

March 2014

Office of Internal Audit & Compliance, BOR — USG, (404) 962-3020

The Office of Internal Audit & Compliance’s (OIAC) mission is to support the University System of Georgia management in meeting its governance, risk management and compliance and internal control (GRCC) responsibilities while helping to improve organizational and operational effectiveness and efficiency. The OIAC is a core activity that provides management with timely information, advice and guidance that is objective, accurate, balanced and useful. The OIAC promotes an organizational culture that encourages ethical conduct.

We have three strategic priorities:

1. Anticipate and help to prevent and to mitigate significant USG GRCC issues.
2. Foster enduring cultural change that results in consistent and quality management of USG operations and GRCC practices.
3. Build and develop the OIAC team.

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From the Chief Auditor Officer John M. Fuchko, III

What’s on the horizon? The OIAC will be turning its attention to athletic programs.

Our work will include an enterprise-wide review of existing athletic programs at USG institutions. This work will include assessing various factors related to the operation of these programs for the purposes of identifying potential best practices and other similar efficiencies that may be relevant to USG operations. Similarly, we will determine the level of compliance of USG athletic programs with existing policies and procedures, especially those related to internal controls designed to mitigate significant risks (e.g. continued financial viability, inter-athletic conference program participation, safety and success of student-athletes, and so forth).

This effort will extend beyond athletic program housed within USG institutions, however. We will be developing a comparative analysis to athletic programming featured at other public post-secondary institutions and systems across the country. Ultimately, we hope to identify potential improvements to USG athletic programs by ensuring that our stakeholders have a well-informed perspective on the many variables and facets of operating these complex organizations.

Our review will incorporate many different aspects of the operations of athletic program, including the following:

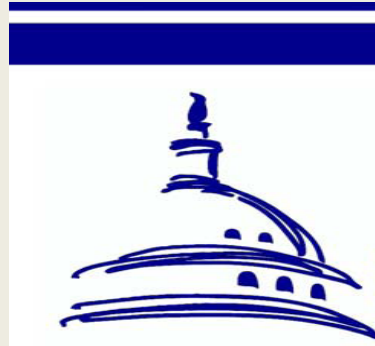
- Allocation and administration of out-of-state tuition waivers to student-athletes
- Governance structure and characteristics for athletic programs
- Descriptive characteristics of the programs, such as the number of teams, student-athletes, types and gender of sports
- Financial characteristics of athletic programs and teams
- Program and team staffing models

The OIAC will provide additional information to institutions regarding this review in the near future.

I look forward to hearing your thoughts. Please feel free to contact me at john.fuchko@usg.edu or 404-962-3025. Our Rolling Audit Plan may be found on the OIAC website located at: www.usg.edu/audit/internal_audit.

John M. Fuchko, III
Chief Audit Officer & Associate Vice Chancellor

Financial Aid—Calculating R2T4



Federal Student Aid

The Federal Student Aid (FSA) Handbook is the reference source used by Financial Aid Directors to manage the institution's financial aid program and to report eligibility requirements to the Dept of Education. It provides guidance on financial aid eligibility requirements for students and parent borrowers and the institution's responsibilities to ensure that recipients qualify for aid awards under Title IV of the Higher Education Act of 1965.

The FSA programs provide financial assistance for postsecondary students. The programs are administered by an agency called Federal Student Aid (also FSA), which is part of the U.S. Department of Education (ED). In financial aid circles, the term "FSA" is used to refer to both the aid programs and the ED office administering them.

Calculating a "Return to Title IV" appears deceptively simple:

- ⇒ If a student withdraws from the institution during a semester,
- ⇒ Then the student may not have fully "earned" the federal Title IV financial aid they received to pay for their tuition and other expenses
- ⇒ Therefore, the portion of the financial aid not earned should be returned,
- ⇒ A "Return to Title IV" (R2T4) financial aid calculation is required to determine the refund to the U.S. Department of Education.

However, other considerations should be factored into the process and critical controls considered by the institution to ensure accurate and timely calculation and reporting. This article will focus on a credit hour program, although the concepts apply to clock hour programs, modules or other program criteria.

The requirements relevant to the return of unearned federal financial aid are found in Title IV of the Higher Education Act of 1965, Title 34: Education section 668.22 - Treatment of Title IV Funds when a Student Withdraws. This citation may be found using the Electronic Code of Federal Regulations, at the following link: <http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=89d5048ebca12c33e51192c59f9901ea&rgn=div8&view=text&node=34:3.1.3.1.34.2.39.12&idno=34>

The Federal Student Aid Handbook (FSA Handbook) also provides guidance and clarification about returning unearned federal financial aid funds to the U.S. Department of Education. The 2013-2014 FSA Handbook is the current version and can be found at the following link:

<http://ifap.ed.gov/fsahandbook/1314FSAHandbookCompleteActiveIndex.html>

Some key considerations within financial aid requirements include:

- ◇ The institution has a fiduciary responsibility to accurately administer federal aid.
- ◇ The amount of earned financial aid is directly proportional to the number of days lapsed while the student attended classes in comparison to the total number of days in the period, up to 60% of the period.

Calculating R2T4, Cont'd

- ◇ After the 60% point in the period is achieved, a student is considered to have earned 100% of their financial aid. The U.S. Department of Education allows for this to differ from the institutional refund policy. However, the University System of Georgia requires the same 60% point for system institutions, unless special policies have been approved by the Board of Regents. See USG BOR Policy 7.3.5.
- ◇ The institution needs to ensure it has correctly identified institutional charges subject to the R2T4 calculation, primarily tuition and fees. See 2013-2014 FSA Handbook page 5-17.
- ◇ Even after the 60% point, the R2T4 calculation needs to be completed, as the student may be eligible for a post withdrawal disbursement. A post withdrawal disbursement of loan money may increase the amount of aid the student or the parent will be obligated to repay. A post disbursement of PELL money is a grant, and does not need to be repaid. This change requires the financial aid office to communicate with the student/parent prior to a post withdrawal disbursement of loaned funds.
- ◇ The effective date of an official withdrawal is the date a student begins the withdrawal process per the institution's policies and procedures.
- ◇ Funds must be returned within 45 days of the institution determining that the student has withdrawn. See 2013-2014 FSA Handbook page 5-94.
- ◇ The 2013-2014 FSA Handbook clarifies the situation for students who leave the institution without following the official withdrawal process. As stated on page 5-56 of the handbook:
- ◇ "If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period."
- ◇ Institutions may use the 50% point as the effective date of an **unofficial** withdrawal unless later participation in an academically related activity is adequately documented. See 2013-2014 FSA Handbook page 5-175, Step 2.
- ◇ The impact of waivers must be considered within the R2T4 calculation. If the institution considers a waiver as a payment of tuition and fees that factor into the financial assistance offered to a student, they may need to reverse the impact of the waiver prior to completion of the R2T4 calculation. See 2013-2014 FSA Handbook page 5 -16.

Controls

Control activities to be considered by the institution would include the elements listed below. This list should not be considered as a full list of possible controls and each institution should fully consider its own unique situation and react appropriately.

- Appropriate records should be maintained regarding student withdrawal activity.
 - The institution should ensure that critical steps in the withdrawal process are properly recorded and communicated to interested parties.
 - This would include the point at which the student officially begins the withdrawal process. For example, if procedures specify that students are to contact the enrollment service center as the first step in the withdrawal process, then the date of contact must be documented as the date of withdrawal.
- Accountability should be assigned to ensure timely completion of the R2T4 calculation process.
 - An institution's R2T4 procedure should outline a procedure to track a student's withdrawal events to ensure filing is completed in a timely manner.
 - The process should include specific communication and monitoring activities to ensure management is made aware when deadlines are at risk of being missed.
- Required participation verification.
 - Recording attendance at each class period would provide consistent evidence of participation.
 - Alternatively, verification at a date in the period after the 60% point would provide a solid level of protection against improper loss of institution revenues. It would also validate satisfaction of the

Calculating R2T4 Cont'd

institution's fiduciary duty.

If the institution does not have data supporting the date of withdrawal, the FSA Handbook instructs the institution to assume the student withdrew at the midpoint in the semester. Based on the institution's refund policy, this could impact the recognition of institutional revenues as well as impact whether the student may be required to repay funding to the institution. Institutional management should also consider verification based on the institutions' refund policy if different than the federal regulation of 60%.

- The institution should periodically review refund policies to ensure the policies reflect the intentions of the institution and the choice of words does not create potential problem areas.

The 2013-2014 FSA Handbook instructs institutions to assume unofficial withdrawals occur at the 50% point in the period unless verification data supports a different date. If the institutional refund policy states that tuition is fully earned after the 50% point, then the institutions may incur a revenue risk because of the wording difference between the federal guideline of exactly 50% and the institution wording of "after" the 50% point. If the refund policy states that tuition is fully earned at the 50% point in the period, institutional revenues would be protected as this would then agree exactly with the federal requirements for use of the 50% point. The use of the institutional policy statement "after the 50% point" creates a potential conflict.

- The institution should ensure that elements of tuition and fees are being properly categorized and documented within the R2T4 calculation process as institutional or non-institutional charges.

Institutional charges must be included in the R2T4 calculation process. These charges include educational charges that are paid directly to the school for tuition and fees.

Schools need to consider the impact of any special programs or allowances that encourage students to purchase items from a school source even though the items may be available from an alternative source. See 2013-2014 FSA Handbook page 5-18 for additional details.

- Appropriate checks and balances should be incorporated into the process.

Management should implement controls ensuring appropriate segregation of duties relevant to the Return to Title IV process and clearly assign accountability for the accuracy of calculations.

This will also include assignment of a single point of accountability for the compliance and accuracy of the overall process which cuts across any departmental silos that may be present.

- ◊ The process will likely extend across multiple organizations, possibly Academic Affairs, Registrar, Enrollment Services, Bursar and Financial Aid. If there is not a single point of overall accountability, the process could easily experience obstacles related to the communication and monitoring of significant events and data elements.

Risks to Consider

The institution should consider Risks elements relevant to the R2T4 process. These may include:

- Inaccurate determination of the date students initiate the official withdrawal process.
 - Impact –Errors in the effective date of withdrawal would result in reporting incorrect institutional revenue, incorrect return of funds to the U.S. Department of Education and could result in billing errors to the student.

Calculating R2T4 Cont'd

- Return of funds past the 45-day requirement
Impact – Noncompliance with federal regulations could result in the institution's loss of ability to participate in the federal financial aid program.
- Errors in categorizing the tuition and fees appropriately.
Impact - Errors in categorizing tuition and fees may result in reporting incorrect institutional revenue, incorrect return of funds to the U.S. Department of Education and could result in billing errors to the student.
- Absence of data or improper data collected about the student's last participation date in an academically related activity.
Impact – Key for unofficial withdrawals. Lack of valid information regarding student's date of last participation in an academic event could result in unnecessary loss of institutional revenue, excessive return of funds to the U.S. Department of Education and could result in unnecessary billing to the student. If the institution cannot document that a student attended past the 60% point then funds will need to be returned even though the student may in fact have participated past this date. Accurate record keeping regarding withdrawal dates and class attendance can prevent an unnecessary R2T4 calculation.
- Data errors within the Banner (or other student record management system) update process or within the R2T4 calculation result in Return to Title IV errors.
Impact – Errors in the calculation process would result in reporting incorrect institutional revenue figures, incorrect return of funds to the U.S. Department of Education and could result in billing errors to the student.
- Other Noncompliance with federal requirements.
Impact - Noncompliance with federal regulations could result in the institution's loss of ability to participate in the federal financial aid program.

Proper implementation and continued monitoring of the controls noted within this article should provide a solid basis on control over the Return to Title IV process and address the relevant risks. Answers to any questions are likely to be found within the 1000+ pages making up the 2013-2014 FSA Handbook, covering many financial aid related topics. It will benefit you and your institution to become familiar with the FSA Handbook and the topics contained within it.

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Institutional Effectiveness

Components of Effective Communications

Jeanne Royal Severns, VSU

I know you're wondering what more can be said about governance. We have touched briefly on the core concepts of:

- Leadership, guidance, and a tone at the top,
- Achieving objectives,
- Overseeing and monitoring operations,
- Ensuring compliance with laws and accountability for behavior, and
- Legal and ethical behavior

Now let's think about the important part effective communications has on each of these competencies.

Effective organizational communications begins with clearly defined, easily accessible policies. These policies are the governing principles of the organization and are meant to guide the organization towards achieving its strategic objectives, complying with laws and behaving ethically. They have a wide impact on broad segments of the organization. Does your organization have a clear set of policies? Do employees know where to find them? Is there a method for introducing, reviewing and approving

changes to policies?

Just as important as policies, are clearly defined procedures. Actually, procedures may be more important to the employee who is trying to do something or for the customer who expects service. A well written procedure defines the work, describes how the work is done, and just as importantly tells who does the work. Good procedures enable managers to oversee and monitor operations. They

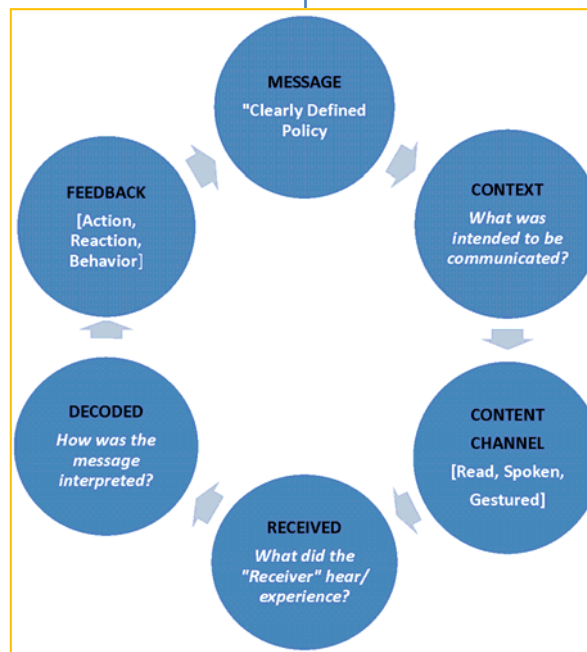
ensure accountability, promote consistency in how the work is done, and prevent work stoppages in the event an employee is absent.

Not long ago I ordered a lobster salad at a restaurant and was told "the chef who makes the salad is not in today". What? He didn't leave the recipe?

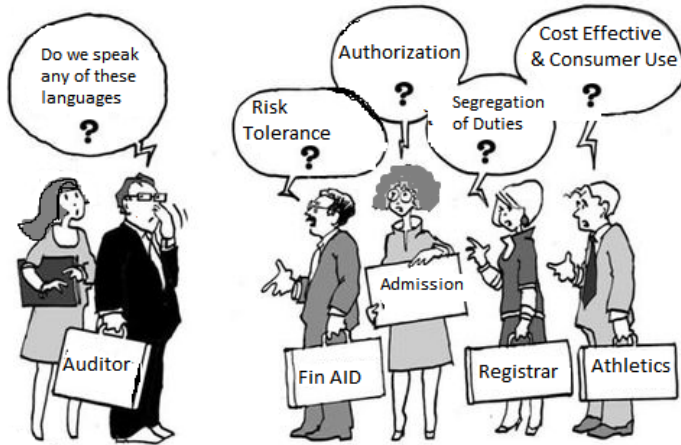
Job descriptions are another sometimes overlooked aspect of good communications and governance in an organization.

Job descriptions help employees understand their roles and responsibilities and what is expected from them.

I remember an incident from several years ago when BBC news somehow mixed up two persons in their studio: one was an IT expert who was scheduled for



Effective Communications, cont'd



an on-air interview; the other a taxi driver who was at the BBC to interview for a job as a janitor. The job applicant was interviewed on air and wondered why he was being asked such very difficult IT questions. This miscommunication certainly made the applicant wonder about the job description.

Communications is an important leadership quality. The Baldrige criteria for performance excellence stresses the importance of communication as it applies to senior leadership with the following questions: How do senior leaders communicate with and engage the entire workforce? How do senior leaders achieve the following:

encourage frank, two-way communication throughout the organization?

communicate key decisions?

take an active role in reward and recognition programs to reinforce high performance and student learning?

Another question asked by Baldrige is: How do you foster an organizational culture that is

characterized by open communication, high-performance work, and an engaged workforce?

And finally, a partial list of the effects of communication:

Good communication helps a team to complete its projects on time, accurately and effectively thereby saving money.

Vague e-mails can slow down the work flow.

A communicative environment can increase morale and inspire employees to action.

Clearly communicated expectations avoid the necessity of re-work.

Listening is an important part of communicating.

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*How Good Are Your Communication Skills?
 Take a brief quiz to find out about your communication style and how you rate on the communication scale.*

Mindtools: How Good Are Your Communication Skills
http://www.mindtools.com/pages/article/newCS_99.htm

IT—BOR Mobile Device Policy



It is here! Curtis A. Carver Jr., Vice Chancellor/CIO recently announced the implementation of an official Information Technology (IT) Bring Your Own Device (BYOD) to work policy. ITS is also currently in the process of providing training wireless network tutorials to USG staff on the using the new system.

The policy outlines standards and procedures for end users who are connecting a personally-owned device to the University System of Georgia (USG) network for business purposes. The network includes the 31 institutions, the University System Office (USO) [which includes the Shared Services Center (SSC), the Georgia Public Library Service (GPLS), and the Georgia Archives.

The BYOD policy outlines the standards to empower USG staff to work on USG business more effectively inside and outside the office using a personally-owned device while protecting the confidentiality, integrity, and availability of USG data.

Section 8.0 of USG Information Technology Handbook outlines the policy, http://www.usg.edu/information_technology_handbook/section8. Employees who decide to use their own personal device should:

- 1) obtain approval from their senior manager,
- 2) ensure their device is password /passcode protected,
- 3) maintain proper security for USG information by securing the device at all times,
- 4) adhere to intellectual property rules and refrain from storing state-owned data on a personal device, and
- 5) adhere to established USG security protocols and commit to maintaining the integrity of the USG operating system while using their personal device.

Employees are asked to complete, sign and submit an Employee Declaration confirming their commitment to the policy and participation in the BYOD program.

For further information contact: USG IT Department Contact Information at ITS Helpdesk helpdesk@usg.edu or call 706-583-2000.

IRS Report on Colleges and Universities Compliance Project

By David Carson, Armstrong Atlantic State University

The IRS issued their final report on the Colleges and Universities Compliance Project on April 25, 2013. The report is a multi-year project on tax-exempt colleges and universities. The Project was launched in 2008 with the distribution of questionnaires to 400 randomly-selected colleges and universities. The IRS received 344 responses to the questionnaire that included 177 Private Institutions and 167 Public institutions.

The IRS has been reviewing the results of the questionnaire over the past five years. They also selected 34 of the 400 institutions for examination. The 34 institutions were selected based on their questionnaire responses and because their tax reporting indicated potential noncompliance in the areas of unrelated business income and executive compensation (“Colleges and Universities Compliance Project Final Report” 2). While the compliance project and exams focused on many areas, a few are not applicable to our University System institutions as they are public and do not file Form 990. However, USG institutions are not exempt from income tax imposed on activities that are substantially unrelated to exempt purposes, called “Unrelated Business Income” or UBI, ([USG BUSINESS Procedures Manual Section 23](#)). *Note:* if applicable, our institutions may be required to file Form 990-T.

Unrelated Business Taxable Income (UBTI)¹

One issue that could potentially affect all of our institutions is Unrelated Business Taxable Income. During the exams, the IRS determined institutions’ were underreporting unrelated business taxable income (UBTI). Unrelated business income (UBI) is the income from a trade or business regularly conducted by an exempt organization and not substantially related to its exempt purpose. The examination of the 34 institutions, which are nearly completed, resulted in;

- Increases to UBTI for 90% of colleges and universities examined totaling about \$90 million;
- Over 180 changes to the amounts of UBTI reported by colleges and universities on Form 990-T; and
- Disallowance of more than \$170 million in losses and Net Operating Losses (NOL), which could

amount to more than \$60 million in assessed taxes. (“Colleges and Universities Compliance Project Final Report” 2).

The primary reasons for increases to UBTI in the completed exams were:

- **The IRS disallowed expenses that were not connected to unrelated business activities:** The IRS found that examined colleges and universities were reporting certain losses as connected to unrelated business activities when they were not. The misreporting occurred in two ways:
 - ◊ **Lack of profit motive:** The IRS found that organizations were claiming losses from activities that did not qualify as a trade or business.
 - ◊ **Improper expense allocation:** The IRS also found that on nearly 60% of the Form 990-Ts examined had misallocated expenses to offset UBI for specific activities. In many cases, the IRS found that claimed expenses, which generated losses, were not connected to the unrelated business activity.
- **Errors in computation or substantiation:** The IRS checked the calculations for all NOLs reported on returns under exam and found that NOLs were either improperly calculated or unsubstantiated on more than a third of returns. As a result, the IRS disallowed nearly \$19 million in NOLs.
- **Reclassifying exempt activities as unrelated:** The IRS determined that nearly 40 percent of colleges and universities examined had misclassified certain activities as exempt or otherwise not reportable on Form 990-T. Fewer than 20 percent of these activities generated a loss. The examinations resulted in the reclassification of nearly \$4 million in income as unrelated, subjecting those activities to tax. Expense deductions were disallowed on more than 60 percent of Form 990-Ts examined because they were based on improper allocations between exempt and unrelated business activities

IRS—Colleges and Universities Survey, Cont'd

(“Colleges and Universities Compliance Project Final Report” 3).

- **Examinations resulted in more than 180 changes to UBTI reported for specific activities by colleges and universities.** More than 30 different activities were connected to the changes. The majority of these adjustments came from the following activities (“Colleges and Universities Compliance Project Final Report” 3):
 - Fitness, recreation centers and sports camps
 - Advertising
 - Facility rentals
 - Arenas, and
 - Golf

The IRS also looked at employment tax returns at about a third of the colleges and universities examined and found:

- All of the completed exams have resulted in adjustments in wages leading to assessment of tax and, in some cases, penalties.
- Wage adjustments total about \$36 million, while taxes and penalties amount to over \$7 million.

As a result, the IRS plans to look at UBI reporting more broadly, especially at recurring losses and the allocation of expenses, and to ensure, through education and examinations, that tax-exempt organizations are aware of the importance of using appropriate comparability data when setting compensation.

Helpful advice with this new information:

- If you meet the requirements to submit Form 990-T, ensure it is being completed correctly and timely filed with the IRS,
- If the institution doesn't have staff with the skills to prepare the 990-T, seek an outside expertise to assist,
- Have an independent review of how the Form 990-T is prepared (methodologies),
- If the Form 990-T is prepared in-house, have it independently reviewed before filing with the IRS,
- Ensure your employment tax returns are filed accurately.

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¹ The unrelated business income tax applies to organizations that are exempt from income tax under section 501(a), which includes private colleges and universities. Section 511(a)(2)(B) provides that the tax applies to any state college or university or any corporation wholly owned by a state college or university.

Reference: Internal Revenue Service, “Colleges and Universities Compliance Project Final Report.”, Internal Revenue Service Website, 2 May 2013.

? DID YOU KNOW ?

Annual College and University Procurement Officers Entity Spend Report Due January 31st

A revision to the Georgia Procurement Manual, dated July 1, 2013, now requires all College and University Procurement Officers (CUPOs) to complete and submit an entity spend report to State Purchasing by January 31st each year. The annual report instructions are very similar to the Compliance Self-Audit Course exam required for completion by CUPOs. Other details about this required annual spend report are:

- The report is required for CUPOs that are qualified for recertification.
- CUPOs can complete the report at their office, on their computer.
- The instructions for the Annual Spend Report are located in the [State Purchasing Learning Management System](http://doas.ga.gov/Training/Pages/Login.aspx) (LMS) at: <http://doas.ga.gov/Training/Pages/Login.aspx>.
- CUPOs can obtain assistance from entity staff to complete the report.

Other details about the annual spend report:

- The report is comprised of the following analyses:
 - ◇ Internal Controls Analysis (20% Extra Credit)
 - ◇ Purchase Order (PO) Analysis (50%)
 - ◇ Georgia Procurement Registry (GPR) Analysis (50%)
- Each analysis is scored individually, but a combined total score of 80% from all the analyses must be achieved.
- CUPOs will not be scored on their findings; they will be scored on how well they completed the steps and used the self-audit tools.

The State Purchasing Division Process Improvement Team has recently updating all of the self-audit tools published at: [DOAS State Purchasing—Process & Performance](http://doas.ga.gov/STATELOCAL/SPD/process/pages/home.aspx) [<http://doas.ga.gov/STATELOCAL/SPD/process/pages/home.aspx>.]

These tools are very important to a successful spend report. For questions regarding the annual spend report or self-audit tools, contact: [DOAS Process Improvement Team](mailto:processimprovement@doas.ga.gov), [processimprovement@doas.ga.gov].



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Reference Reading

Professional Aids

Auditing : Concepts for a Changing Environment

by Larry E. Rittenberg and Bradley J. Schwieger, 2004

Auditing: A Risk-Based Approach to Conducting a Quality Audit,

Karla Johnstone and Audrey Gramling, 2013

Management Aids

The Five Dysfunctions of A Team: A Leadership Fable by Patrick Lencioni, 2002

360 Degree Leader, John C. Maxwell, 2005



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? Ask the Auditor ?

If you have a governance, risk management, compliance or control question that has been challenging you, let us help you find the answer. Your question can help us to become better auditors.

Want to Contribute to the Straight and Narrow?

We invite you to send your questions and ideas for future articles to us for feature in upcoming Straight and Narrow newsletters.

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