



## Board of Regents

### Choose Ohio First Audit

---

**Audit Period: July 2011 through June 2012**

### Results Summary:

| Objective                | Conclusion                              |
|--------------------------|---|
| Communication            | Well-Controlled with Improvement Needed |
| Program Monitoring       | Improvement Needed                      |
| Reporting/Reconciliation | Well-Controlled with Improvement Needed |

Report number: 2013-BOR-01

Issuance date: December 13, 2012

---



## Executive Summary

### Background

Choose Ohio First is a program of the University System of Ohio (USO). Choose Ohio First scholarships are awarded to students who are studying in fields of Science, Technology, Engineering, Mathematics and Medicine (STEMM). Choose Ohio First scholarships have been awarded to more than 4,000 students in 28 programs involving 41 Ohio public and private institutions during the past four years. Scholarship awards range from \$1,500 to \$5,200 per student, per academic year. For fiscal year 2012, \$15,750,085 was appropriated for the Choose Ohio First scholarship and \$15,100,702 was expended.

The Choose Ohio First Scholarship Program is part of the state's strategic effort to significantly strengthen Ohio's position in world markets such as aerospace, medicine, computer technology and alternative energy. The Choose Ohio First Scholarship Program awards Ohio colleges, universities and their business partners that have developed innovative academic programs to recruit and retain more Ohio students into STEMM fields. The funding that they receive is used to offer scholarships for those programs to current and potential students.

During the audit, OIA identified opportunities for BOR to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank BOR staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### Scope and Objectives

OIA staff was engaged to perform assurance work related to the Choose Ohio First Program. This work was completed between August 30, 2012 and November 30, 2012. The following detailed audit objectives included:

- Evaluate the design and effectiveness of controls over the communication of the program requirements.
- Evaluate the design and effectiveness of controls over the monitoring and review of the program guidelines.
- Evaluate the design and effectiveness of controls over the reporting and reconciliation of the program funding.



## Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions above.

### **Observation 1 – Overall Program Monitoring**

An effective program includes monitoring procedures to ensure compliance with program guidelines. Revised Code requires the Board of Regents (BOR) to perform enrollment audits over the data submitted by state-supported institutions of higher education.

Monitoring is performed on a periodic basis and consists of a site-visit form completed by a participating institution. The form includes questions regarding the institution’s program but does not include supporting documentation. Site visits do not include testing of scholarships on a sample basis for compliance with general program guidelines or specific requirements within the institution and BOR agreement. Furthermore, monitoring procedures have yet to be developed for the medical and nursing scholarships (started in fall of 2012).

There is an increased risk that institutions and students are not in compliance with program guidelines. If site visits do not contain an actual review of the scholarships paid, there is an increased risk that payments may be misappropriated.

#### **Recommendation**

Update and approve current monitoring policies and procedures to address risks associated with the requirements set forth in the program guidelines and agreements.

Prioritize monitoring activities by utilizing a risk based approach that establishes quantitatively weighted risk factors for the following:

- complexity of the institution’s program;
- results of prior monitoring activities;
- amount of funding; and

Based on the risk assigned to an institutions program, determine the frequency and scope of the monitoring efforts (i.e. if a desk audit would suffice or on-site visit is more appropriate).

Monitoring procedures should include steps to address how BOR will:

- Ensure fiscal accountability in accordance with program agreements;
- Evaluate the programs' progress to ensure the objectives and outcomes set forth in the



program agreements are achieved; and

- Determine if the desired outcomes are achieved.

Additionally, develop a formal remediation process that outlines how issues identified during monitoring will be communicated to the institution. It should include a timeframe for issue resolution, and a process for recouping funds for unresolved issues and/or non-compliance. Results of monitoring procedures should be adequately documented to support conclusions made and provide a history for future reference. BOR senior management should be informed of the monitoring efforts and results at least annually.

BOR should consider creating procedures specifically for medical and nursing scholarships. These procedures should include a provision for tracking students after graduation, including a recourse provision in the event a student does not fulfill all of the post-graduate requirements.

**Management Response**

BOR will update and approve procedures for monitoring the Choose Ohio First Scholarship Program. The BOR Finance department performs enrollment audits. The BOR Financial Aid department has added Choose Ohio First to their financial aid audit schedule. The audits will begin in January 2013 and will cover the student awards for the 2011-2012 academic year. The Financial Aid department audits every institution each year. In addition to a review of the scholarship dollars, the site visit/desk review schedule will mirror the financial aid audit calendar to minimize duplicative work at the campuses. Our goal will be to conduct a site visit at least once every three years and a desk review on the other years.

The procedures will contain a process for communicating issues to the institutions, a timeframe for issue resolution, and a recoupment of funds. The results of the financial aid audits will be communicated to the school in a letter from the Vice Chancellor of Finance and Data Management. The results of the site visit/desk review will be reviewed with BOR management and will also be communicated to the school via letter.

In relation to monitoring the program as a whole, BOR will also create procedures for monitoring the medical and nursing scholarships. These procedures will include steps taken to recoup funds from students not fulfilling all requirements.

| Risk*    | Remediation Owner                  | Estimated Completion Date |
|----------|------------------------------------|---------------------------|
| Moderate | Choose Ohio First Program Director | March 2013                |



## Observation 2 – Evidence of Reporting and Reconciliation

Internal controls should provide management with reasonable assurance that operations are achieving organizational objectives. Performance of internal controls should be documented.

The COF Director indicated student data is reviewed prior to submitting payment to the institutions and, periodically, COF program activity is reconciled to fiscal data. However, documenting evidence of the performance of these reviews could not be provided.

Not documenting the review of student data increases the risk that payments made to institutions are inaccurate or incomplete or that payments are made to ineligible students. Failure to reconcile COF program activity to fiscal data could result in erroneous payments or misspent funds. A lack of performance and/or documentation of control procedures increases the risk of undetected errors or fraudulent activity.

### Recommendation

BOR staff should consider following up with institutions that have not paid out any scholarships for the semester.

Develop department-wide policies and procedures requiring staff to reconcile program activity to fiscal data and review student data after each semester. Evidence should be maintained, such as employee signature and retention of reconciliation documentation. Review of student data should also be documented.

### Management Response

BOR will add the procedures for follow-up with institutions that have not paid out scholarships in a semester to our procedure manual. The follow-up will include documentation of the inquiry as to what is preventing the scholarship from being utilized on an annual basis.

In addition, BOR will add the following to our procedure manual:

- The reconciliation of COF payments and BOR fiscal data (we will maintain documentation of this reconciliation).
- BOR will document evidence of our review of student data in the COF database prior to payment.

Both of these reviews will include a signature and a date, documenting when they were completed. BOR is currently requesting additional information be tracked in the automated system as a further measure of reconciliation. The documentation of the reviews will be kept in a manual or electronic folder for retention purposes.



| Risk*    | Remediation Owner                  | Estimated Completion Date |
|----------|------------------------------------|---------------------------|
| Moderate | Choose Ohio First Program Director | March 2013                |

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

| Conclusion                                     | Description of Factors  |
|--|---|
| <b>Well-Controlled</b>                         | The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.   |
| <b>Well-Controlled with Improvement Needed</b> | The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.  |
| <b>Improvement Needed</b>                      | Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread. |
| <b>Major Improvement Needed</b>                | Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.                 |

### Classification of Audit Observations

| Rating          | Description of Factors   | Reporting Level   |
|-----------------|--|---|
| <b>Low</b>      | Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.   | Agency Management;<br>State Audit Committee<br>(Not reported) |
| <b>Moderate</b> | Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention. | Agency Management<br>and State Audit<br>Committee             |
| <b>High</b>     | Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.   | Agency Management<br>and State Audit<br>Committee             |