

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF INTERNAL CONTROLS OVER THE UNIVERSITY OF THE
DISTRICT OF COLUMBIA (UDC)'S STUDENT REFUNDS**

OFFICE OF INTEGRITY AND OVERSIGHT



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

September 14, 2016

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Dear Mr. Mason, Ms. Shepherd, and Ms. Cooper,

The attached final report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s *Audit of Internal Controls over the University of the District of Columbia (UDC)'s Student Refunds (Job No. OIO 16-01-09 UDC)*. The objectives of the audit were to provide reasonable assurance that: a) Internal controls over UDC's student refund process are adequate and effective; and b) Unclaimed refunds are valid and correct.

OIO provided eight recommendations to the Chief Financial Officer, UDC. The UDC/OCFO management concurred with our recommendations and provided corrective actions taken and planned to address the findings cited in the report. We consider the corrective actions taken and planned to be responsive to our recommendations. The full text of UDC/OCFO's response is included as Appendix 1.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions related to the report, please contact me at (202) 442-6433; or Tisha Edwards, Internal Audit Director, at (202) 442-6446.

Sincerely,



Timothy Barry
Executive Director

cc: Jeffrey DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Baraka Ondiek, Continuous Improvement Officer, OCFO

**AUDIT OF INTERNAL CONTROLS OVER THE UNIVERSITY OF THE DISTRICT
OF COLUMBIA (UDC)'S STUDENT REFUNDS**

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**AUDIT OF INTERNAL CONTROLS OVER THE UNIVERSITY OF THE DISTRICT
OF COLUMBIA (UDC)'S STUDENT REFUNDS**

ACRONYMS

ACFO	Associate Chief Financial Officer
ACH	Automated Clearing House
A/P	Accounts Payable
CAS	College of Arts and Sciences
CAUSES	College of Agriculture, Urban Sustainability and Environmental Sciences
CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FSA	Federal Student Aid
OCFO	Office of the Chief Financial Officer
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
SBPA	School of Business and Public Administration
SEAS	School of Engineering and Applied Sciences
SFA	Student Financial Assistance
Title IV	Financial Aid Awards
UDC	University of the District of Columbia

EXECUTIVE SUMMARY

OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) conducted an audit of the Internal Controls over the University of the District of Columbia (UDC)'s Student Refunds. In Fiscal Year (FY) 2015, the former UDC Chief Financial Officer (CFO) requested OIO review outstanding student refunds due to the large number of refunds that were unclaimed. To address this request, OIO included an audit of student refunds in the OIO's Fiscal Year 2016 Audit and Integrity Plan.

The audit objectives were to provide reasonable assurance that:

1. Internal controls over UDC's student refund process were adequate and effective; and
2. Unclaimed refunds were valid and correct.

CONCLUSION

We concluded that internal controls over student refunds need to be strengthened. We found:

- Student refunds were not always valid and accurate. We found five invalid refunds in the selected sample.
- The student refund process did not comply with the US Department of Education Title IV guidelines for refunds generated by Financial Aid assistance.
- Ineffective communication and coordination between units within the Finance Office (Cashier, Student Accounts, Accounts Payable, and Accounting staff) as well as between the Finance Office, the Financial Aid Office, and the Office of the Registrar.
- UDC does not have a stale date process for outstanding checks.

SUMMARY OF RECOMMENDATIONS

We provided eight recommendations to the Interim Chief Financial Officer, UDC, to improve the internal controls over the student refund process. The recommendations focused on:

- Ensuring quality control processes are maintained to preclude the issuance of invalid refunds.
- Cancelling the invalid refunds in the accounting system and at the bank.
- Revising student refund policies and procedures to include formal procedures for handling credit card related refunds.
- Working with the UDC's Financial Aid Office in finalizing policies and procedures to comply with Financial Aid assistance Title IV requirements. This will ensure Title IV excess funds will be returned to the US Department of Education within the 240 day

EXECUTIVE SUMMARY

threshold after the school has exhausted all possible avenues to contact students for which refunds are owed.

- Reviewing all outstanding refunds greater than 240 days old to determine if they are related to Title IV funds and if so, return the funds to the US Department of Education as required.
- Establishing and documenting an effective communication and coordination process to ensure unclaimed student refunds are picked up in a timely manner.
- Adopting the District's practice related to stale dated checks, to include the 180 days expiration date on student refund checks.
- Performing an escheatment process for non-Title IV outstanding refund checks greater than 180 days old.

SUBSEQUENT EVENTS

Subsequent to our audit fieldwork completion of May 5, 2016, the UDC Finance Office initiated a review of all outstanding checks issued prior to December 2015. Due to the age of the outstanding checks, UDC Finance officials stated that student refunds were cancelled in BANNER, the UDC accounting system, and at the Bank. OIO verified that all refunds in our sample were in fact cancelled in the accounting system and at the bank. UDC Finance officials stated that if a student comes to claim a cancelled refund, research will be performed to determine the validity of the refund and if valid, the check will be issued to the student within two business days.

In addition to the cancellation of these outstanding checks, UDC Finance officials are taking corrective actions to improve internal controls over the issuance of student refunds.

MANAGEMENT RESPONSES AND OIO COMMENTS

OIO received written responses from the University of the District of Columbia (UDC) Chief Financial Officer (CFO) on September 6, 2016. UDC/OCFO management concurred with the report recommendations and provided corrective actions, taken and planned, to address the findings cited in the report.

We consider the corrective actions to be responsive and meet the intent of the recommendations. The full text of UDC/OCFO's response is provided in Appendix 1.

INTRODUCTION

BACKGROUND

The University of the District of Columbia (UDC) is the only public university in the nation's capital and the only urban land-granted university in the United States and is committed to a broad mission of education, research and community service. UDC offers Associate's, Bachelor's and Master's Degrees and a host of workplace development services designed to create opportunities for student success.

The mission of the University of the District of Columbia is to be a pacesetter in urban education that offers affordable and effective undergraduate, graduate, professional, and workplace learning opportunities.

Students may pay for tuition and expenses with: Financial Aid funds, scholarships, loans, and private funds. Per the UDC website, students that have a credit balance remaining after all tuition, fees and other charges authorized to their account have been posted may receive a refund:

- If a credit balance (other than Financial Aid Awards) is the result of overpayment of tuition and fees, an "Application for Refund"¹ form should be completed at the Office of Student Accounts (Student Accounts).
- If a credit balance is the result of the withdrawal or dropping of a course, students should: a) formally withdraw from the course at the Office of the Registrar, and b) complete the "Application for Refund" form at the Office of Student Accounts.
- If a credit balance is the result of Financial Aid Awards (Title IV Funds), refunds are generated automatically.

Student refund checks are authorized approximately two to three weeks after the first day of class each semester (i.e., after all charges have been applied and attendance verified). According to Finance officials, should a student be entitled a refund, these refunds are processed in one of the three ways listed below:

- **By Automated Clearing House (ACH):** If the student has provided a bank account, the refunds are deposited directly into the students' bank account.
- **By Check:** If the student has not provided a bank account, checks are mailed to the address on file.
- **By Credit Card:** If the refund was triggered by a credit card payment, the credit card transaction is reversed and the owed refund is returned to the credit card.

The UDC Finance Office is comprised of the Office of Student Accounts, Accounting, and Budgeting. The Office of Student Accounts is responsible for issuing refunds that are maintained on the Banner Student Accounts module until they are batched and uploaded overnight to the Banner Accounting

¹ While the website states that student's must file an application to request a refund, we found that the Office of Student Accounts automatically generates a refund check for any credit on the student's account.

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module. The UDC Finance Office Accounts Payable Manager processes student refund invoices and sends a check file to the Office of Finance and Treasury (OFT) for check printing and mailing of refund checks.

Refund checks are mailed to the student's official address on file at the Office of the Registrar. Addresses are entered in the system based on the student's admission application. For any further changes to the student's contact information, the student must fill out a form and all changes will be done by the Office of the Registrar.

Undeliverable checks are returned to the university and are available for pickup at the Cashier's Office for 30 days. The Cashier contacts Student Accounts and provides information on returned checks so that the Student Accounts personnel can contact the students for follow-up. If the check is not picked up after 30 days, the checks are forwarded to the Accounts Payable department. Upon receipt of the checks from the cashier, the Accounts Payable Manager informs the Senior Accountant within the Accounting Office who is responsible for voiding, canceling or reissuing the check.

Financial Aid (Title IV) Refunds

Students that receive Financial Aid (Title IV) Awards are also entitled to a refund if there is a credit balance after all tuition and fees have been paid. Title IV Funds are Federal Student Aid funds administered by the US Department of Education. Title IV funds include: Direct Subsidized/Unsubsidized Loan, Direct Graduate PLUS Loan, Direct PLUS Loan, Federal Pell Grant, Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Perkins Loan. The US Department of Education requires that Title IV funds be applied only to specific allowable charges such as: tuition, mandatory fees, and room and board contracted by the University.

The US Department of Education's Federal Student Aid (FSA) Handbook, under section 668.164(e) states that: "Whenever a school credits Student Financial Assistance (SFA) program funds to a student's account and those funds exceed the student's allowable charges, an SFA credit balance occurs. A school must pay the excess SFA program funds (i.e., the credit balance) directly to students as soon as possible, but no later than 14 days after: a) the later of the date the balance occurred on the student's account; or b) the first day of classes of the payment period if the credit balance occurred on or before the first day of class". The FSA Handbook further explains that "If the school cannot locate a student to whom an SFA credit balance must be paid (i.e., the school has exhausted all possible avenues to find the student), the school must return the credit balance to the Department of Education".

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to provide reasonable assurance that:

1. Internal controls over UDC's student refund process were adequate and effective; and
2. Unclaimed refunds were valid and correct.

INTRODUCTION

The audit covered outstanding student refunds for a 64-month period, from October 1, 2010, to January 31, 2016.

In order to achieve the audit objectives, we reviewed UDC's policies and procedures with special attention to "Refunds on unused amounts in student accounts". In addition, we reviewed the US Department of Education guidelines with special attention to the Federal Student Aid (FSA) Handbook, and the 2015 Compliance Supplement on Single Audit related to "Return of Title IV Financial Aid". We met and interviewed officials at UDC.

Based on the total population of 1,156 outstanding student refunds² for the period under audit, we stratified the population as follows:

- Student refunds from \$0 to \$99.99
- Student refunds from \$100.00 to \$4,999.99
- Student refunds greater than \$5,000.00

The items in the less than \$100.00 category were not included in the sample due to their immateriality. For the items between \$100.00 and \$4,999.99, we selected a statistical sample³ of 60 outstanding student refunds (out of 600 outstanding refunds). Due to their materiality, for testing we selected all items in the category greater than \$5,000.00 for a total of 19 outstanding student refunds. The total stratified samples selected were 79 of the outstanding student refunds. Our sample was taken from outstanding refunds for the period October 2010 to January 31, 2016.

For the sample selected, we examined supporting documentation for each refund, such as: pertinent student transaction files, copies of cashed and returned checks, and bank records for outstanding refunds. The purpose of this test work was to ensure completeness, validity, and accuracy of the student refund process.

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

² For purposes of this report, outstanding student refunds refer to refunds issued to students that have not been negotiated as of January 31, 2016.

³ ACL Sampling Application - The statistical sample criteria were: confidence level 95%, materiality level 5%, and auditor's expectation of error rate 0%.

FINDINGS AND RECOMMENDATIONS

FINDING 1: INTERNAL CONTROLS OVER STUDENT REFUNDS

SYNOPSIS

Our examination of the selected sample of 79 student refunds issued between October 1, 2010 through January 31, 2016 and the underlying supporting documentation revealed that:

- 5 out of 79 (6.3%) student refunds in the sample were invalid. These refunds were either processed in error and/or processed for the incorrect amount.
- 5 out of the 79 (6.3%) student refunds in the sample that were triggered by a credit card payment were refunded by check instead of the practice outlined by Finance officials of refunding back to the original credit card.

These conditions exist because prior to FY 2015, UDC/OCFO did not have an effective quality control review over refunds. Additionally, there was not a consistent procedure for issuing refunds triggered by credit card payments. As a result, there was no assurance that valid refunds have been issued to students.

DISCUSSION

The OIO evaluated the internal controls over the student refund process to determine if refunds were valid and accurate and distributed in compliance with financial policies and procedures. To evaluate internal controls, we selected a statistical sample of 79 outstanding student refunds (out of 1,156 refunds) issued between October 1, 2010 and January 31, 2016, and obtained and examined supporting documentation for each refund in our sample.

Sample Results

We examined the supporting documentation for each refund and noted the following:

Accuracy of Refunds

Our examination revealed that 5 out of 79 student refunds in the sample were invalid. Table 1 below presents the details of the exceptions identified in the sample selected.

FINDINGS AND RECOMMENDATIONS

**Table 1: Student Refund Exceptions
(In the Stratified Sample Selected)**

Item No.	Refund Date	Original Refund Date	OIO Calculated Amount	Difference
1	8/29/2011	\$2,538.75	\$831.00	\$1,707.75
2	9/29/2011	\$6,074.08	\$2,937.04	\$3,137.04
3	2/29/2012	\$6,164.04	\$10,199.00	(\$4,034.96)
4	7/16/2012	\$547.47	\$512.47	\$35.00
5	5/30/2012	\$1,000.00	\$0.00	\$1,000.00

We found that 4 of the 5 refunds were identified as processing errors and were voided in the student's account shortly after the checks were issued, but they remained outstanding in the accounting records and at the bank. UDC/OCFO records indicate that one check was returned to the cashier as undeliverable; however, the remaining four invalid refunds are still negotiable.

These exceptions occurred due to the lack of policies and procedures for processing student refunds and a lack of a thorough quality review process. However, in FY15, UDC/OCFO drafted written policies and procedures for the processing of student refunds. The recently adopted procedures state that for refunds of unused amounts in student accounts, the Office of Student Accounts is to ensure that all charges and reversing entries have been posted in a timely manner and that the Director of Student Accounts is responsible for the approval of final refunds.

Credit Card Payments

When a credit is attributed to a credit card payment, the practice, according to the Finance Office, is to disburse refunds back to the credit card; however, we found 5 of the 79 student refunds in the sample that were triggered by a credit card payment, were refunded by check.

In one instance, the student's \$300.40 credit card payment was manually transferred in the system on December 1, 2015 to fund a class related to another semester; however, a refund check, generated on November 23, 2015, for the same amount was already issued.

UDC/OCFO did not establish and document a clear and consistent method regarding how credit card payments should be refunded to students. Within the UDC/OCFO Finance Office, we found inconsistent treatment for credit card refunds, with the Student Account personnel believing a check should be sent to the student, and Accounting personnel believing that the refund should go back to the student's credit card. As a result of the unclear procedures, there is a risk of double payment of student refunds.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATIONS

We recommend that the Interim, Chief Financial Officer (CFO), UDC:

1. Ensure that quality control processes are maintained to preclude the issuance of invalid refunds.
2. Cancel the previously voided refunds in the accounting system and at the bank.
3. Revise student refunds policies and procedures to include formal procedures for handling credit card related refunds.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1)

UDC/OCFO's management concurred with the recommendation and stated that the policies and procedures manual have been updated to include a detailed review to determine whether refund checks are accurate. Additionally, UDC/OCFO management stated that policies and procedures will be updated to reflect that refunds will be processed in smaller increments to be reviewed and approved by UDC/OCFO staff to alleviate review and processing errors.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

Management Response (Recommendation 2)

UDC/OCFO management concurred with the recommendation and stated that they have cancelled all outstanding checks from October 2010 to January 2016 both in BANNER, and at the Bank. In addition, UDC/OCFO management stated that policies and procedures will be updated to reflect the check cancellation process.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

Management Response (Recommendation 3)

UDC/OCFO management concurred with the recommendation and stated that the UDC/OCFO Director of Student Accounts will review all refunds to determine whether or not the refund was a result of a credit card transaction, and if so, the Director of Student Accounts will reach out to the student and provide the option of returning the funds via check or a reversal of the credit card transaction.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2: COMPLIANCE WITH TITLE IV FINANCIAL AID GUIDELINES

SYNOPSIS

During our examination of the outstanding student refunds and the underlying supporting documentation, we found 40 out of 79 (50.6%) were over 240 days old and have not been returned to the US Department of Education as required by Title IV Federal Financial Aid guidelines. This condition occurred because policies and procedures have not been implemented to date, and there is a lack of effective communication between UDC's Finance Office and the Financial Aid Office. As a result, UDC is not compliant with the US Department of Education Title IV Financial Aid requirements.

DISCUSSION

51 of the 79 refunds in our selected sample were related to Title IV Financial Aid awards. Further review indicates that 40 of the 51 refunds are greater than 240 days old. The 2015 Compliance Supplement on Single Audit specifies, pursuant to the 34 CFR section 668.164(h), an institution must return to the US Department of Education any Title IV funds it attempts to disburse directly to a student or parent but they do not receive or negotiate those funds. It further states that if the institution attempted to disburse the funds by check and the check is not cashed, the funds must be returned to the US Department of Education no later than 240 days after the date the school issued the check.

An aging analysis of the Title IV related refunds revealed the following:

**Table 2: Aging Analysis of Student Refunds over 240 Days Old
(In the Stratified Sample Selected)**

Number of Instances	Number of Days – From Oct 1, 2010 to Jan 31, 2016
3	Between 240 and 500 days old
8	Between 500 and 1,000 days old
13	Between 1,000 and 1,500 days old
16	Between 1,500 and 2,000 days old
40	<i>Total Number of Instances</i>

The non-compliance with the federal guidelines can be attributed to the fact that the Finance Office does not communicate with the Financial Aid Office regarding whether or not the students for which refunds are owed have picked up their refund checks. Financial Aid officials are aware of the federal regulations and are proposing procedures to handle Title IV student refunds

FINDINGS AND RECOMMENDATIONS

that remain outstanding after the threshold; however, these proposed procedures were not implemented at the time of our audit.

RECOMMENDATIONS

We recommend that the Interim, Chief Financial Officer (CFO), UDC:

4. Work with the UDC's Financial Aid Office in finalizing policies and procedures to comply with Financial Aid assistance Title IV requirements. This will ensure Title IV excess funds will be returned to the US Department of Education within the 240 days threshold after the school has exhausted all possible avenues to contact students for which refunds are owed.
5. Review all outstanding refunds greater than 240 days old to determine if they are related to Title IV funds and if so, return the funds to the US Department of Education as required.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 4)

UDC/OCFO's management concurred with the recommendation and stated that UDC/OCFO is currently reviewing all Title IV refunds greater than 240 days old and will determine the appropriate method to return the funds to the US Department of Education.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

Management Response (Recommendation 5)

UDC/OCFO's management concurred with the recommendation and stated that UDC/OCFO met with the Financial Aid Office and developed a communication protocol between the responsible offices, and a process to return Title IV related unclaimed student refunds. In addition, UDC/OCFO management stated that policies and procedures will be updated to reflect the results of these meetings.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 3: COMMUNICATION AND COORDINATION AMONG UDC DEPARTMENTS

SYNOPSIS

Out of 79 student refunds in the sample, 66 refunds (83.5%) issued during the period October 1, 2010 to January 31, 2016, remain outstanding⁴. Additionally, we found that of the 66 outstanding refunds, 15 refunds were for students currently enrolled at UDC.

The unclaimed refunds can be attributed to incorrect and incomplete student addresses on file and no formal communication procedures between UDC departments (i.e., Finance Office, Financial Aid Office, and the Office of the Registrar) and students to resolve unclaimed refunds. As a result, refunds remain unclaimed for long periods of time.

DISCUSSION

The refunds in our sample can be categorized as follows:

**Table 3: Analysis of Student Refunds in our Sample
(In the Stratified Sample Selected)**

Number of Refunds in the Sample	Description
40	Title IV refunds - Outstanding over 240 days. (See Finding 3)
19	Refunds related to other funds (Private, Chapter 33, etc.) - Outstanding over 240 days
7	Title IV, Scholarship and Private fund related refunds – Outstanding less than 240 days
13	Refund checks cashed by students during the course of our audit.
79	<i>Total number of items in the Sample</i>

Outstanding Refunds

Out of the 79 refunds in our sample, we noted that 15 of the outstanding student refunds are for students currently enrolled at UDC and 9 of the 15 refunds are over 240 days old. Our examination revealed that the cause of these unclaimed refunds may be due to: a) incorrect and

⁴ During the course of our audit conducted from February 25, 2016 to May 5, 2016, 13 of the 79 checks in our sample were negotiated and cashed.

FINDINGS AND RECOMMENDATIONS

incomplete student addresses on file; and b) no formal communication procedures between UDC departments (i.e., Finance Office, Financial Aid Office, and the Office of the Registrar); and students to resolve unclaimed refunds. As a result, students entitled to a refund have not received funds due.

a. Undeliverable Refund Checks

Refund checks are mailed to the student's address on file; however, many of the student's addresses are incomplete or incorrect, and therefore, checks are returned to the school. These undeliverable checks are returned to UDC's Cashier Office for safekeeping until students collect them. The Cashier communicates to the Student Accounts staff which student refunds have been returned, and Student Accounts personnel contact the student once via phone. If they cannot reach the student, a voicemail is left for the student to collect the refund check. No further follow-up is performed and there is no log or system in place to register a permanent record of the phone call placed to students.

b. Communication

In the current environment, the Financial Aid Office and the Office of the Registrar are not an integral part of the student refund process although they could play a crucial role in assisting the Student Accounts personnel to potentially resolve the outstanding refund issues.

Financial Aid officials stated that they do not receive any communication regarding the status of student refunds even though on a regular basis students contact the Financial Aid Office to claim refunds because they believe that Financial Aid is in charge of handling student refunds. Currently, there is no procedure in place for Student Accounts to notify both the Financial Aid Office and the Office of the Registrar when a student has been issued a refund and failed to pick up the refund check after the 30 day holding period. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s Internal Control Framework, communication is a key component of internal controls and assists in providing information to allow employees to carry out their duties.

RECOMMENDATION

6. Establish and document an effective communication and coordination process to ensure unclaimed student refunds are picked up in a timely manner.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSE AND OIO COMMENT

Management Response (Recommendation 6)

UDC/OCFO's management concurred with the recommendation and stated that UDC/OCFO met with the Financial Aid office and developed a communication protocol between responsible offices and a return process for Title IV related unclaimed student refunds. In addition, the policies and procedures manual will be updated to reflect the results of these meetings.

OIO Comment

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 4: STUDENT REFUND CHECKS ARE NOT STALE DATED

SYNOPSIS

Our examination of student refunds revealed that student refund checks are not stale dated and in some cases, checks were voided in the accounting system but the bank was not notified. This condition occurred because UDC/OCFO has no procedures regarding outstanding checks and did not follow best practices established by the District related to the issuance and expiration of checks. As a result, there is an increased risk of misappropriation.

DISCUSSION

The UDC Finance Office Accounts Payable manager processes student refund invoices and sends a check file to the Office of Finance and Treasury (OFT) for check printing and distribution of refund checks.

Usually checks printed by OFT for other agencies are marked as “void 180 days from date” as is the District’s practice; however, UDC student refund checks printed by OFT are not marked “void 180 days from date” and can be held in perpetuity.

UDC/OCFO has not adopted a policy related to stale dating checks nor do they follow best practices established by the District which includes an annual escheatment process for stale dated checks during the fiscal year and instructing financial institutions not to pay stale dated checks. There is an increased risk of impropriety and misappropriation when outstanding checks remain active for extended periods of time.

RECOMMENDATIONS

We recommend that the Interim, Chief Financial Officer (CFO), UDC:

7. Adopt the District’s practice related to stale dated checks, to include the 180 days expiration date on student refund checks.
8. Perform an escheatment for non-Title IV outstanding refund checks greater than 180 days old.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 7)

UDC/OCFO's management concurred with the recommendation and stated that since April 2016, UDC/OCFO has been working with the District's Office of Finance and Treasury (OFT) to ensure that checks will be stale dated after 180 days.

OIO Comment:

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

Management Response (Recommendation 8)

UDC/OCFO's management concurred with the recommendation and stated that since April 2016, UDC/OCFO has been working with the District's Office of Finance and Treasury (OFT) to ensure that checks will be stale dated after 180 days, and that policies and procedures will be updated to reflect the implementation of the policy to stale date checks.

OIO Comment:

UDC/OCFO's corrective actions are responsive and meet the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status ⁵
1	Ensure that quality control processes are maintained to preclude the issuance of invalid refunds.	Internal Control	1 st Qtr. - FY2017	Open
2	Cancel previously voided refunds in the accounting system and at the bank.	Internal Control	July 29, 2016	Closed
3	Revise student refund policies and procedures to include formal procedures for handling credit card related refunds.	Internal Control	During FY2017	Open
4	Review all outstanding refunds greater than 240 days old to determine if they are related to Title IV funds and if so, return the funds to the US Department of Education as required.	Internal Control/ Compliance	During FY2017	Open
5	Work with the UDC's Financial Aid Office in finalizing policies and procedures to comply with Financial Aid assistance Title IV requirements. This will ensure Title IV excess funds will be returned to the US Department of Education within the 240 days threshold after the school has exhausted all possible avenues to contact students for which refunds are owed.	Internal Control/ Compliance	During FY2017	Open
6	Establish and document an effective communication and coordination process to ensure unclaimed student refunds are picked up in a timely manner.	Internal Control	During FY2017	Open

⁵ This column provides the status of the recommendation as of the report date. For final reports "Open" means management and OIO are in agreement on the action to be taken, but the action is not complete. "Closed" means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management's response was used. "Unresolved" means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to correct the condition.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status
7	Adopt the District's practice related to stale dated checks, to include the 180 days expiration date on student refund checks.	Internal Control/ Compliance	During FY2017	Open
8	Perform an escheatment for non-Title IV outstanding refund checks greater than 180 days old.	Internal Control	During FY2017	Open


APPENDIX 1: UDC MANAGEMENT'S RESPONSE



Office of the Chief Financial Officer

MEMORANDUM

TO: Timothy Barry
Executive Director
Office of Integrity & Oversight

FROM: Shaina Cooper 
Chief Financial Officer

DATE: September 2, 2016

SUBJECT: OIO Draft Report No. 16-01-09 UDC

The purpose of this correspondence is to address the internal controls over the student refunds for the Office of the Chief Financial Officer (OCFO) at the University of the District of Columbia (UDC).

We appreciate the efforts that went into this audit at our request and we agree with all of the recommendations. Our comments regarding the recommendations are as follows:

Recommendation #1: Ensure that quality control processes are maintained to preclude the issuance of invalid refunds. **Response:** We concur with the recommendation. The UDC/OCFO policies and procedures manual have been updated to include a detailed review by the OCFO Director of Student Accounts to determine whether refund checks are accurate. The review covered the period of October 2010 through January 2016. 5 out of 79 refunds sampled contained errors for the period of August 2011 through July 2012. Initially in Banner the refund process was not automated and therefore all refunds had to be processed manually in 2010 through part of 2012. The manual processing led to some errors in the issuance of refunds. Once the system was fully functional in 2012, the process became automated but still required a manual review to focus on any anomalies that may have occurred through the process. The total number of refunds in a given semester customarily exceed 2,500 transactions which could lead to review and processing errors. To alleviate this concern, we will update the UDC/OCFO policies and procedures manual to reflect the process change implemented for the Fall 2016 semester to read: "Refunds will be processed in smaller increments of 100 to be reviewed by the OCFO Director of Student Accounts. Once reviewed and approved, the OCFO Director of Student Accounts will forward the file to the OCFO Accounts Payable Supervisor for check processing."

Recommendation #2: Cancel previously voided refunds in the accounting system and at the bank. **Response:** We concur with the recommendation. In July 2016, the UDC/OCFO Accounting Office reviewed the outstanding check population as of the June 2016 Disbursement

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Account Reconciliation (GL account - 101106). Based on the results of the review an executive decision was made to cancel all outstanding checks from October 2010 to January 2016. A listing of all cancelations of checks in Banner and at Wells Fargo, UDC's check disbursement banking institution, was stored in a binder. A copy of all reclassification journal entries were printed and stored on UDC's online network for referencing as needed. Additionally, the UDC/OCFO Finance Office has updated the check cancellation process to include procedures to determine that all check cancelations are researched, documented and timely processed. To reflect this process our policies and procedures manual will be updated with the following language to read as: "We will use all reasonable means to locate the student whose Non-Title IV refund check has become 180 days old. When communication efforts have been exhausted the refund check is escheated and moved to unclaimed property. Documentation of the check cancellation will be stored in a specified binder as well as on UDC's online storage network for referencing as needed."

Recommendation #3: Revise student refund policies and procedures to include formal procedures for handling credit card related refunds. **Response:** We concur with the recommendation. Early in 2014, the UDC/OCFO Finance Office had begun a review of all outstanding checks. During this review, it was noted that certain credit card reversals were being processed in the Cashier's Office for students who did not want the charges reflected on their credit card accounts. The OCFO Director of Student Accounts will review all refunds to determine if the refund was a result of a credit card transaction. If so, the OCFO Director of Student Accounts will reach out to the student and provide the student the option of returning the funds via check or reversal of the credit card transaction.

Recommendation #4: Review all outstanding refunds greater than 240 days old to determine if they are related to Title IV funds and if so, return the funds to the US Department of Education as required. **Response:** We concur with the recommendation. The UDC/OCFO is currently reviewing all Title IV refunds greater than 240 days old and will determine the appropriate method to return the funds to the US Department of Education.

Recommendation #5: Work with the UDC's Financial Aid Office in finalizing policies and procedures to comply with Financial Aid assistance Title IV requirements. This will ensure Title IV excess funds will be returned to the US Department of Education within the 240 days threshold after the school has exhausted all possible avenues to contact students for which refunds are owed. **Response:** We concur with the recommendation. We met with the Financial Aid Office and developed a communication protocol between the responsible Offices, as well as a process to return Title IV related unclaimed student refunds. The policies and procedures manual will be updated to reflect the following results of the meetings: "When student refund checks are returned to the Cashier's Office with an undeliverable mailing address, it will be communicated to the OCFO Student Account's Office via email. When a refund check is

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returned to UDC, the OCFO Director of Student Accounts will call and email the student informing them of the returned check and undeliverable address. They will be directed to the Registrar's Office to update their address and also to the Cashier's Office to retrieve the outstanding check. If the student receives their check, the Cashier's Office will contact the Registrar's Office and the Student Accounts Office via email informing them that the check has been picked up by student. If after 7 business days a check is still outstanding, the OCFO Director of Student Accounts will attempt to contact the student again via phone and by email to inform them of the returned check and undeliverable address. This process will be repeated once again after 14 business days. After 21 business days if the check is still outstanding, the Cashier's Office will notify the OCFO Students Account's Office via email of all checks that were not picked up. The Cashier's Office will forward the checks to the UDC/OCFO Accounting Office. The UDC/OCFO Accounting Office will then cancel the check in Banner and remove it from the outstanding check list. The OCFO Director of Student Accounts will receive the outstanding check list from the UDC/OCFO Accounting Office and will review each check to determine if there is any Title IV implications. We will use all reasonable means to locate the students with a Title IV refund check within 45 days. If all attempts are unsuccessful, outstanding Title IV refunds checks that have become stale dated (over 180 days) will be voided back to the student account. The Financial Aid Office will issue a Direct Payment Voucher (DPV) no later than 240 days after the check issue date to the UDC/OCFO requesting a return of the Title IV funds. Under no circumstances may unclaimed Title IV Federal Student Aid (FSA) funds be escheated to the state, or revert to the University, or any other third party."

Recommendation #6: Establish and document an effective communication and coordination process to ensure unclaimed student refunds are picked up in a timely manner. **Response:** We concur with the recommendations. We met with the Financial Aid office and developed a communication protocol between the responsible Offices, as well as a process to return Title IV related unclaimed student refunds. The policies and procedures manual will be updated to reflect the following results of the meetings: "When Student Refund Checks are returned to the Cashiers Office with an undeliverable mailing address, it will be communicated to the OCFO Student Accounts Office via email. When a refund check is returned to UDC, the OCFO Director of Student Accounts will call and email the student informing them of the returned check and undeliverable address. They will be directed to the Registrar's Office to update their address and also to the Cashier's Office to retrieve the outstanding check. If the student receives their check, the Cashier's Office will contact the Registrar's Office and the OCFO Student Accounts Office via email informing them that the check has been picked up by student. If after 7 business days a check is still outstanding, the OCFO Director of Student Accounts will attempt to contact the student again via phone and by email to inform them of the returned check and undeliverable address. This process will be repeated once again after 14 business days. After 21 business days if the check is still outstanding, the Cashier's Office will notify the OCFO Students Account's Office via email of all checks that were not picked up. The Cashier's Office will forward the

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checks to the UDC/OCFO Accounting Office. The UDC/OCFO Accounting Office will then cancel the check in Banner and remove it from the outstanding check list.

Recommendation #7: Adopt the District's practice related to stale dated checks, to include the 180 days expiration date on student refund checks. **Response:** We concur with the recommendation. Since April 2016, we have been working with the District's Office of Finance and Treasury, to ensure that checks will be stale dated after 180 days.

Recommendation #8: Perform an escheatment for non-Title IV outstanding refund checks greater than 180 days old. **Response:** We concur with the recommendation. Since April 2016, we have been working with the District's Office of Finance and Treasury, to ensure that checks will be stale dated after 180 days. We will also update the policies and procedures manual to reflect the implementation of the policy to stale date checks with the following language: "UDC checks will be issued with a stale date of 180 days. Once the 180 days have been exceeded, the UDC/OCFO will perform an escheatment."

If you have any questions, please contact me at 202-274-6410 or via email at shaina.cooper@udc.edu.

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