Florida International University

Office of Internal Audit

Audit of Financial Aid
Report No. 16/17-09
February 10, 2017
Date: February 10, 2017

To: Luisa Havens, VP Enrollment Management and Services
   Francisco Valines, Director of Financial Aid

From: Allen Vann, Chief Audit Executive

Subject: Audit of Financial Aid, Report No. 16/17-09

We have completed an audit of the University’s Financial Aid Program. The objectives of the audit were to evaluate controls over the financial aid award process, including evaluation of eligibility and verification, and to ensure those controls were: (a) adequate and effective; (b) being adhered to; and (c) in accordance with University policies and procedures, State and Federal laws and regulations, and in compliance with the Federal Student Aid Handbook. Our audit focused on the following major types of aid awarded in academic year 2014-15:

- Federal Pell Grants ($85,687,497);
- Federal Direct Subsidized and Unsubsidized loans ($236,018,006); and
- Various Institutional scholarships and grants ($49,484,404), including $14,392,826 in Tuition Differential awards.

The audit disclosed that policies and procedures need to be updated and more carefully observed. Opportunities to strengthen internal controls should be concentrated in the following areas: determination of student financial aid need, cost of attendance, and eligibility; administration of the Tuition Differential aid program; and adherence with federal direct loan regulations. Additional observations are detailed in our report along with 12 recommendations, which management agreed to implement.

I would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

C: FIU Board of Trustees
   Mark B. Rosenberg, University President
   Kenneth G. Furton, Provost and Executive Vice President
   Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
   Javier I. Marques, Chief of Staff, Office of the President
   Carlos Castillo, General Counsel
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OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of Student Financial Aid for the academic year 2014-15 (fall 2014 – summer 2015). The objectives of our audit were to evaluate controls over the financial aid award process, including evaluation of eligibility and verification, and to ensure those controls were: (a) adequate and effective; (b) being adhered to; and (c) in accordance with University policies and procedures, State and Federal laws and regulations.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, and included tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances. Audit fieldwork was conducted from April to December 2016.

During the audit, we reviewed University policies and procedures, Florida statutes, and Title 34, Education - Code of Federal Regulations, as well as the Federal Student Aid Handbook. We observed current practices and processing techniques, interviewed responsible personnel, reviewed supporting documentation, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

Our review of financial aid eligibility focused on Federal Pell grants, Federal subsidized and unsubsidized direct loans, Tuition Differential aid, and various Institutional grants and scholarships, as these were the major types of financial aid awarded in academic year 2014-15. We excluded Bright Futures scholarships as the Auditor General’s Office had recently conducted an audit of the program. Additionally, our audit was conducted based on the data in the Financial Aid, Student Financials, and Records Enrollment modules within the PantherSoft Campus Solutions package. However, we limited our testing to the PantherSoft data itself, and did not examine any other source documents of such data.

As part of our audit, we reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. Although the State of Florida Auditor General recently issued Reports No. 2016-187 (FIU Operational Audit), dated April 2016 and No. 2017-002 (Administration of the Florida Bright Futures Scholarship Program), dated July 2016, the findings and recommendations therein, as well as in all other reports issued in the previous three years did not affect the scope of this report.
BACKGROUND

The Financial Aid Office is responsible for administering and/or coordinating the financial aid to students including those awarded by schools, colleges and departments. The Financial Aid Office is under the Division of Enrollment Management and Services and is managed by the Director of Financial Aid. The Financial Aid Office consists of approximately 27 employees. The following is an organizational chart of the Financial Aid Office.

Types of Financial Aid Audited

The Financial Aid Office administers Federal, State, private, and Institutional financial aid. Of the $462,181,030 awarded during academic year 2014-15, our audit focused on the major types of aid awarded, totaling $371,189,907 (or 80%), as follows, with amounts awarded in parenthesis:

- Federal Pell Grants ($85,687,497);
- Federal Direct Subsidized and Unsubsidized loans ($236,018,006); and
- Various Institutional scholarships and grants ($49,484,404), including $14,392,826 in Tuition Differential awards.
The **Federal Pell Grant** program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Grant amounts are dependent on the student’s Expected Family Contribution (EFC), the Cost of Attendance (COA), the student’s enrollment status, and whether the student attends for a full academic year or less. After filing a Free Application for Federal Student Aid (FAFSA), the student receives a Student Aid Report (SAR) or the institution receives an Institutional Student Information Report (ISIR), which notifies the student if he or she is eligible for a Federal Pell Grant and provides the student’s EFC. A Federal Pell Grant, unlike a loan, does not have to be repaid. Students who have earned a bachelor’s degree are ineligible even if the degree is from an unaccredited school. In addition, students may not receive Federal Pell Grant funds from more than one school at a time.

**Federal Direct Subsidized and Unsubsidized loans** are awarded based on a student’s EFC, COA, financial aid need, achievement of Satisfactory Academic Progress (SAP), not being in default of any federal student loan, or of any bankruptcy discharge of federal student loan, or of an overpayment. The amount awarded is based on the student’s academic level (freshman, sophomore, junior, or senior) and dependency status, and cannot exceed the annual and aggregate loan limit for their academic level.

**Institutional scholarships and grants** are merit-based and generally cover the student’s tuition, enrollment fees, and housing. The Financial Aid Office website provides financial aid related information including application, basic eligibility requirements, and types and amount of financial aid available, disbursement process, refunds, and return of aid policy.

The **Tuition Differential aid** is funded by 30% of the Tuition Differential revenue the University collects ($52.29 per undergraduate credit hour). Tuition Differential aid is to be expended to provide need-based financial aid to undergraduate students to meet the cost of university attendance.
Financial Need - Financial need is the difference between the cost of attendance (COA) and the expected family contribution (EFC). The EFC is the number used to determine a student’s eligibility for federal, state and institutional need-based aid programs. The Financial Aid Office has defined financial need as any student whose COA exceeds their EFC by $1 or greater.

Cost of Attendance (COA) - The cost of attendance for a student is an estimate of that student’s educational expenses for the period of enrollment. The types of costs that may be included are the same for all FSA programs. The cost of attendance for the Campus-Based and Stafford/PLUS programs is a student’s cost for the period in which the aid is intended. The cost of attendance used for Pell Grants is always the full-year costs for a full-time student, thus, the university may have to prorate actual or average costs up for
students who are attending less than an academic year (or who are part-time in a term program) or prorate down for students who are attending for periods longer than an academic year.

**Expected Family Contribution (EFC)** - This is the measure of a student’s family’s financial strength, and how much of the college costs it should plan to cover. This is calculated based on a specific formula, which considers taxed and untaxed income, assets, and benefits, as well as the size of the student’s family and the number of family members attending college during the year. The expected family contribution is calculated based on the FAFSA results.

Unlike scholarship programs that may award funds based on academic merit or the student’s field of study, “need-based” grants, loans, and work-study are based on the family’s need for assistance. The cost of attendance is the cornerstone of establishing a student’s financial need, as it sets a limit on the total aid that a student may receive for purposes of the Campus-Based Programs and Stafford/PLUS loans, and is one of the basic components of the Pell Grant calculation.

Allowable Costs are determined by the school, taking into account:

- Tuition and fees
- Books, supplies, transportation, personal, and miscellaneous
- Room and board
- Dependent care
- Study abroad expenses
- Disability expenses
- Employment expenses for co-op study
- Loan fees
- Incarcerated students
- Professional judgment
- Free room and board

Exceptions to the above include:
- Less than half-time enrollment
- Correspondence study
- Costs met from other sources:
  - Tuition and fees not paid by student
- Costs for period of enrollment:
  - Campus-Based and Stafford/PLUS are based on costs for the period of enrollment; for instance, costs for a student attending a single semester in the school year would be limited to the costs for that time period.
  - Pell is always based on the cost of full-time attendance for a full academic year
**Over-award** – An over-award occurs when the total of all aid received by a student exceeds the student's cost of attendance budget. In such cases, awards in the student's financial aid package will be adjusted (cancelled or reduced) in order to eliminate the over-award. Federal Work-Study awards and loans will be reduced before any reduction is made to scholarship or grant awards.

**Financial Aid Process**

The laws governing the Federal Student Aid (FSA) programs require that a person apply for aid with a form provided by the U.S. Department of Education (DoE) and that no fee be charged for its processing. This form is the Free Application for Federal Student Aid (FAFSA). Once the FAFSA is received by the DoE, a student's information is sent to the Central Processing System (CPS), where the CPS uses application data to calculate the Expected Family Contribution (EFC) and to match against several databases: those of National Student Loan Data System (NSLDS); the Department of Defense (DoD); the Social Security Administration (SSA); the Department of Veterans Affairs; as well as the Department of Homeland Security’s (DHS) database of noncitizens and the Selective Service System registration database. The following diagram depicts the process of FAFSA to produce the Institutional Student Information Record (ISIR) that is made available electronically to the schools the student listed on the FAFSA and their state agency, and the Student Aid Report (SAR), which is provided to the student online or a paper SAR is mailed to the student that completed a paper FAFSA.
A student generally is not eligible for FSA funds if he/she is in default on an FSA loan or owes an overpayment on an FSA grant or loan and has not made a repayment arrangement. Per the Federal Student Aid Handbook (Handbook) – Chapter 3, Volume 1, Student Eligibility, when the FAFSA is processed, the CPS matches the student against the NSLDS to see if the student is in default, owes an overpayment, or has exceeded the loan limits. To help institutions identify students with problems such as default loan or overpayments, the CPS matches the student against the NSLDS database to obtain the student’s financial aid history. The Financial Aid Office follows a procedure to identify and ensure students who are flagged by CPS as defaulting or exceeding the annual or aggregate limit, are not awarded federal student aid. The Financial Aid Office runs a weekly and monthly query to identify students flagged and requests students to provide proof from their loan servicer that she/he is no longer in default status. A defaulting student’s financial aid status in PantherSoft Campus Solutions, the University’s student financial module, is updated to indicate the pending default clearance and is not awarded FSA until he/she is cleared. We conducted a walkthrough of the process and noted that students identified as in default or exceeding the loan limits were not awarded FSA until the default was resolved.

Depending on eligibility, a student may be awarded any of the several available financial aid types. The Financial Aid Office prepares an aid package for each student based on the information contained in ISIR, the student’s enrollment and academic record, and the eligibility criteria established by federal, state, institution, and private financial aid guidelines.

All financial aid at FIU is administered on PantherSoft Campus Solutions, where student eligibility is confirmed based on student data, such as Expected Family Contribution (EFC), Cost of Attendance (COA), and achievement of Satisfactory Academic Progress. The Financial Aid Office calculates a student’s need by deducting EFC from their COA. In addition, the Financial Aid Office, in coordination with the PantherSoft team, established each financial aid type in PantherSoft Campus Solutions by creating unique item types and eligibility requirements. An item type is created to award a financial aid type for each semester based on established eligibility criteria, amount of financial aid to be awarded, and annual and aggregate financial aid limits, as applicable. In addition to the Financial Aid Office, FIU schools, colleges and departments also award grants and scholarships, which are likewise administered on PantherSoft Campus Solutions and are included in determining the student’s need.
Financial Aid Data

During the 2014-15 academic year, the Financial Aid Office awarded $462,181,030 in financial aid in the form of grants, loans, scholarships, and student employment. The total amount and percentage by types of financial aid awarded was as follows: Grants, including Federal Pell Grants - $124,516,762 (26.9%); Federal Subsidized, Unsubsidized, and Plus Loans - $290,097,490 (62.8%); State and Institutional scholarships, including Bright Futures and Tuition Differential - $45,414,510 (9.8%); and student employment, including College Work Study - $2,152,268 (.5%). Our review of financial aid award amounts for academic years 2012-13, 2013-14, and 2014-15 indicated a slight increase in the total financial aid amount awarded and number of students that received aid each succeeding year.

The chart below provides the breakdown of financial aid amounts by aid type and number of students receiving a specific financial aid type for academic years 2012-13, 2013-14, and 2014-15. Note that students may be counted multiple times, depending on the number/types of financial aid awards received.
FINDINGS AND RECOMMENDATIONS

Our audit disclosed that the Financial Aid Office’s controls and procedures need improvement. We found that internal controls could be strengthened in the following areas: student financial aid need determination; cost of attendance and eligibility determination; administering the Tuition Differential aid program; adherence with federal direct loan regulations and development of written policies for Borrower Based Academic Year; and staff training.

Our overall evaluation of internal controls is summarized in the following table.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>INTERNAL CONTROLS RATING</th>
<th>Satisfactory</th>
<th>Fair</th>
<th>Inadequate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Controls</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Policy &amp; Procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Information Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Risk</td>
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<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INTERNAL CONTROLS LEGEND

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>Satisfactory</th>
<th>Fair</th>
<th>Inadequate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Controls</td>
<td>Effective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy &amp; Procedures</td>
<td>Non-compliance issues are minor</td>
<td>Several instances of non-compliance are evident</td>
<td>Non-compliance issues are pervasive, significant, or have severe consequences</td>
</tr>
<tr>
<td>Compliance</td>
<td>Not likely to impact operations or program outcomes</td>
<td>Impact on outcomes contained Data systems are mostly accurate but need to be improved</td>
<td>Negative impact on outcomes</td>
</tr>
<tr>
<td>Effect</td>
<td>Information Risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Risk</td>
<td>External Risk</td>
<td>None or low</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

The result of the review of our objectives follows:
1. **Estimated Financial Assistance**

In order to avoid overestimating a student’s financial aid need, it is important to take into consideration the reduced costs that result from providing some students with tuition waivers. One of the benefits of being employed by the University or being a dependent of an employee is the receipt of tuition waivers for up to 7-credit hours per semester. In addition, graduate assistants received tuition waivers as per their contracts with their specific school, college or department.

During our audit, we determined that the Financial Aid Office did not take into account tuition waivers when calculating a student’s financial aid need. This is contrary to the requirements in the 2014-15 Federal Student Aid Handbook that Estimated Financial Assistance (EFA), such as tuition waiver or employer reimbursement of employee’s tuition, fellowships or assistantships must be factored in when calculating a student’s financial aid need. The non-inclusion of all applicable EFA, when calculating Federal Student Aid need, results in a greater amount of need; thereby increasing the likelihood of an over-award.

During academic year 2014-15, these benefits were extended to nearly 2,100 students at a forbearance of $12.5 million.\(^1\) In at least three instances, our audit sampling confirmed that consideration of these benefits were not taken into account:

- Of 5 graduate student financial aid records examined, 1 graduate assistant was over-awarded $3,383 in federal aid as a result of the non-inclusion of tuition waiver as part of the EFA when determining need.

- Of 30 sampled students for which we performed eligibility tests (covered later in the report) we found 2 students who received tuition waivers that were not included in calculating financial aid need. One of the students received a tuition waiver for 7-credit hours for each of the three terms in our audit period. Thus, this student’s financial aid need was overstated by $4,275, and resulted in an over-award of the same amount since their unmet need was zero.

**Recommendation**

<table>
<thead>
<tr>
<th>The Financial Aid Office should:</th>
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\(^1\) The University provided tuition waivers to 1,228 graduate assistants totaling $9,412,891 and 870 employees and their dependents, net of two paybacks (0.2%), totaling $3,112,759 for the academic year 2014-15.
Management Response/Action Plan:

1.1 We agree with the recommendation. The Financial Aid Office, working with the Student Financials Office, the Provost’s Office, Human Resources, and the Graduate School will coordinate the posting of tuition waivers and utilize the available functionality of PantherSoft to account for tuition waivers within the financial aid packages of students who receive Title IV aid.

Implementation date: August 1, 2017
2. **Enrollment Status**

For purposes of awarding Title IV (Federal Student Aid), it is important that the University have a system that ensures such aid is only disbursed to students who are enrolled in courses that count towards a degree or certificate. The Federal Student Aid Handbook issued in May 2014, states that “If a student is enrolled in courses that do not count toward his degree, certificate, or other recognized credential, they cannot be used to determine enrollment status unless they are eligible remedial courses. This means you cannot award the student aid for classes that do not count toward his degree, certificate, or other recognized credential...”

Notwithstanding, during our audit we noted that the Financial Aid Office does not exclude courses that do not count towards a student’s program of study in determining enrollment status. According to the Financial Aid Office, the University student systems do not identify courses that cannot be used towards a degree or program of study at the time of financial aid packaging.

The inclusion of courses that do not count towards a program of study when determining enrollment status for financial aid packaging, may result in misclassifying students as full-time, quarter-time or half-time enrollment. Some federal student aid is prorated to the enrollment level and students enrolled less than half time are ineligible for a federal student loan. Since the amount of federal aid awarded to students depends on their correct enrollment status, the system’s limitations in identifying non-qualifying courses likely results in over-awards. Additionally, the cost of attendance is calculated based on the number of credit hours enrolled. Therefore, including courses that do not count towards a program of study when calculating the cost of attendance results in a higher cost of attendance and financial need, thereby over-awarding financial aid.

**Recommendation**

The Financial Aid Office should:

| 2.1 | Ensure that courses that do not count towards a program of study are excluded when determining a student’s enrollment status and cost of attendance for federal student aid. |

**Management Response/Action Plan:**

2.1 We agree with the recommendation. The University is currently piloting an enhanced degree audit system that will enable the tracking of courses that count towards a degree program. If this pilot proves successful, implementation of the system will begin in summer 2017.

Implementation date: Summer 2017
3. **Tuition Differential Aid**

The Tuition Differential aid is funded by 30% of a Tuition Differential fee\(^2\) that FIU collects for every undergraduate credit hour registered for by our students, with some exceptions. The Tuition Differential aid is solely intended for providing need-based financial aid to undergraduate students to help meet their cost of university attendance. During the audit period, FIU charged $52.29 per credit hour as a Tuition Differential fee to undergraduate students, collecting $47,976,087. Therefore, for the 2014-15 academic year, the University awarded Tuition Differential financial aid totaling $14,392,826, representing 30% of total tuition differential fee collected.

![Tuition Differential Fees](chart.png)

Florida Statute Section 1009.24(16)(a) states that, the tuition differential shall promote improvements in the quality of undergraduate education and shall provide financial aid to undergraduate students who exhibit financial need. The Financial Aid Office has defined financial need as any student whose Cost of Attendance (COA) exceeds their Expected Family Contribution (EFC) by $1 or greater. While 70% of the tuition differential revenue collected may be expended for purposes benefiting undergraduate education, the remaining 30% of the revenues, or the equivalent amount of revenue from private sources, must be expended to provide financial aid to undergraduate students who exhibit financial need, including students who are scholarship recipients under §1009.984 [Florida Prepaid Tuition Scholarship Program], to meet the cost of university attendance.

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\(^2\) The Tuition Differential fee was created by Florida statute in 2007. Accordingly, the charge was levied starting in fall 2008 by the five universities authorized by the Board of Governors (FIU, FSU, UCF, UF, and USF). Since then, all State University System institutions now charge a Tuition Differential fee, ranging from $35.14 at USF to FIU’s $52.29 per credit hour.
Financial Need-Based Funds Transferred to Merit Scholarship Accounts

Since its inception through the 2012-13 academic year, the Financial Aid Office would distribute the 30% financial aid portion of the Tuition Differential revenue to Pell Grant recipients with an EFC of $0. However, starting with the 2013-14 academic year substantial portions of the aid was transferred to the Office of Admissions' merit scholarship accounts. These funds were awarded to merit-based scholarship students who were also determined to be eligible for need-based financial aid, but had an EFC under $15,000. This was done to make up for a funding shortfall for previously awarded merit scholarships.

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>30% Tuition Differential</th>
<th>Retained In Restricted Need-Based Aid Accounts</th>
<th>Transferred To Merit Scholarship Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>$14,001,019</td>
<td>$6,142,242</td>
<td>$7,858,777</td>
</tr>
<tr>
<td>2014-15</td>
<td>14,392,826</td>
<td>8,140,576</td>
<td>6,252,250</td>
</tr>
<tr>
<td>2015-16</td>
<td>14,628,369</td>
<td>9,856,451</td>
<td>4,771,918</td>
</tr>
<tr>
<td>Total</td>
<td>$43,022,214</td>
<td>$24,139,269</td>
<td>$18,882,945</td>
</tr>
</tbody>
</table>

Maintaining the level of merit scholarships was strategically important to FIU because they are believed to improve graduation and retention rates. Thus, aid that was previously based solely on financial need criteria was now being set aside for “needy” merit scholarship students affected by the funding shortfall. This reduced the funding normally available for solely needy eligible beneficiaries.

In the University’s 2014-15 Work Plan presented to the Board of Trustees for approval in June 2014, page 13 – Tuition Differential Supplemental Information, the University presented the list of initiatives provided in 2013-14 and its update for 2014-15. The University’s original 2013-14 initiative, as well as its 2014-15 update reflected that that the University would “Continue to provide aid to the neediest undergraduate students with Estimated Family Contribution [EFC] = 0”. However, as mentioned above, our audit disclosed that the transferred funds were awarded to merit students with an EFC well above $0.

In its 2014-15 Student Financial Aid Compliance Report submitted in November 2015 to the Board of Governors, the University stated that:

“The 14-15 undergraduate needs based awards did not increase by the minimum amount required because FIU overspent need based funds in 13-14 in comparison to 12-13. In an attempt to attract academically talented students, FIU’s Merit Scholars program, which was funded with unrestricted funds increased by 140%. The increase in Merit Scholars expense created a shortage in unrestricted funding. As a result, 13-14 Merit scholarship recipients who met the needy criteria were funded with Tuition Differential funds. In response to the 13-14 scholarship program growth the 14-15 Merit Scholars program received Treasury funding to help cover the deficit, therefore less need based funds were spent.”
The Financial Aid Office continued to use the funds that remained in their restricted account to make awards to its neediest students. The Financial Aid Office establishes item types for each financial aid type in PantherSoft Campus Solutions where all aid-specific eligibility criteria was set up to award students based on aid requirements. The criterion set-up by the Financial Aid Office for determining Tuition Differential awards is an EFC of $0 and provided for an annual maximum award of $1,000. According to the Financial Aid Office, at the time of disbursement the system verifies that all aid requirements are met.

Unlike solely needy students, “needy” merit scholarship students were awarded need-based funding from the unrestricted accounts without a limit (up to their scholarship amount) and based on an EFC of less than $15,000. In this way, the University was able to fulfill its commitment to all of the merit scholarship students who would otherwise be affected by the funding shortfall that resulted from the increased number of awards.

Since the Office of Admissions’ merit scholarship accounts used to disburse these funds were unrestricted, they established a different set of requirements for awarding Tuition Differential aid. Rather than using the item types established by the Financial Aid Office (900000000014 to 900000000016) to set the criteria for Tuition Differential funding, the Office of Admissions merit scholarship accounts used different item types (92000000200 to 920000002521), which were set-up in PantherSoft Campus Solutions with merit scholarship criteria. However, these merit scholarship item types did not determine awards based on EFC or provide similar monetary limits. Thus, by transferring the Tuition Differential funds to the Office of Admissions merit scholarship accounts, the criteria for awarding such funds were by-passed as the EFC of $0 and the annual maximum award of $1,000 no longer applied.

According to Management, Admissions awarded merit scholarships to students without regard to funding source or need beginning in December 2012 through August 2013 (likewise for 2014-2015). All students eligible for the merit scholarships program's requirements that matriculated/enrolled in fall 2013 and fall 2014 were awarded the published scholarship amounts. Due to the large number of eligible students enrolled, deficits were created within the merit scholarship program, mainly in the tuition waivers and unrestricted funding sources. In response to the deficits, the University placed limits on the number and amount of awards in the merit-based programs for subsequent years. In addition, the University identified adequate funding sources [$23.2 million of Treasury Funds ($7,473,111 used to date) and Tuition Differential Funds] to support the merit based program, including merit-based students also identified as need-based students, starting with the awards from the fall 2013 and fall 2014 cohorts, under a five-year plan.

Nevertheless, the Office of Admissions had no written criteria for awarding the needs-based funding. As a result of the comingling of merit scholarship funds and Tuition Differential funds, the determination of how the Tuition Differential funds were awarded was not possible. Students’ award records simply identify their award as the particular merit scholarship they received, for example, Presidential Scholarship, Academic Excellence Scholarship, etc. We subsequently learned that funds were expended from
the comingled unrestricted accounts and then the identification process of who had received Tuition Differential aid was determined by starting with students with an EFC of $0 and going up to the point that they had accounted for all of the transferred tuition differential funds. This resulted in students with an EFC < $15,000 being identified as having received Tuition Differential aid. For our audit period, the Financial Aid Office identified 1,294 students as receiving Tuition Differential aid from the seven unrestricted merit scholarship accounts. From the list of 1,294 students, we noted the following:

- 889 (69%) of the students had an EFC ranging from $1 to $14,837.
- 1,240 (96%) of the students received awards ranging from $1,221 to $33,472, far above the $1,000 maximum awarded to need-based recipients served by the Financial Aid Office.

Our review further reflected that some merit scholarship students erroneously received Tuition Differential aid in excess of their actual financial need. We examined the top 49 merit-scholarship recipients and found that 12 of the 49 students (24%) received Tuition Differential aid amounting to $56,873 in excess of their financial need, ranging from $1,652 to $9,147. The Tuition Differential award amount for every recipient simply reflected the value of the merit scholarship award;

Moreover, as shown below, we noted that most of these 49 students had also received other forms of financial aid in excess of their financial need, and in some cases, in excess of their cost of attendance. However, without further examining each student’s eligibility for each specific aid type, such additional financial aid may or may not be allowed.

- 48 of the 49 recipients (98%) were awarded additional financial aid beyond the Tuition Differential, which resulted in 35 of the 49 students receiving $186,591 in overall aid in excess of their financial need, ranging from $771 to $12,885; and
- 17 of the 49 students (35%) received $62,844 in overall aid in excess of their cost of attendance, ranging from $869 to $7,441.

The table below reflects how need-based Tuition Differential (TD) dollars were distributed during the 2013-14 through 2015-16 academic years.

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial Aid Office</td>
<td>Merit Scholarship Accounts</td>
<td>Financial Aid Office</td>
</tr>
<tr>
<td><strong>Total TD Disbursed</strong></td>
<td>$8,595,935</td>
<td>$7,858,777</td>
<td>$8,140,576</td>
</tr>
<tr>
<td><strong>Number of Students</strong></td>
<td>7,374</td>
<td>1,984</td>
<td>9,340</td>
</tr>
<tr>
<td><strong>Average Award Amount</strong></td>
<td>$1,166</td>
<td>$3,961</td>
<td>$872</td>
</tr>
</tbody>
</table>

* Reflects amounts of Tuition Differential actually disbursed rather than amounts retained in Restricted Need-Based Aid Accounts shown in the previous table.
The State University Systems Board of Governors (BOG) Regulation §7.001 Tuition and Associated Fees, states in subparagraph 12, that: “University boards of trustees shall have flexibility in distributing need-based financial aid awards according to university policies and Board of Governors’ regulations...” Subparagraph 12(b) further provides that “At least thirty percent of the revenue [from tuition differential] shall be expended to provide need-based financial aid.” However, neither Florida Statutes nor Board of Governors regulations define “need-based financial aid.” Nonetheless, BOG Regulation §3.009 confers upon the university board of trustees the responsibility to establish by regulation a policy relating to the administration, distribution, and use of student financial assistance. Hence, in 2010, FIU Board of Trustees adopted Regulation 1310, which in part established a Financial Aid Policy Committee whose purpose among other things includes recommending University policy on matters related to financial aid programs and facilitating the conduct of financial aid activities. It is not evident that this Committee was ever established by the University. Membership of this Committee was to include:

1. The Director of Student Financial Aid;
2. The Associate Vice President for Enrollment Services;
3. A representative from the Office of Finance and Administration;
4. A representative from Student Affairs; and
5. A representative from Student Government Association.

We consulted with the University’s Office of General Counsel and confirmed that no laws or regulations were violated as it pertains to the distribution of Tuition Differential aid. The University has the prerogative of using the 30% of the Tuition Differential funds for merit-based scholarship recipients provided these students are eligible for financial aid as determined by the University. However, the lack of written policies and a poorly documented approval process represents an unnecessary risk to the University.

Above-Limit Tuition Differential Awards by the Financial Aid Office

We also tested 254 disbursements made to 30 sampled students who received financial aid through the Financial Aid Office to determine whether the students met eligibility requirements for the various aid types and the amounts awarded. We used the Financial Aid Office’s established criteria for determining eligibility for Tuition Differential aid and maximum per-term and annual amount limits to be awarded to eligible students. The established criteria entitled students with $0 EFC a per-term award of $500 for fulltime enrollment, $375 for three-quarter-time, and $250 for halftime enrollment, with the annual maximum tuition differential award amount any eligible student could receive being $1,000.

Eleven of the 30 students tested for financial aid eligibility received Tuition Differential aid. The amount of Tuition Differential aid awarded and disbursed to 10 of the 11 students reviewed was not in accordance with per-term or annual Tuition Differential award limits established by the Financial Aid Office for their respective enrollment level. The 10 students were awarded amounts that were higher than the Tuition Differential (TD) aid they were entitled to depending on their enrollment level, while some did not possess a $0 EFC, as depicted in the following table:
The total annual above-limit awarded for the 10 students was $8,375, including 4 students who were not eligible (*) as they exceeded the Financial Aid Office’s established EFC of $0 criteria for awarding Tuition Differential aid. Management explained that they make exceptions; however, the conditions that merit such exceptions are not in writing.

In addition to the 30 students selected for eligibility testing above, we separately reviewed 14 students who received more than the established $1,000 annual maximum Tuition Differential aid and found the following:

- 11 of the 14 students received $1,500 each;
- 2 of the 14 students received $1,375 each; and
- 1 student received $1,250.

We also identified 26 other students who had more than the $0 EFC required by Tuition Differential aid eligibility criteria. The 26 students’ EFC ranged between $1,197 and $5,148; thus, all 26 were ineligible for Tuition Differential aid. Our review of the 26 students’ enrollment records showed, 13 full-time, 8 half-time, 3 three-quarter-time, and 2 with less than half-time enrollment. However, 24 of the 26 student received $1,000 while the other 2 students were enrolled less than half time and received $500 for summer 2015. The award limit established by the Financial Aid Office did not provide Tuition Differential award to students who were enrolled less than half time. Even then, the limit for half time enrolled students was $250.

Written eligibility criteria provided by the Financial Aid Office does not include all requirements and situations that warrant exceptions. In addition to the discrepancy of the amounts awarded, students who did not meet the award criteria as set by the award limits
for the 2014-15 academic year also received financial aid. The Financial Aid Office responded to inquiries about students who did not meet EFC requirements by stating that the Director of Financial Aid can provide exceptions for some students. We agree that the Director can provide exceptions as long as the student meets the state, federal, or University aid requirements. However, in order to ensure transparent and equitable administration of financial aid, conditions that merit exceptions should be documented and award criteria should be detailed and include all factors that entitles a student to financial aid awards.

**Recommendations**

<table>
<thead>
<tr>
<th>The Division of Enrollment Management and Services should:</th>
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**Management Response/Action Plan:**

3.1 & 3.2 We agree with the recommendations. A Financial Aid Policy Committee will be established and ensure that policies and procedures are up to date to ensure awards are consistent with criteria.

Implementation date: April 1, 2017
4. Institutional Scholarships and Grants

The Financial Aid Office administered several merit based institutional financial aid grants available to students. Our review of the Institutional financial aid disbursed to 30 sampled students showed the following exceptions:

a) University Grant

One of the financial aid types (scholarships) provided to eligible students by the University is a “University Grant”. The Financial Aid Office’s award criteria states that students with an EFC of between $0 and $5,273 that have not received a Florida Student Assistance Grant (FSAG) may receive up to a $2,000 University Grant for the 2014-15 academic year. The amount to be awarded varied depending on the enrollment level. Students enrolled full-time, three-quarter-time, and half-time were to be awarded $1,000, $750, and $500, respectively, per semester. However, one of our sampled students who was enrolled three quarters time was awarded only $500 instead of the $750 he was entitled to. A second student who enrolled half time and was entitled to $500 was awarded $1,000 in summer 2015. Finally, a third student who received a FSAG also received a University grant in academic year 2014-15, contrary to the program criteria. In response to our inquiry, Financial Aid staff informed us that they apply the rule by semester rather than per aid year, a distinction not made in their written award criteria.

b) Upper Division Grant

Another type of financial aid (scholarship) awarded by the University was an “Upper Division Grant”. The established Upper Division Grant award for a semester was $1,000; however, we noted that one student received only $635 in fall 2014 for a full-time enrollment. The Financial Aid Office asserted that all financial aid criteria is established within the PantherSoft Campus Solutions through unique item types used to award and track all financial aid types. However, we have noted several instances of financial aid that did not appear to be received per established aid eligibility and award amounts. Management informed us that select staff have the capability to override any financial aid the system awards, which are then reviewed by senior management.

Recommendation

<table>
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<tr>
<th>The Financial Aid Office should:</th>
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<tr>
<td>4.1 Clarify Institutional aid eligibility criteria and document any conditions that warrant exceptions/overrides.</td>
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</table>
Management Response/Action Plan:

4.1 We agree with the recommendation. Institutional aid eligibility criteria will be clarified.

Implementation date: April 1, 2017
5. **Federal Loans**

The Financial Aid Office administers federal student financial aid including direct subsidized and unsubsidized loans. The Federal Department of Education entrusts universities to disburse federal aid to eligible students per federal student aid rules and regulations. During the audit period, the Financial Aid Office awarded over $236 million in Federal Subsidized and Unsubsidized loans to 23,594 students.

Our review of the financial aid disbursed indicated that the Financial Aid Office’s efforts resulted in 26 of the 30 sampled students receiving subsidized and unsubsidized loans. However, based on the information contained in PantherSoft Campus Solutions, 10 of the students received financial aid that appeared to have exceeded the annual subsidized and unsubsidized loan limit for aid year 2014-15.

Accordingly, the Financial Aid Office informed us these students were switched to a Borrower Based Academic Year (BBAY) in summer 2015, which enabled them to start a new academic year for purposes of determining the subsidized and unsubsidized loan limits. The Federal Student Aid Handbook - Volume 3, Calculating awards and packaging, requires a school that has a choice of Scheduled Academic Year (SAY) and BBAY to establish a policy that explains how it applies these options when calculating eligibility. However, the Financial Aid Office did not have a written policy that explains how it applies the option of SAY versus BBAY.

The Federal Student Aid Handbook - Chapter 5, Direct loan periods and amounts, states that there are two types of academic years for monitoring annual loan limits: SAY and BBAY. The Handbook further explains, “For programs with an SAY, a BBAY must include the same number of terms as the SAY that would otherwise be used…For example, if a SAY includes three quarters (fall, winter, and spring), a BBAY would consist of any three consecutive terms. A BBAY may include terms the student does not attend if the student could have enrolled at least half-time in those terms, but (unlike an SAY) it must begin with a term in which the student is actually enrolled”. The Common Origination and Disbursement (COD) maintained by the U. S. Department of Education (as provided by the Financial Aid Office) showed the academic start and end date for each aid type and term.

Based on the review of the COD provided for the 10 students, we found that at least 2 of the students who were switched to BBAY did not follow the BBAY awarding period requirement. The subsidized and unsubsidized loans for the 2 students showed summer 2015 as an academic year and fall 2015 as another academic year, rather than summer and fall 2015 being one academic year, as required. While not the case in the current examples, the students could have potentially borrowed in excess of their annual limit each term.
## Recommendations

The Financial Aid Office should:

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<tr>
<td>5.1</td>
<td>Establish written policy that explains how differing academic year options are to be applied when calculating loan eligibility, as required.</td>
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<tr>
<td>5.2</td>
<td>Ensure that the differing academic year options follow the same number of terms.</td>
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### Management Response/Action Plan:

5.1  We agree with this recommendation. This policy is currently under development.

Implementation date: March 1, 2017

5.2  The set-up process for calculating loan eligibility was corrected for the 2015-2016 academic year and rolled forward for 2016-2017.

Implementation date: Implemented
6. Financial Aid Staff Training

Professional development and training is a critical and universally recognized element in the success of any major university Financial Aid Program. Federal and State Financial Aid Statutes are complex and are continuously changing requiring staff that are conversant in how to best serve the interests of our students and reduce the financial risk of noncompliance to the University. Accordingly, we reviewed the training and cross-training opportunities provided to the Financial Aid Office staff.

Our review of the training records reflected that training opportunities varied by staff level:

- The Financial Aid Director, an acknowledged leader in the financial aid field, attended 9 conferences and obtained 115 hours of in-house training. A closer examination of the Director’s travel revealed that he attended 22 different conferences, symposiums, summits, and site visits over a span from May 2014 through July 2016. He is a member of several organizations, including being on the board of directors for P20W Education Standards Council (PESC), and received the Florida Association of Student Financial Aid Administrators award in May 2014.

- Of the 6 Financial Aid Assistant, Associate or Senior Associate Directors, 3 had attended outside training conferences, while in total they had attended 527 hours of in-house training, including 240 non-directly relevant hours.

- Of the 5 Financial Aid Associates, 2 had attended conferences, while in total they had 234 hours of in-house training, including 200 non-directly relevant hours. The 3 with no conferences attended limited in-house training hours.

- Of the 10 current Financial Aid Officers (I & II), all but 3 had attended outside training conferences in the last 18 months. In addition, they had attended 461 hours of in-house training. However, the 3 Financial Aid Officers that had not attended outside training conferences, received similar in-house training as other employees, but received very limited relevant training in their specialty function. They were the Financial Aid Officers over Bright Futures/State Programs, Athletics/Suspense Management, and Scholarships, respectively.

To the extent the foregoing does point to some disparities or shortfall in training opportunities these could be easily overcome by building an in-house training program, as the University clearly possesses the necessary subject matter expertise.
Recommendation

The Financial Aid Office should:

| 6.1 | Ensure that all financial aid staff receive sufficient on-going training opportunities specific to their duties. |

Management Response/Action Plan:

6.1 We agree with the recommendation. The Financial Aid On-Boarding manual establishes a base level of training for new staff. We are in the process of creating an ongoing in-service training program for staff to maintain the appropriate levels of training for staff. Additionally, each employee’s annual performance evaluation has an expectation of doing at least one Financial Aid training per year, and one Professional Development activity per year.

Implementation date: April 2017
7. Financial Aid Disbursed

In order to ensure the validity of financial aid disbursements, we compared student enrollment data to all financial aid for the entire 2014-15 academic year. Thirty-four individuals who received financial aid were not enrolled at the University. Sixteen of those individuals were not enrolled but rather were participating in a University program that legitimately provided them with financial aid. Three other individuals had reported credit hours earned at other universities pursuant to a consortium agreement with the other university.

However, exceptions were noted for the remaining fifteen award recipients, as follows:

- Nine non-FIU students were awarded $5,000 each as a participant payment to work in a program entitled Research Experiences for Undergraduates (REU) funded by the National Science Foundation (NSF). The program is intended to provide undergraduate students with research experience. The individuals were hired by Principal Investigators to work on research projects during the summer 2015.

  A list of the individuals and the amounts awarded was provided to the Financial Aid Office by the College of Engineering. The Financial Aid Office created a financial aid award package for each of the nine awardees, which allowed the Office of the Controller to disburse $5,000 per individual as financial aid. However, the payments should have been processed as payroll disbursements and not financial aid.

  According to the Human Resources (HR) Assistant Director of Recruitment these individuals should have been paid as temporary employees and undergone a background check, as they reside on campus and have access to IT and research labs. The Associate Controller for Tax Compliance likewise agreed, but added that as temporary employees they would have been subject for payroll deductions for taxes.

  The nine students were enrolled as non-degree seeking students at FIU during the summer 2015 term and did not earn any credits. The processing of such payments via the Financial Aid Office overstates the total financial aid awarded in the academic year.

- Five FIU students who were awarded financial aid totaling $26,807 were determined to have subsequently dropped their courses, and thus, earning no
credits at term’s end. In none of the cases were they asked to return the financial aid, as required.3

- One of the students who enrolled at a different college was disbursed financial aid per a consortium agreement. The Agreement required the student to provide the Financial Aid Office a copy of their transcript at the conclusion of the term, which the Financial Aid Office received. However, these courses are not reflected in the student’s University transcript.

- Four of the students petitioned to drop their courses after the add/drop date and subsequently were granted the appeal, thus removing their grades from their transcript.

- One former FIU student who volunteered to work at the South Beach Wine and Food Festival was awarded a $334 “scholarship” for the summer 2015 term. However, the individual had graduated in spring 2014. The payment should not have been processed through the Financial Aid Office. The former student was shown as graduated on PantherSoft Campus Solutions at the time the Financial Aid Office processed the award.

This highlights a control weakness when disbursing awards granted by schools, colleges, and departments. The Financial Aid Office should ensure students are eligible to receive such awards prior to their processing.

**Recommendations**

| The Financial Aid Office should: |
|-------------------------------|------------------------------|
| 7.1 | Prior to processing departmental payment requests, determine whether such requests qualify as financial aid. |
| 7.2 | Work with the Office of the Registrar to be notified of any courses dropped after the add/drop date. |
| 7.3 | Ensure that financial aid is awarded only to students enrolled in the award term. |

3 The Financial Aid Office notified us that the Institutional aid for the five students cited above was processed for return as of October 5, 2016, after we informed them of the enrollment status of the students.
Management Response/Action Plan:

7.1 We agree with these recommendations. The Financial Aid Office will work with the Controller's Office and HR to develop a policy for determining how departmental payment requests will be processed.

Implementation date: May 1, 2017

7.2 The process for identifying Academic Appeals, which result in dropped and/or deleted courses, has been revised so the automated workflow includes Financial Aid.

Implementation date: Implemented

7.3 The process for awarding and disbursing aid requires enrollment unless overridden by staff who have access to override the system. All overrides are audited on a monthly basis. Corrective training has occurred for those who have this access.

Implementation date: Implemented
8. Potential Conflicts of Interest

During our review of internal controls, we noted that the Financial Aid Office did not have a procedure addressing employees’ recusals from processing financial aid awards involving relatives, friends, and office co-workers. The Financial Aid Office stated that it would be difficult to enforce such a procedure, as it would be difficult to identify if a student-employee relationship exists. We agree that the Financial Aid Office may not know whether a conflict exists but a policy should be implemented to require employees to recuse themselves when they come across a financial aid application of a relative, friend, or office co-worker.

Recommendation

<table>
<thead>
<tr>
<th>The Financial Aid Office should:</th>
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<tbody>
<tr>
<td>8.1 Implement a policy requiring employees to recuse themselves from handling financial aid applications when a real or apparent conflict of interest exists.</td>
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</table>

Management Response/Action Plan:

8.1 We agree with the recommendation. A policy has been developed and a Conflict of Interest Disclosure Form has been approved.

Implementation date: Implemented
9. Verification

The U.S. Department of Education (DoE) requires institutions awarding federal student aid to perform verification of student’s information contained in its Institutional Student Information Record (ISIR). The DoE selects a sample of students for verification by institutions and provides policies and procedures to be followed. The DoE also authorizes institutions who are designated as quality assurance program institutions (QA schools) to select the sample of students for quality assurance verification. The QA schools are authorized to develop a verification program that fits their population, determine which ISIR items to verify, and determine the acceptable documentation for the ISIR items they choose for verification. In addition, QA schools have flexibility regarding following verification regulations; however, QA schools are not exempt from resolving conflicting information.

Florida International University is a QA school and the Financial Aid Office contracted consultants (EdPro) to perform the verification for selected students. The Financial Aid Office selects students for verification, the ISIR items to be verified, and the acceptable documentation to be requested from students and provides it to the consultants. The consultants are provided access to PantherSoft Campus Solutions and other systems to perform the verification process. The consultants perform the verification and document the result of their findings and mark a student’s verification either as completed or incomplete. Students marked as completed are cleared to receive federal financial aid and students marked incomplete are not awarded federal financial aid. Students are designated as incomplete if they do not respond or do not provide all the requested documentation for verification.

During the audit period, the Financial Aid Office selected 18,048 students for verification and 12,359 completed the verification process while 5,689 (32%) did not complete the verification process. As a result, the students who failed to complete the verification process were not eligible to receive federal student aid. The verification process completed by the consultant is reviewed by the Financial Aid Office by selecting 10% of the students selected for verification and reviewing the completed verification process for each of the selected students. Any errors identified by the Financial Aid Office process is documented and communicated to the consultants to make the necessary correction.

During our audit, we observed the Financial Aid Office’s review process of the verification completed by the consultants. We observed that the financial aid staff ensured all requested documents were received and the items selected for verification were the same as listed on the ISIR. If the documentation showed different information than the ISIR, the inconsistency was corrected and any change in the student’s EFC was documented. We reviewed 27 of the 5,689 students who did not complete the verification process and found that none of the 27 received federal financial aid in the 2014-15 academic year. As a result, we concluded that this process is satisfactory and no recommendations are deemed necessary.