Department of Higher Education
War Orphans Scholarship Program Audit

Audit Period: December 2015 through March 2016

Results Summary:

Objective	Conclusion
Scholarship Awarding	**Improvement Needed**
Scholarship Disbursement	**Improvement Needed**
Scholarship Monitoring and Reporting	**Improvement Needed**

Please refer to Appendix A for classification of audit objective conclusions.

Executive Summary

Background

The Ohio War Orphans Scholarship Program awards tuition assistance to the children of deceased or severely disabled Ohio veterans who served in the armed forces during a period of declared war or conflict. To receive War Orphans Scholarship benefits, a student must be enrolled for full-time undergraduate study and pursuing an associate or bachelor's degree at an eligible Ohio college or university. War Orphans Scholarship recipients must be Ohio residents under the age of 25, and maintain a 2.0 grade point average (GPA). Scholarship benefits cover a portion of instructional and general fee charges at two and four-year public institutions and a portion of these charges at eligible private colleges and universities.

In state fiscal year 2016, the War Orphans Scholarship was appropriated $6.8 million. So far during the 2015-2016 academic year, 1,133 students have been awarded approximately $4 million.

During the audit, OIA identified opportunities for the Department of Higher Education (DHE) to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DHE 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 an assurance audit related to the controls over the DHE War Orphans Scholarship program. This work was completed December 2015 through March 2016.

The following summarizes the scope and objectives of the review:

- Evaluate the design and effectiveness of the controls around the scholarship awarding process.

- Evaluate the design and effectiveness of the controls around the scholarship disbursement process.

- Evaluate the design and effectiveness of the controls around the scholarship monitoring and reporting process.

Detailed 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.

Observation 1 – Monitoring Eligibility and Disbursements

According to Ohio Revised Code § 5910.05, the Ohio War Orphans Scholarship board shall provide minimum scholastic requirements for recipients and shall withdraw the aid from any person who fails to maintain such requirements. According to the DHE Financial Aid Guidance Memo, students must attend full-time and prior recipients must maintain a minimum 2.00 cumulative GPA.

An effective program includes periodic monitoring and review to help ensure compliance with program guidelines and expectations. Periodic reviews should be conducted to help identify noncompliance within the program. A reviewer must have adequate information to complete the review.

Written policies are necessary to outline the objectives, purpose and expected outcomes of an organization's process while written procedures outline the means for achieving the policy and help ensure consistent practices. All policies and procedures should be formally documented and reviewed by management for updates on a regular basis.

The War Orphans Financial Aid Program Administrator does not perform any monitoring of a student's scholarship eligibility throughout the academic year. Additionally, the War Orphans Financial Aid Program Administrator does not review disbursement requests from institutions to ensure the students meet academic eligibility requirements. The Fiscal Specialist in the Financial Aid department performs an annual Eligibility Audit; however, only a sample of War Orphans scholarship recipients is selected for review.

Additionally, there are the following gaps in DHE's monitoring of the scholarship program:

- The War Orphans Financial Aid Program Administrator does not verify payment request information (GPA and tuition) submitted by institutions. The cost per credit hour, tuition, fees, and other applicable fees for each institution are not verified to ensure accuracy.

- The War Orphans Financial Aid Program Administrator does not have access to the institutions' record systems to ensure the student information submitted is accurate and the student maintains the minimum GPA and credit hours each term. OIA selected a targeted sample of 25 students with low GPAs and lowest tuition amounts. During testing, 12 of 25 (48%) students did not have a 2.00 GPA for the 2015 autumn term. There are exceptions to the rule; however, DHE did not document the exceptions. For instance, freshman, transfer students, and first-year scholarship recipients are allowed

one full year to meet the 2.00 cumulative GPA requirements. Additionally, any student with a learning disability is exempt from the eligibility requirements.

- The Financial Aid Program Administrator who approves the payment vouchers in OAKS only reviews the voucher number and the designated program (War Orphans). The Higher Education Information (HEI) system combines all payment requests for each institution into one lump sum. Therefore, the Financial Aid Program Administrator does not review the individual payments to ensure accuracy.

- The program procedures were created in 2005 and have not been updated.

Inconsistent monitoring of student eligibility throughout the school year can lead to scholarship funds disbursed to ineligible students, poor performance going undetected, and inconsistent treatment of applicants. Insufficient review of disbursements may increase the risk of fraudulent or miscalculated disbursement requests. Also, informal supervisor reviews increases the risk of inaccurate or incomplete reporting. Relying on the knowledge of current employees in lieu of updated procedures leaves the agency susceptible to reduced capabilities in the event of employee turnover.

Recommendation

Develop and implement a tracking mechanism, such as an Excel spreadsheet to monitor the eligibility of students who may not meet the scholarship academic requirements each term. For the academic eligibility tracking mechanism, consider including separate tabs for students currently under review, students on probation who were not awarded the scholarship, and students that need to reapply due to ineligibility. Consider information in each tab to include cumulative GPA, reason for ineligibility, method of communicating "ineligibility notice" (e-mail, mail) to student and/or guardians, the financial conclusion of the student and any other field the agency finds helpful. In addition, communication with individuals and institutions about a student should be tracked and documented within the spreadsheet.

To ensure students are attaining the minimum requirements, when a student is under review or if the amount of funds requested does not meet a set threshold, the War Orphans Financial Aid Program Administrator should require the student to submit their "unofficial transcript" or Degree Audit Report for review. Establishing a threshold will help ensure students are reviewed to verify enrollment in the minimum number of credit hours. For example, Columbus State Community College's current cost per credit hour is $135.93, so a minimum disbursement request for a student is $1,631.16 ($135.93 x 12 credit hours).

Consult with management and IT personnel about the functionality of the HEI system to review the current user access role of the War Orphans Financial Aid Program Administrator. HEI has the capability to display student credit hours, tuition amounts, and degree programs. By adding those capabilities to the role, the War Orphans Financial Aid Program Administrator may be able to verify that students meet the eligibility requirements and disbursement amounts are accurate.

Update the scholarship application to include an option for a student to indicate if they have an exception to the minimum grade point average rule. This will allow the War Orphans Financial Aid Program Administrator to notify an institution about the student's exceptions to avoid delays before submitting payment requests.

Lastly, update the policies and procedures manual to reflect any changes, exceptions, new requirements, and outdated processes to ensure consistency throughout the scholarship program. The policies and procedures should be reviewed periodically by management and updated as needed.

Management Response

We will develop and implement an Excel spreadsheet to track students who are under review due to low GPA/on probation/or low credit hours.

Before a school submits a payment file, the school's financial aid office personnel are required to verify proper tuition amounts and student information, as well as GPA information. Therefore, the student's eligibility is verified by the school each quarter prior to reporting to the program manager at DHE and prior to any disbursement of funds. The school financial aid office personnel are also responsible for notifying DHE if a student has not met the academic eligibility criteria each quarter.

If a student is under review (whether for GPA or credit hour monitoring), we will request an unofficial transcript from the school to keep in the student's file and also verify that the student doesn't meet the exceptions such as a learning disability or receiving multiple forms of financial aid. If the payment threshold is not met when reviewing files for payment we will request supplemental documentation from the institution to ensure the proper number of credit hours are being taken and will keep a spreadsheet of these students.

We will work with our HEI Data Management group to determine if they can run reports to use as a verification mechanism for payments prior to disbursement. Unfortunately, the administrative burden of having a separate administrator review each voucher prior to payment makes it not possible; however, we feel that we are mitigating risk with the current segregation of duties in the payment process.

We will update the student scholarship application, contingent upon approval of the War Orphans Scholarship Board, to allow the student to indicate if they have an exception to the minimum grade point average rule.

We will update the policy and procedures manual to reflect any changes, exceptions, new requirements, updated processes and relevant ORC.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Senior Vice Chancellor – Finance	October 2016

Observation 2 – Review System Access

The HEI system is a comprehensive relational database that includes student enrollment, courses, financial aid, personnel, facilities, and finance data submitted by Ohio's colleges and universities.

According to the HEI System "Request for Access to Restricted Data" form, an employee should inform their campus liaison or financial aid contact when they no longer need restricted access to HEI. A system access policy serves to maintain an adequate level of security to protect data and information from unauthorized access. Procedures should outline the necessary communication of significant changes in users' duties or employment status so that access may be timely updated or removed. User access reviews are designed to monitor and verify the appropriateness of users' system access.

DHE does not have a documented process in place for periodically reviewing user access to the HEI system. OIA selected 25 employees with HEI system access to review their Campus User Authorization Form and determine if system access is appropriate. Four (16%) of the individuals have inappropriate system access because they are no longer employed by the institution or transferred to a new position.

Not having a consistent process in place to periodically review user access roles for current and separated employees can result in unnecessary exposure to sensitive data, increasing the risk of fraud and/or abuse. Additionally, data integrity may be compromised when unauthorized users have access to key systems.

Recommendation

Develop, implement, and document a process to periodically review user access roles and facilitate communication between all parties involved at institutions and DHE regarding HEI access (updates, changes, additions, etc.) for all employees (internal and external). In addition, it may be beneficial to send a reminder, such as an email blast to the Financial Aid liaisons, outlining the steps of notifying DHE when an employee no longer needs access to HEI.

Also, periodically contact schools to identify HEI users that no longer require access. Document those individuals and system removal.

Explore the ability to detect HEI system inactivity to detect users that no longer require access.

Management Response

DHE plans to implement 3 approaches to ensure secured access to systems:

1. We will work with our HEI Data Management group and twice per year, they will request that HEI Liaisons at each institution update all new users as well as delete users who no

longer need access.

2. We will include a prominent reminder to update user access within the Guidance Memos that the Financial Aid Department sends to all institutions.

3. When a request is received by the DHE Financial Aid Department to grant a new user access, the institution will be asked specifically if the new user is replacing a user whose access should now terminated. If so, DHE will act accordingly.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Senior Vice Chancellor – Finance	September 2016

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
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	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.
Major Improvement Needed	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
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	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 and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee