and to check for defaulted loans.

Neither the Colleges nor District SFA Departments had documented procedures for this manual loan application process.

Twenty-six statistically and six judgmentally loan applications for aid year 2011-2012 were reviewed to assess the accuracy of the data transcribed by the SFA Department staff.

Of the thirty-two loan applications evaluated:

Five had no errors and the loans were correctly processed.

Seven had inconsistencies, which could be attributed to no documented procedures.

- One did not state the “loan entrance completed”, which would trigger an email to this student to complete the loan entrance counseling; and loan period was not shown
- Five did not state the “loan period” although required to originate the award
- One did not include a college that the student was attending under “current enrollment”; and loan period was not shown
Direct Loan Program Processes and Controls – Manual Application Continued

Nine had transcription errors that had no impact on the loan awards.

- One showed an “effective family contribution” that did not agree with Banner
- Eight had “total earned hours” that did not agree with Banner; may be due to timing differences; and loan period was not shown for three

Three had errors in the information transcribed from the Banner System, which may have potentially impacted the loan awards.

- One incorrectly stated the annual unsubsidized loan maximum for the total award, which resulted in $900 more loan proceeds than the cost of attendance. The student also attended the spring term, which corrected the potential over award.
- Two incorrectly classified students as freshman instead of sophomores, which affected one student’s award by $1,000. This was due to reducing total earned hours for remedial courses.

Eight students were enrolled less than full-time; however, their unmet need was calculated using the cost of attendance for someone enrolled full-time. This resulted in larger loan awards for these students. The Financial Aid Module was configured to award all loans based on full-time enrollment.

The manual transfer of data from the Banner System to the paper application form contributed to delays in processing student loans. Twenty-five, or 78 percent, of the applications reviewed took more than seventy days to be processed by the SFA Department. Six of the students had to wait over three months from the time they submitted their application to receive their first loan disbursement.

Conditions – Cost of Attendance

Annually, the SFA Department District Director prepared estimates of the cost of attendance for the six student categories, such as In-district/Dependent and In-district/Independent. He submitted this data to the Texas Higher Education Coordinating Board (THECB) for its concurrence in the spring. There was no District Executive Management approval of these tables, which were the foundation for calculating over $130 million in federal and state financial aid.

For direct loans, the current practice did not adjust the cost of attendance for tuition, fees, books, and supplies if a student was enrolled less than full-time. The District Student Financial Aid Department Management indicated that this has been their practice before and since the Banner implementation.

The summer cost of full-time attendance in the Banner Finance Module was calculated using fifty percent of an academic year cost. Banner was configured with one summer term as compared with two in the Legacy SIS PLUS Application. Prior to the Banner conversion, the SFA Department Management created separate cost of attendance budgets for the summer terms.

Research of fourteen institutions, including eleven community colleges or systems, indicated that loan awards and/or cost of attendance were adjusted when a student enrolled less than full-time. The Virginia Community College System Director of Financial Aid stated that the Department of Education confirmed to them that reducing the cost of attendance for less than full-time enrollment was an appropriate interpretation of its regulations.
Direct Loan Program Processes and Controls – Banner Data Extraction

RECOMMENDATIONS:
2. Develop standard format with batch controls for data extracted from Banner
3. Implement a procedure to verify and reconcile data extracted from Banner

2. MANAGEMENT’S RESPONSE:

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<tr>
<td>Vice Chancellor for Planning, Performance &amp; Information Systems (Cleary)</td>
<td>District Director of Information Technology (Castro)</td>
<td>August 2013</td>
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Action Plan:
Management will develop standards for the format and content for data extracts. Batch controls such as record counts and amount totals will be included with extracted data. In addition, data will be provided in a format, such as comma delimited, which can be imported into Microsoft Excel or Access.

3. MANAGEMENT’S RESPONSE:

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Action Plan:
Management will develop a process to verify that data submitted to requestors is both reasonable and accurate, depending on their requirements. The process will include approval of the release of information. Since the reorganization of Student Financial Aid, there is a Director responsible for Compliance, Reporting, and Process Improvement who will oversee all data releases.

Conclusions
Alamo Colleges has not developed a procedure to ensure that data extracted from Banner is complete and accurate. It would have been a common control for the District Information Technology Services (ITS) Department to provide record counts and amount totals for the extracted data. With this information, the District Student Financial Aid (SFA) Director could have independently verified the text file totals with other available financial aid reports.

As a result, the Department of Education received incomplete records during their program review in spring 2012. The file excluded about 2,750 students who received approximately $14.5 million in direct loans in academic years 2011 and 2012. The missing records appeared to be students receiving direct loans but not Pell Grants. This issue could have been detected by reconciling the data provided, which is a key internal control. Incomplete data could have affected the Department of Education’s statistical sample and conclusions about the program results. In July 2012, this issue was discussed with the Vice Chancellor of Student Success and the Student Financial Aid Department Management. It was suggested that they notify the Department of Education.

Conditions
The Department of Education requested a file of students receiving federal financial aid in 2011 and 2012 as part of a periodic program review. The Banner Office Financial Aid System Analyst provided data specifications for this request to the District ITS Department. A Senior Analyst/Programmer developed code to extract this data from Banner tables. Four very large text files were delivered to the District SFA Director. In May 2012, he forwarded the files to the Department of Education. The District ITS and SFA Departments indicated that the data was not reconciled before submission.
Direct Loan Program Processes and Controls – Banner Data Extraction Continued

As part of this audit, a sample of thirty student records was compared to data extracted for the Department of Education. The purpose was to ensure the sample records used for testing the Direct Loan manual application process were reliable. Twenty-three students were included in the Department of Education files. These students received Pell Grants and direct loans. Seven students with loans were not found. These students did not receive Pell Grants. A review of the program code used to extract the Department of Education data showed that it included only students who received Pell Grants with other federal aid.

Internal Audit determined that the Department of Education file was missing:

- Over 1,000 students for $5.7 million in direct loans disbursed in 2012
- About 1,750 students for $8.8 million in direct loans disbursed in 2011
Direct Loan Program Processes and Controls – Reconciliation Compliance

RECOMMENDATIONS:

4. Reconcile direct loan awards in the Banner Financial Aid Module to the Common Origination and Disbursement System records on a monthly basis
5. Automate the transmission of loan award records between the COD and Banner Systems
6. Remove the Banner Project Team staff from operational roles in the financial aid processes

4. MANAGEMENT’S RESPONSE: Accept

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Action Plan:
As of October 2012, the Student Financial Aid Office was reorganized so that there is a Director solely responsible for the administration of the Direct Loan Program for all Colleges. In addition, SFA is hiring a Sr. Financial Analyst to perform direct loan reconciliation between the Common Originations and Disbursements (COD), Banner, and G5 Systems. This person will work closely with Finance & Fiscal Services to ensure that loan awarding, disbursement, reconciliation, and drawdown processes provide maximum availability of funds to students and to Alamo Colleges. A monthly reconciliation will be required and documented per federal regulations. (May 2013)

Future plans are to develop a Banner workflow that will initiate a “Reconciliation” request each month. Upon completion of the reconciliation all documents will be attached to the workflow and sent to the District Director for review and approval.

5. MANAGEMENT’S RESPONSE: Accept

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Action Plan:
The automation of the transmission of loan award records between COD and Banner has been accomplished. Files are automatically sent Monday through Thursday of every week.

6. MANAGEMENT’S RESPONSE: Accept

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Action Plan:
During the period audited, the automated process that was developed by the District ITS Department to send and receive Department of Education files into Banner was not working properly; it is now repaired.

Conclusions
The Student Financial Aid (SFA) Department did not reconcile the direct loan awards in the Banner Financial Aid Module to the Common Origination and Disbursement (COD) System as required by the Higher Education Act §455(k)(2) Terms and Conditions of Loans, Fiscal Control and Fund Accountability.
Direct Loan Program Processes and Controls – Reconciliation Compliance Continued

The transmission of loan award records to and from the COD occurred with manual intervention. The Information Technology Services Banner Financial Aid Analyst was responsible for uploading and downloading these records, which was a segregation of duties conflict.

Access to COD should be restricted to operational roles in the Student Financial Aid Department. The Information Technology Services should not have COD access to perform operational activities.

Conditions

The SFA Department manually verified a student's eligibility and determined the amount and type of direct loan(s) to offer. They manually entered awards to eligible students in Banner screen RPAAWRD and created a file for submission to COD.

The Banner Financial Aid Analyst transmitted the file of the awards to the Department of Education's COD System twice a week. She also imported the accepted award file from the COD into Banner.

Higher Education Act §455(k)(2) Terms and Conditions of Loans, Fiscal Control and Fund Accountability required monthly reconciliation of loan activity. At the end of each month, the SFA Department was responsible for ensuring that the loan award records in the Financial Aid Module match those in the Department of Education’s COD System. The SFA Department could use the Direct Loan Account Statement (DLSAS) to perform this reconciliation. This was available for download from the COD System on the first weekend of the next month.

The SFA Department had attempted to use a software tool from the Department of Education to automate the direct loan reconciliation process. However, a complete procedure was never developed.
RECOMMENDATION:

7. Improve program accounting/funding processes and controls by:
   - Performing reconciliations on a monthly basis as required by the Higher Education Act §455(k)(2) Terms and Conditions of Loans, Fiscal Control and Fund Accountability
   - Requesting weekly reimbursement of direct loans disbursed during peak periods
   - Strengthening Finance and Fiscal Services Department Management oversight
   - Creating Banner Direct Loan Program fund and detail account codes prior to the aid year
   - Documenting procedures for this program

7. MANAGEMENT’S RESPONSE:

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<th>Senior Leader: Vice Chancellor for Finance &amp; Administration (Snyder)</th>
<th>Manager: Associate Vice Chancellor for Finance &amp; Fiscal Services (Ansboury)</th>
<th>Target Completion: June 30, 2013 (for cash draw procedures; other items are complete)</th>
</tr>
</thead>
</table>

Action Plan:

- The Direct Loan Program reconciliation is currently performed on a monthly basis as required by regulations.
- Cash reimbursement of direct loan proceeds from the Department of Education is requested monthly as a routine procedure. However, during peak loan disbursement periods (August, September and January), cash reimbursements are requested more frequently as needed for cash flow purposes (twice a week or more frequently).
- The Assistant Controller-Grants Accounting currently reviews and signs accounting reconciliations for the Direct Loan Program on a monthly basis.
- Grants Accounting creates required FOAPs for the Direct Loan Program and furnishes them to the Banner Process Functional Manager. The Banner Process Functional Manager then updates the aid year based detail account codes before June 1. The Financial Aid Office no longer must update the detail code in Banner Financial Aid Module since the System is now using aid year based detail codes. This means that the detail code stays the same and only the FOAP changes on the Accounts Receivable Detail Code. The Banner Process Functional Manager reviews the validation tables to assure they are accurate before any Direct Loans are disbursed. This represents a simplification and improvement over the previous process and gives more assurance that the transactions will be posted correctly in the general ledger.
- Management is in the process of documenting the Department of Education cash draw procedures related to the Direct Loan Program. These will be completed by June 30, 2013.

Conclusions – Reconciling Disbursements and Reimbursements

The Finance and Fiscal Services Department was not reconciling monthly as required by the Higher Education Act. There was a pattern of completing reconciliations more than thirty days after month-end. These control tools can show Direct Loan Program cash flow timing discrepancies. To be effective, Finance and Fiscal Services Management must review them, and do so in a timely manner.

The fall 2012 unresolved General Ledger Fund Account balances for financial aid year 2011 demonstrated that the reconciliation procedures need strengthening to include all open years. The $85,735 balances warrant further evaluation by the Finance and Fiscal Services and Student Financial Aid Departments. The federal agency only allows twelve months after the aid year for resolution of direct loan problems.
Direct Loan Program Processes and Controls – Accounting/Funding Continued

Conclusion – Department of Education Reimbursements to Alamo Colleges

Alamo Colleges was not requesting reimbursements from the Department of Education in a timely manner. For aid year 2012, requests for over $10 million occurred 60 to 90 days after the loan disbursements to students. Management oversight of the reconciliation and drawdown processes could have detected this cash management issue.

Conditions – Reconciling Disbursements and Reimbursements


This reconciliation procedure compared Banner Direct Loan Origination and Student Account Detail transactions for four colleges to DLSAS Report Net Drawdown/Payments, Net Booked Disbursements, and Adjusted Ending Cash Balances. These reports are available for download from the federal COD System website by the first full weekend of the next month.

The Banner Project Office Financial Aid Analyst downloaded DLSAS Reports for each College. This did not occur by the first full weekend of the next month. These reports were forwarded to the SFA Department Associate Director handling Direct Loans who Emailed them to the Grants Office Senior Financial Analyst for the reconciliations.

This Analyst extracted Banner loan disbursement transactions using ARGOS Reports. The Student Account Detail Review Report extracts records using the account detail codes for the aid year. The Federal Direct Loan Origination Report selected records based on the grant’s program fund codes, which summarizes the detail codes. She exported loan reimbursements for the District using Banner Direct Loan Cash Drawdown Form.

Examining the monthly reconciliations for four Colleges from August 2011 - February 2012 showed:

- 4 months had unexplained zero or small cash receipts and sizeable negative cash ending balances
- 5 months had dates showing completion more than thirty days after month-end
- 2 months had no dates so timeliness could not be determined
- No months showed review by Finance and Fiscal Services Department Management
- 5 College reconciliations reported small unexplained differences; 3 others included explanations
- DLSAS Reports for Aug, Nov, and Dec 2011 downloaded more than thirty days after month-end

Based on these reconciliation results, limited review of prior aid and fiscal year loan activity was performed. In fall 2012, Banner Direct Loan Program Ledger fund group accounts 251900 (SAC), 252900 (SPC), 253900 (PAC), and 254900 (NVC) showed Claim on Cash and Clearing-Unapplied Banner Fin Aid balances totaling $85,735 for aid year 2011, which ended a year ago. The Banner Direct Loan Account Summary Forms for each College, which reflects the DLSAS Reports activity, showed zero ending cash balances for Aid Year 2010-2011.

Conditions – Department of Education Reimbursements to Alamo Colleges

Alamo Colleges used the reimbursement method for the Direct Loan Program. This required disbursements of loan funds to students with subsequent reimbursement requests to the Department of Education. The Finance and Fiscal Services Grants Office had no written procedures for performing cash drawdowns from the Department of Education. The Grants Accounting Manager determined the amounts to request by reviewing the Banner General Ledger Trial Balance Form Grants Accounts Receivable – Web Draw Down account for the four Colleges.
Direct Loan Program Processes and Controls – Accounting/Funding Continued

The DLSAS Reports for aid year 2012 showed that Alamo Colleges delayed drawn downs for loan disbursements between August and October which exceeded $10 million. The District began cash draws in late November and became current by December 2011.

This condition continued for aid year 2013, as cash draws by the District for about $3 million in September loan disbursements had not occurred in early November 2012.

Conditions – Accounting for Disbursements and Reimbursements

When financial aid year 2012 began in summer 2011, the SFA Department and Grants Office had not coordinated creating the necessary Finance General Ledger and Financial Aid Grant and Accounts Receivable Detail (AR Detail) Codes. As awards posted to student accounts and loan disbursements began, the transactions posted to the prior aid year’s accounts. Banner accounts receivable postings error messages occurred immediately for the District Bursar’s Office.

When this issue was resolved in late September, about $9 million in transactions had posted to the incorrect AR Detail and General Ledger Fund Codes. However, the Grant Fund Codes did not reflect this problem; so the reconciliation procedure performed by the Grants Office was not affected. Finance and Fiscal Services Department Management acknowledged this event, and their intent to prevent future errors.
8. Improve the security program (processes and controls) for the Financial Aid Module to comply with Texas Administrative Code (TAC) Title 1 Administration Part 10 Dept. of Information Resources Chapter 202 Information Security Standards Subchapter C Security Standards for Institutions of Higher Education, especially:

- §202.70 Security Standards Policy
- §202.72 Managing Security Risks
- §202.71 Management and Staff Responsibilities
- §202.75 Information Resources Security Safeguards

**MANAGEMENT’S RESPONSE:**

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<tr>
<th>Senior Leaders:</th>
<th>Managers:</th>
<th>Accept</th>
<th>Target Completion:</th>
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</thead>
<tbody>
<tr>
<td>Vice Chancellor for Finance &amp; Administration (Snyder)</td>
<td>District Director of Student Financial Aid (Whitis)</td>
<td></td>
<td>August 2013</td>
</tr>
</tbody>
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**Action Plan:**

- The Security Matrix for Student Financial Aid (SFA) has been updated to exclude access to any party who no longer needs or who should not have access. (April 2013) Access has been defined by roles within SFA so that access is appropriate to the position held by a staff member. Certain high-risk access points such as RFRMGMT have been restricted to the highest levels.
- Future plans are to assign a risk class to each form and process. (August 2013)
- An Associate Director for Compliance and Training was hired in June 2012. She is focused on training of staff and does so through individual and group events. As mentioned earlier, SFA is in the process of updating the policy and procedure manual to incorporate revised processes, BPAs and compliance guidance for all staff. (July 2013)
- Each Director has been tasked with a specific area of compliance. SFA is creating control reports for display on an Argos “dashboard”. They will have daily access to exception reports designed to assist in their compliance efforts. (August 2013)

**Conclusions**

Overall, the security program for the Financial Aid Module needs improvement to comply with the information security standards required by the Texas Administrative Code (TAC) Chapter 202, Section C. Some responsibilities assigned by TAC to the information security officer, the data custodian, and the data owner were not evident in the District’s processes. No risk assessment to categorize and classify data before establishing the existing classes was performed. The Financial Aid User Access Role Definition was not updated to agree with the security classes listed in the Enterprise Banner Access Request Form or the Monthly Security Report.

The Financial Aid Module data owner did not have the tools and knowledge to perform his responsibilities effectively. Minimal documentation to guide the data owner when performing his duties was available. There was no training about the regulatory requirements and performance expectations for the data owner. He lacked information about the Banner Forms assigned to each security class, and those that were inquiry or update.

Based on the March 2012 Financial Aid Module Security Report, several users had inconsistent and/or inappropriate access. The job titles shown for some users were incorrect.

**Conditions**

The Enterprise Banner Access Request Form listed the District Director of the Student Financial Aid (SFA) Department as the Financial Aid Module data owner. The form showed 22 security classes for the Financial Aid Module with a link to a document defining each class.
Banner Financial Aid Module Security and Access Controls Continued

The Financial Aid System Banner User Access Role Definitions dated March 2010 included 18 security classes. This document described if a class ran jobs, processes, or reports. The security classes did not categorize Financial Aid Module data as confidential, restricted use, or public. Nor did it identify risks associated with this information. The document did not specify the Banner forms or type of access (inquiry/update) associated with each security class.

The Banner ePrint “Security Classes – Objects in a Class” Report provided the Banner forms and access type (inquiry or update) associated with each security class for all System Modules. These reports were over 500 pages in pdf format, which made them difficult to review. This report listed 22 security classes for the Financial Aid Module. The District Director of the SFA Department did not have access to the Banner ePrint security reports.

The SFA Department District Director attempted to review the monthly Financial Aid Module Security Report through spring 2012, which included 21 security classes. The “Report” security class from the Access Request Form was omitted. He did not receive training on his duties as a data owner and was not aware of the TAC 202.71 requirements.

The Financial Aid Module Security Report for March 2012 listed 134 users; fifty-five were SFA Department personnel. Seventy-nine users were from various other areas including District Information Technology Services, Banner Office, Bursar, and Student Affairs Office.

Several users with the same job titles had inconsistent access. A SFA Department Work Study employee who left in June 2010 still had query access to the Admissions and Records, Bursar’s Office, and Outreach security classes as of March 2012.

The job titles were manually entered by the District Information Technology Services Department Security Office, but were not periodically updated. This made it difficult to determine appropriateness of access.

Banner Direct Loan Cash Drawdown Form RPACASH was used by the Finance and Fiscal Services Department to manually record cash drawdowns. SFA Department staff and a Banner consultant also had update access to this Form. A SFA Department Associate Director entered eleven Banner System RPACASH direct loan transactions totaling over $12 million in aid year 2011.

Banner Award Maintenance RPAAWRD Form was used by the SFA Department to award financial aid to students. Twenty-one users in the Counseling Services, Recruitment, Career Center, Admissions/Records, and Banner Project Office had update access to RPAAWRD.

Banner Direct Loan Origination RPALORG Form was used by the SFA Department to create records sent to the Department of Education for funding approval, and to update disbursements for students. Two employees in the District Institutional Advancement and three users in other departments had update access to the RPALORG Form.
OBJECTIVES
Determine if the processes and controls are appropriate, efficient, and effective for the:
  - Manual application process
  - Program accounting and funding
Banner Financial Aid Module security/access was appropriate and compliant with state requirements

SCOPE AND METHODOLOGY
Included financial aid year 2011-2012 student loan activities
Evaluated the manual loan application (intake) process for controls
Tested the process effectiveness using statistical or judgmental application samples
Assessed the accounting, reconciliation, and cash drawdown processes
Assessed the Banner Financial Aid Module security and access as of March 2012

CRITERIA
Alamo Colleges’ Federal Direct Loan/PLUS 2011-2012 Application and Instructions
Higher Education Act Section 455 Terms and Conditions of Loans, Subsection (k)(2) Fiscal Control and Fund Accountability
Code of Federal Regulations, Title 34 (specific sections)
  - Part 668 Student Assistance General Provisions, Subpart C Student Eligibility
Texas Administrative Code Title 1 Administration Part 10 Department of Information Resources
  - §202.70 Security Standards Policy
  - §202.71 Management and Staff Responsibilities
  - §202.72 Managing Security Risks
  - §202.75 Information Resources Security Safeguards
Banner Access Request Form, dated July 2012
Financial Aid User Access Role Definition, dated March 2010

AUDITING STANDARDS
We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
ACKNOWLEDGEMENTS
The District Student Financial Aid Associate Director and Financial Aid Advisor provided their full cooperation during this project. The Campus and District Directors for the Student Financial Aid Department significantly participated in the periodic audit status meetings. Their comments and feedback demonstrated careful consideration of the findings and recommendations. The Information Technology Project Management Office Financial Aid Systems Analyst also supported the project as requested, and in a timely manner. The Finance and Fiscal Services Department Management and the Grants Management Office staff provided excellent cooperation for this audit. The Information Technology Security/Risk Management Manager was also very helpful during this project.

AUDIT REPORT DISTRIBUTION

<table>
<thead>
<tr>
<th>Board of Trustees (9)</th>
<th>Chancellor</th>
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<tbody>
<tr>
<td>Vice Chancellors (5)</td>
<td>Presidents (5)</td>
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<tr>
<td>Associate Vice Chancellor for Finance &amp; Fiscal Services</td>
<td>District Director of Student Financial Aid Directors of Student Financial Aid (5)</td>
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<tr>
<td>District Director of Information Technology Services</td>
<td>Information Technology Security/Risk Management Manager</td>
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<td>General Counsel</td>
<td>District Ethics &amp; Compliance Officer</td>
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