

November 2013

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

From the Chief Auditor Officer John M. Fuchko, III

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:

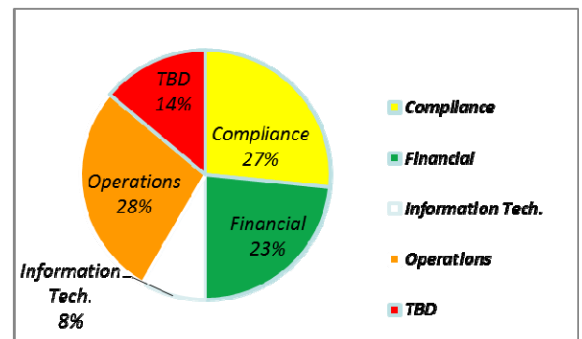
1. Anticipate and help to prevent and to mitigate significant USG GRCC issues.
2. Foster enduring cultural change that results in consistent and quality management of USG operations and GRCC practices.
3. Build and develop the OIAC team.

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Assessing University System of Georgia (USG) Risks —Rolling Audit Plan

University System internal auditors have the responsibility to regularly assess risks facing the University System of Georgia. We utilize a vigorous process which includes reviewing internal audit results, monitoring changes in higher education, reviewing external audit results, and consulting with colleagues and USG leadership about emerging issues that may pose a potential risk. This process helps us to identify focus areas for inclusion in our audit plan. The chart below identifies the focus areas for OIAC engagements this fiscal year.



The annual audit plan was approved by the Board of Regents on May 14, 2013. The audit plan identifies the actual engagements and focus areas for the coming 18 months. An update of the Rolling Audit Plan will be presented to the Audit Committee during the November Board meeting.

What will the OIAC seek to accomplish during this rolling audit plan? We want to ensure the USG institutions are complying with operational and business procedure requirements, that we have strong financial controls in place and that USG institutions are properly administering and managing financial resources. Our plan ensures that we focus audit resources to best address potential risks as follows:

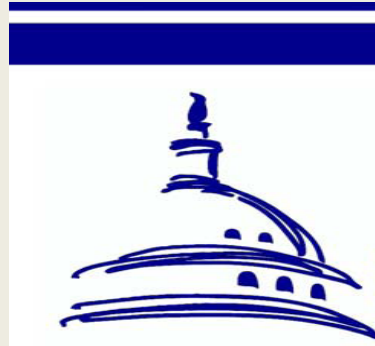
- ◆ Auxiliary Operations & Finances (Athletics)
- ◆ Budget & Financial Management
- ◆ Fiscal Operations: Accounts Receivable, Cash, Inventory
- ◆ Fraud Prevention and Detection
- ◆ Information Technology Security
- ◆ Presidential Transition Audits
- ◆ Public Private Venture Program
- ◆ Student Financial Aid
- ◆ Tuition & Fees

Our goal is to implement an annual audit plan that strengthens our infrastructure and safeguards our resources. In the upcoming months, OIAC staff will be deployed to work with institutional audit directors and staff on these nine issues and other risk areas as they arise.

I look forward to hearing your thoughts. Please feel free to contact me at john.fuchko@usg.edu. 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

Audit Programs — Financial Aid Redux



Federal Student Aid Facts

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.

Continued page 4

USG campus auditors have been asked to conduct a financial aid audit this fiscal year. Several institutions may be in the process of conducting these audits while others may not have had the opportunity to assess the audit plan. Before we begin the audits, we wanted to share a few lessons learned when examining Satisfactory Academic Progress (SAP) qualitative and quantitative procedures and pace standards.

The realm of financial aid is complex. On first blush, financial aid eligibility appears straight forward. But, have you really read the wonderful 1,000+ page Financial Aid Handbook? The Handbook is not just complex, it is also multifaceted and at times the guidance and interpretation of regulation is vague.

Vice Chancellor for Student Affairs Joyce Jones and Chief Audit Officer John Fuchko conducted a financial aid presentation for Board of Regents Academic Affairs Committee members in September 2013. The presentation highlighted the important role FAID plays in funding for the institutions and the complexities involved in administering that aid. Issues discussed included:

- 1) the complexity of the financial aid process, beginning with understanding the congressional legislation, U.S. Department of Education Regulations and then applying the guidelines to enrollment, calculation of SAP and Pace;
- 2) the sheer volume of paperwork required to manage the financial aid process from filing the FAFSA form, to compiling and verifying parental financial information, to validating student residency, and finally, to assessing financial aid by institution counselors to culminate in an award;
- 3) the interdependency between student enrollment and financial aid eligibility; and finally,
- 4) the impact of increasing higher education costs and how those costs are impacting a student's ability to cover educational expenses in light of dwindling Federal financial aid funding.

OIAC staff encountered several nuances of the FAID guidelines critical to accurately conducting institutional financial aid audits. We compiled a summary checklist to assist campus audit staff. The checklist is ever growing and appears at the end of this article.

Financial Aid Redux, Cont'd

Each institution must develop and publish a Satisfactory Academic Progress [SAP] Financial Aid Policy which minimally outlines:

- The Qualitative Standards of Progress – the policy must numerically specify and outline how the qualitative standard is computed. The policy must indicate if the GPA is the standard used. The policy must indicate which courses are included in the calculation of the GPA and that the computation is cumulative.
- The Quantitative Standards of Progress – the policy must numerically specify and outline how the quantitative standard is computed. The policy must indicate the courses included in the computation of the quantitative standard. The policy must indicate the computation is cumulative.
- The Completion Ratio - the policy must outline the required satisfactory completion of coursework towards the degree/certificate a student must achieve in order to remain eligible for financial aid.
- The Appeal Process – the policy must outline the process by which a student may appeal a decision that suspends his/her financial aid eligibility. Institutions are not required to have an appeal process. However, if the policy states an institution has an appeal process, the appeal process must describe how the student may reestablish his or her eligibility to receive assistance, [Title 34: Education § 668.34 Satisfactory academic progress].
- Repayment of Title IV and/or Georgia Hope financial aid funds – the policy must clearly specify the students' responsibility for repaying the institution and/or the Federal Department of Education for financial aid funds received through Title IV and /or Georgia Hope if the student does not remain enrolled and academically active in school through at minimum 60% of the semester. [Return of Funds cites HEA, Section 484B, 34 CFR 668.22; Consumer information cite Section 485(a)(1)(F), 34 CFR 668.43]
 - ◆ Collection process – The refund policy must outline the legal collection process for reclaiming Title IV and/or Georgia Hope funds owed by the student. [Per institution, if applicable]

Reference Reading: Federal Student Aid Handbook, <http://ifap.ed.gov/ifap/>

USG Financial Aid Facts FY2011-2012

USG System Financial Aid Facts

2011-2012 Pell Grant Awards received by USG undergraduate students:

- 33.8% students attending research universities
- 41.2% students attending regional universities
- 47.9% students attending state universities
- 54.3% of students attending state colleges
- 80.4% of students attending two-year college
- Student enrollment totaled 318,027 students; of the 273,494 undergraduate students, approximately 127,147 or 46.50% of the undergraduate students received a PELL Grant award.
- Undergraduate enrollment included 54,493 first time freshmen (FTF); 27,649 or 50.70% received a PELL grant award
- \$526,951,938 in PELL grant awards was received by students attending USG institutions

Source: BOR Research and Policy Analysis Office, 2011-2012

Institution data reflects classification of institutions prior to the August 2013 change in functional sectors.

Financial Aid Redux

GUIDELINES FOR COMPUTING QUALITATIVE AND QUANTITATIVE STANDARDS FOR FINANCIAL AID

Eligibility for Financial aid is assessed based upon achieving SAP in the previous semester/end of payment period.

Current Semester / Aid is Provided	Previous Semester/ Payment Period Ending
Fall 2011	Summer 2011
Spring 2012	Fall 2011
Summer 2012	Spring 2012
Fall 2012	Summer 2012
Spring 2013	Fall 2012

Transfer students are treated as new enrollees because a transfer student should meet the SAP requirement at time of transfer. Coursework credit and course hours transferred are treated as previous semester in the calculation of eligibility for Financial Aid.

A student must achieve BOTH the Qualitative and Quantitative standards to be eligible for financial aid.

Yes

Are QUALITATIVE [GPA] calculations cumulative?

YES

Are QUANTITATIVE [PACE] calculations cumulative?

YES

Are "W" course hours attempted **excluded** from the QUALITATIVE calculation? [GPA]. There are no quality points associated with an official withdrawal. Check impact on R2T4.

YES

Are "WF" course hours attempted included in the QUALITATIVE calculation? [GPA]. WF courses are treated as "F" grades. Check impact on R2T4.

YES

Are "W" course hours attempted included in the QUANTITATIVE calculation? [PACE]. This is the completion ratio.

YES

Are "WF" course hours attempted included in the QUANTITATIVE calculation? [PACE]. This is the completion ratio.

YES

Are Learning support courses included in the QUALITATIVE [GPA] calculation for Financial Aid? Learning support courses must be assessed in the QUALITATIVE decision making process for financial aid. However, those classes do not need to be included in the GPA. The institution must demonstrate how the grades for Learning Support courses were assessed.

Maybe
See Policy

Are Learning support courses included in the QUANTITATIVE calculation for Financial Aid purposes?

YES

When a student changes majors, credits and grades that count toward the new major are included in the calculation of the Quantitative method? [This also varies by institution.]

Yes

Is the determination of maximum hours appropriate for the student's academic program?

Yes

Is the student's eligibility appropriately resetting when they transition from a completed undergraduate program to a graduate program?

Yes

Institutional Effectiveness

Internal Control Assessment ~ Construction Audits

Guest Contributor: Matt Gardner, CICA



This month's institutional effectiveness article focuses on construction audit. This area of expenditure can pose great financial risks and insurance exposure.

In an effort to provide our readers with relevant topical information, we are sharing this article as a potential "tool" for institutions to use. The article provides key points to consider when an institution decides to undertake a new construction project.

Construction Audits

◆ **Construction projects incur risk**

The job of a construction auditor is to mitigate the risks associated with construction projects and to provide assurance that company money is managed appropriately. Construction projects are often a business's greatest single expense, so they naturally incur a great deal of risk.

Billions of dollars are spent each year by organizations on capital expenditures. Investing in capital projects makes an organization vulnerable to construction fraud and unnecessary costs. Lack of resources, lack of sound business processes and lack of oversight by project teams assigned to the project

can hinder the organization's ability to properly safeguard project completion (time issues), costs, quality, safety and environmental sustainability. The consequences of unmanaged risks may result in loss capital, loss of management or committee trust for future expenditures, and potential litigation.

An auditor's involvement in the beginning and throughout the course of a construction project may set a tone of governing oversight, resulting in fewer cost overruns, overcharges, and billing errors. An Auditor may also be useful in helping to negotiate a favorable contract, which translates into a sound budget figure and increased efficiency with fewer disputes as the project develops.

◆ **ROI of construction audits**

Typical construction cost recoveries are one to three percent of the total project cost.

According to an article in Internal Auditor magazine, "cost recoveries from contract audits exceed the entire budget for the internal audit department" for some organizations. Construction audits are not an expense, but are necessary for effective cost management that reduces total project costs.

◆ **General Contractor reputation may be deceiving**

An organization may hire a well known general contractor to execute and monitor the project but may experience negative outcomes.

Unfortunately, hiring well known and seemingly reputable general contractors do not eliminate risk. Even contractors with a good reputation should be held accountable through a construction audit. The landmark case against the well known firm Lend Lease Construction LMB Inc. (formerly Bovis) resulted in restitution of \$56M in construction charges due to fraudulently overbilling clients for more than 10 years.

Construction Audits, cont'd

◆ **Three's a crowd**

The project owner and auditor must stay involved throughout the entire construction process to ensure only appropriate costs are charged.

Collusion between the General Contractor and project owner's representative firm is common. When this relationship is too familiar, the paid representative hired by your company to monitor the project, may not be looking out for your organizations' best interest regarding cost, project quality and/or schedule.

On the other hand, priority differences and a strained relationship between the GC and owner's representative could yield the same negative impact. Miscommunications or disagreements over details such as scheduling may take precedence over cost, and could lead to overruns without the owner's consent.

Fraud is not the only risk

Generally, overcharges or unallowable costs are not due to fraudulent activity. Some mistakes, such as mathematical errors, may be innocent but costly nonetheless. Projects involve a tremendous amount of paperwork, which is often handled outside the organization by project management systems or other forms of project cost tracking software.

Unexpected issues arise with any project and must be handled accordingly. A construction auditor helps recognize whether a change order is legitimate or just a hidden profit center for the contractor. The auditor can help create a contract that anticipates and dissolves potential disputes, but is also there when issues arise to provide sound financial analysis of proposed changes.

◆ **Under budget, overcharged**

The original budget must be a sound document, which requires sound bidding, budget policies, and budget procedures.

Many projects may be under budget while still including erroneous or inappropriate charges. It is easy for a GC to attain a planned expense budget if the original budget amount exceeds the actual project cost. Contractors may neglect details outlined in the scope of work or use materials of lesser quality without issuing the proper credit for reduction in cost. Additionally, establishing aggressive general contractor savings within a contract provides an incentive to come in under budget and share in cost savings with an owner, especially if the savings is not capped by a maximum amount.

◆ **Value in vigilance**

Auditors should not be shy about questioning construction changes or probing for details despite not having all the knowledge to construct a building themselves.

If an auditor suspects materials or a scope of work has been altered or eliminated, the Auditor should travel to the jobsite and verify the change. Construction auditors prevent contractors from cutting corners and sweeping details under the rug by staying involved in every phase of the project lifecycle.

Expensive pitfalls and hidden costs can be rampant in capital expenditures. Construction audits are essential to maximizing the value of an organization's project. While industry experience helps, it is certainly not a requirement. Attention to detail, ability to dissect contracts and willingness to ask questions are some of the most important qualities an internal auditor should possess to effectively manage risks when undertaking a capital expenditure.

*Matt Gardner, CCA, CICA
Honkamp Krueger & Co.*

E-Verification of Contractor Employees—SB160

By Michael J. Foxman, OIAC

? DID YOU KNOW?

AUDIT REPORT FOLLOW-UP PROCEDURE

Board of Regents Business Procedures Manual 16.3.7 discusses Audit Report review and follow-up procedures for all ***significant or material*** audit issues. Each material issue reported as closed and/or resolved by institution management shall be reviewed by the Institutional Chief Auditor (ICA) or the Office of Internal Audit and Compliance (OIAC) ***within sixty (60) days*** of the issue being reported as closed.

Significant issues may be reviewed after being reported as closed but this review is not required. The actions taken to resolve the issues are reviewed and may be tested to ensure that the desired results were achieved. In some cases, managers may choose not to implement an audit recommendation and to accept the risks associated with the audit issue. The follow-up review will note this as an unresolved exception.

The USG Chief Audit Officer shall periodically report the status of audit issues to the BOR Committee on Internal Audit, Risk, and Compliance to include the status of issues not closed in a timely manner. Open or partially resolved State, OIAC and institution audit findings are maintained in the USG Internal Audit function enterprise system. Auditee management, such as the Chief Business Officer (CBO) or the ICA, should update the status of each issue in the USG Internal Audit function enterprise system (TeamMate) on at least a quarterly basis.

During the 2013 Session of the General Assembly, the Legislature passed Senate Bill 160 (SB 160) which made several changes to the previous E-Verify legal and reporting requirements.

Title 13 Report – *Report of Contractors Hired for the Physical Performance of Services* has been required since House Bill 87 was signed into law in 2011. However, SB 160 revised the definition of “physical performance of services,” which increases the number and types of contractors to be included in the report. Effective July 1, 2013, the definition was revised to mean “any performance of labor or services for a public employer using a bidding process or by contract wherein the labor or services exceeds \$2,499.99... (the term excludes contractors who are licensed under Title 26 or 43 or by the State Bar of Georgia). Previously, only public contractors performing construction type services for the state of Georgia were required to use E-Verify. As of July 1, 2013, any public contractor, including every tier of subcontractor, performing any kind of service for the state of Georgia, not just construction type services, must use E-Verify to do business with the state.

What does this mean for your institution? An affidavit must be obtained from contractors (meeting the definition as defined in SB 160) documenting that the contractor is authorized to use and uses E-Verify when hiring employees. A copy of the affidavit is available on the Department of Audits and Accounts (DOAA) website at www.audits.ga.gov/NALGAD/IllegalImmigrationReformandEnforcementAct.html.

If you hire a contractor with no employees, a copy of the contractor’s driver’s license or state issued ID card must be obtained as well as verification that the license was issued in a state that verifies lawful immigration. There is no affidavit required. However, these contractors still have to be included in the Title 13 report and listed as “exempt”.

E-Verification of Contractor Employees—SB160, Cont'd

Please note that since SB 160 did not go into effect until July 1, 2013, the report submitted in December 2013 should include a listing of:

All contractors hired for public works related projects (renovations, maintenance, improvements, etc. – based on HB 87 definition of “physical performance of service”) for all contracts executed from December 1, 2012 – June 30, 2013.

All contractors hired for the “physical performance of services” (as defined in SB 160) from July 1, 2013 – November 30, 2013.

Summary of Title 13 – Reporting – Key Points

Effective July 1, 2013, the definition was revised – Institutions will need to obtain affidavits from a significantly larger number of vendors than in previous years, based on the new definition.

Affidavits are obtained from any employer with one or more employees.

The affidavit is available on the DOAA website.

If you hire a contractor that is self-employed and has no employees, you must obtain a copy of their driver’s license or state-issued ID card.

For the Title 13 report, the institution must list all contracts that meet the definition of “physical performance of services.”

Finally, please keep in mind that all reports are due to the Department of Audits and Accounts by December 31. Reporting is an annual event. DOAA will not accept submissions by mail, fax, or e-mail. All institutions are required to upload a comma delimited field or text file into the system or enter the date directly into the system on the DOAA web site.

DOAA is creating a video to summarize the various reporting requirements and provide a demonstration of the collection system. The video will be available by November 15, 2013 and can be accessed at www.audits.ga.gov. Questions may be submitted at ImmHelp@audits.ga.gov.

*Michael Foxman
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Trivia Question? *Who were: Victor Z. Brink and Lawrence B. Sawyer?*

Victor Z. Brink and Lawrence B. Sawyer were 20th century pioneer figures in the internal auditing profession. Victor Z. Brink served as The IIA’s first research director. He was instrumental in getting The IIA’s Statement of Responsibilities of the Internal Auditor issued in 1947.

Lawrence Sawyer was chairman of the Research Committee who subsequently revised the Statement of Responsibilities in 1971. The Statement of Responsibilities of the Internal Auditor clarified that while internal auditing primarily dealt with accounting and financial matters, operating issues were also within auditing scope of activities.

Reference Reading

Writing Aids

- ◆ Writing High-Impact Reports: Proven Practices for Auditors and Accountants [Spiral-bound] by Angela J. Maniak, 2005
- ◆ Blue Book of Grammar and Punctuation, by Jane Strause, 2013
Www. GrammerBook.com, Jane Strause [On-line & Blog]

Professional Aids

- ◆ Thriving in Uncertainty, Creating the Risk Intelligent Enterprise, By Frederick Funston & Stephen Wagner, 2010



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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.

Contact Us: USG-OIACNewsletter@usg.edu