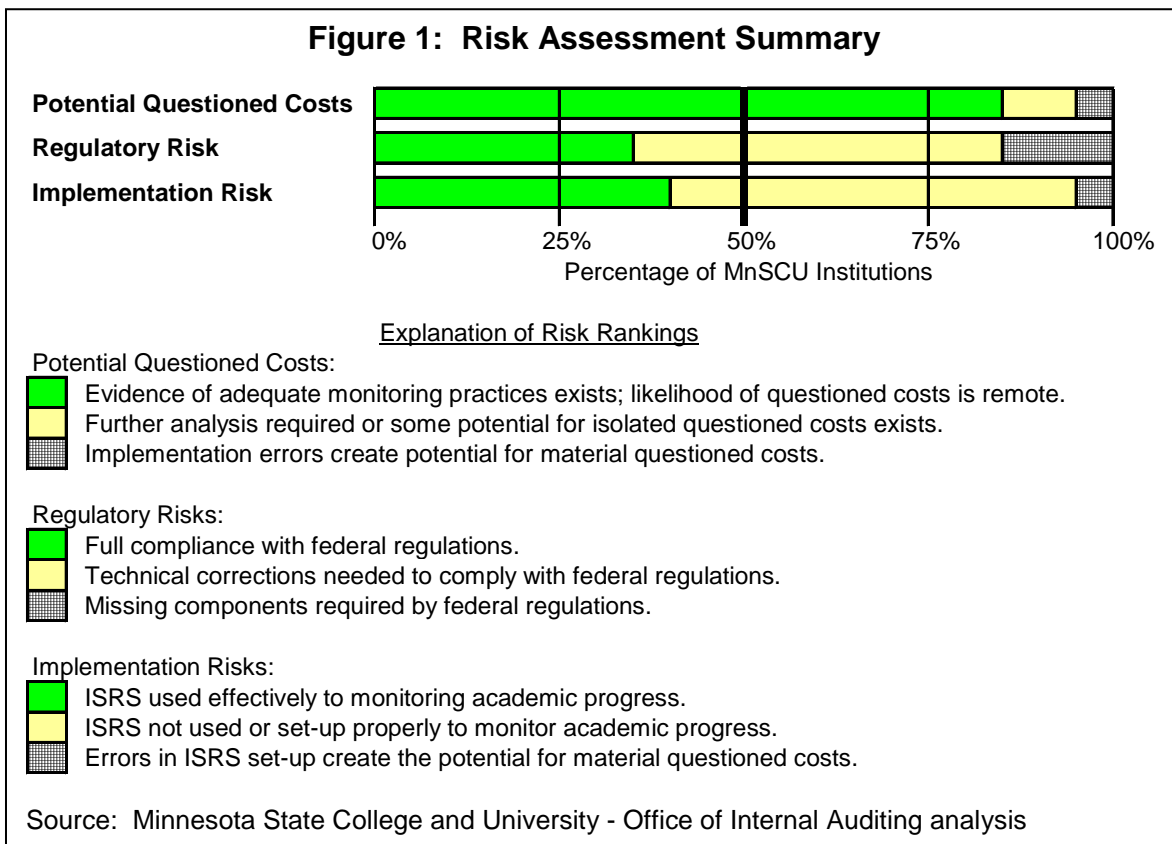


**Minnesota State Colleges and Universities
Office of Internal Auditing
October 2003**

Monitoring Satisfactory Academic Progress for Financial Aid Recipients

EXECUTIVE SUMMARY:

Due to a significant financial aid problem at Metropolitan State University, Chancellor McCormick requested that the Office of Internal Auditing conduct a risk assessment for similar problems occurring at other institutions in the system. Figure 1 shows a summary of the final results of this risk assessment. Most importantly, the assessment shows that there is a remote likelihood of potential questioned costs at 85% of the institutions. Only Metropolitan State and Minnesota State University, Mankato face the potential for material questioned costs in fiscal year 2003. Four two-year institutions may face some exposure to questioned costs, but the amounts are likely minimal.



The risk assessment also revealed additional issues regarding compliance with federal regulations and implementation of the ISRS system that must be addressed by the Office of the Chancellor and system colleges and universities. Furthermore, Internal Auditing recommends that existing Board Policy 2.9 be reevaluated to consider whether its provisions should be revised.

BACKGROUND

In July 2003, The U.S. Department of Education determined that Metropolitan State University distributed financial aid over a three-year period to some students who were ineligible to receive it. The department required the university to repay over \$1 million in ineligible financial aid disbursements and administrative assessments. The majority of the ineligible financial aid disbursements had been made to students who had failed to make satisfactory academic progress.

As a result of the U.S. Department of Education's program review, Chancellor McCormick asked the Office of Internal Auditing to assess the risk of similar problems occurring at other Minnesota State College and University institutions.

In order to participate in both federal and state student financial aid programs, colleges and universities are required to establish, publish and apply reasonable standards to measure whether a student is maintaining satisfactory academic progress in his or her educational program. Table 1 summarizes the requirements within the federal regulations.

The Minnesota Higher Education Services Office (HESO) is responsible for administering state student financial aid programs. HESO requires colleges and universities administering state programs to follow federal regulations related to satisfactory academic progress as well as Minnesota Statute 136A.101 subdivision 10.

Board policy 2.9 reiterates much of what is contained in the federal regulations. It also requires the Office of the Chancellor to review policies annually. In addition, the policy requires colleges and universities of similar types to develop policies that are uniform in format and language.

Table 1
Summary of Federal Regulations related to Satisfactory Academic Progress

The U.S. Department of Education considers an institution's policy for measuring student academic progress to be reasonable if the policy:

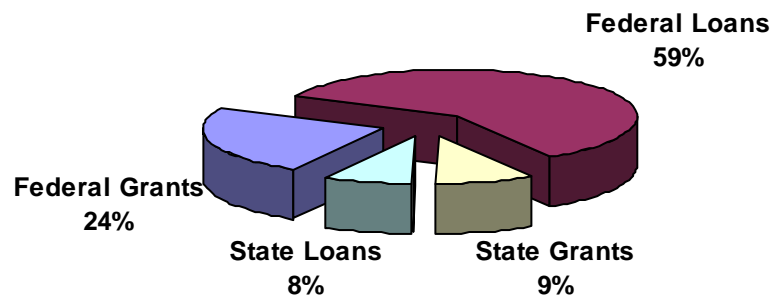
1. Is as strict or stricter than standards for a student enrolled in the same program who is not receiving aid.
2. Includes a qualitative component (usually measured by a grade point average).
3. Includes a quantitative component that consists of a maximum timeframe. The timeframe must:
 - Be no longer than 150 percent of the published length of the program.
 - Be divided into increments, not to exceed the lesser of one academic year or one-half the published length of the educational program.
 - Include a minimum percentage of work that a student must complete at the end of each increment.
 - Include specific policies defining the effect of course incompletes, withdrawals, repetitions, and noncredit remedial courses.
4. Provides for consistent application of standards to all students.
5. Provides for specific procedures under which a student may appeal a determination that progress was not satisfactory.
6. Provides specific procedures for a student to re-establish that maintaining satisfactory academic progress is being maintained.

Source: Summary of 34 Code of Federal Regulations Section 668.16(e)

The Minnesota State College and University System disbursed \$447 million in state and federal grant and loan payments to approximately 89,500 students in award year 2003¹. Figure 2 documents a breakdown of the aid disbursed.

¹ The total aid disbursed includes the following aid types: Pell Grant, Supplemental Educational Opportunity Grant (SEOG), Perkins Loan, Federal Direct Loans, Federal Family Educational Loans, Minnesota State Grant and the Minnesota Student Educational Loan Fund (SELF) Loan.

Figure 2
Percentage of Award Year 2003 Student Financial Aid Disbursements by Aid Type



Source: Analysis of Award Year 2003 \$447 million in financial aid disbursements.

OBJECTIVES

Our review focused on the following objectives related to satisfactory academic progress.

- Determine whether college and university financial aid satisfactory academic progress policies complied with federal regulations.
- Determine what practices were in place for monitoring satisfactory academic progress. Specifically, focus on implementation of Integrated Student Records System (ISRS) functionality.
- Assess the sufficiency of evidence that academic monitoring practices were in place and resulted in the suspension of financial aid privileges when warranted under the institution's policies.

SCOPE and METHODOLOGY

We evaluated each college and universities process for monitoring financial aid recipient satisfactory academic progress by:

1. Obtaining a copy of the institution's financial aid satisfactory academic progress policy. In addition, we determined whether the institution's policy was the same as its academic satisfactory progress policy.
2. Determining who has primary responsibility for monitoring academic progress for financial aid recipients.
3. Evaluating the criteria setup for monitoring academic progress using the ISRS process.
4. Analyzing academic progress hold activity within the ISRS database. Academic progress holds, including suspensions, may be automatically or manually placed on student records within ISRS. When placed, these holds may prevent students from registering and/or receiving financial aid disbursements.
5. Verifying the results of our review with each institution.

In addition, we talked with Information Technology Service (ITS) division employees to gain an understanding of the ISRS functionality for monitoring academic progress.

CONCLUSIONS

Potential Questioned Costs

Overall, we saw evidence that the majority of the system's colleges and universities do have effective procedures in place to ensure that student's receiving federal and state financial aid disbursements are being monitored, using the provisions within the institution's financial aid satisfactory academic progress policy, to ensure compliance with satisfactory academic progress provisions. However, our analysis did find a few institutions that may have made some questionable payments to students who were not maintaining satisfactory academic progress at the time of aid disbursement. Below is a summary of the issues that we found:

- Minnesota State University, Mankato found a significant flaw in its implementation and understanding of ISRS. The financial impact to this flaw is still being analyzed but projected to be significant. The circumstances at MSU, Mankato, though, are very different from the problems experienced by Metropolitan State University. MSU Mankato was actively monitoring academic progress as required by federal regulations, but had an error in its automated monitoring process.

Under both federal and state regulations an institution is required to ensure students are progressing toward completion of a degree within a maximum timeframe broken into increments. The university's financial aid satisfactory academic progress policy required students to complete a minimum of 67 percent of cumulative attempted

credits after each semester. The MSU Mankato policy complied with federal regulations and defined attempted credits as all credits a student is registered for, including withdrawn, repeated and incomplete courses. Its set-up on the ISRS satisfactory academic progress program, however, mistakenly excluded withdrawn and repeated courses from the calculation of attempted credits.

- Metropolitan State University is still in the process of reviewing student financial aid files for potential overpayments during fiscal year 2003. The university previously reviewed student files for fiscal year 2000 to 2002 and resolved any overpayments with the federal government. The fiscal year 2003 review has been narrowed to financial aid awarded to about 150 students. Based on past experience, though, it is anticipated that a portion of those students will be determined eligible for the aid they received. Accordingly, sufficient information is not currently available to estimate any further liability that the university may owe.
- Four two-year colleges may have made questionable financial aid payments to students due to insufficient processes for monitoring academic progress.
 - One of these colleges may have incorrectly paid students approximately \$46,000 during fiscal year 2003 due to students registering for courses prior to a suspension hold being added to their account.
 - A complete data analysis was completed on one consolidated college. This analysis showed that the majority of the students were monitored accurately within the provisions of the college's policy. However, there was approximately \$150,000 in financial aid that may have been paid to ineligible students. The college is still completing research on these students.
 - Two technical colleges had not implemented the ISRS automated process for monitoring progress. Due to their manual processes we were unable to find sufficient evidence of suspension hold activity. We plan to complete further analysis to ensure compliance with policies.

College and University Satisfactory Academic Progress Policies

Financial aid satisfactory academic policies and practices vary significantly across the system. Federal regulations do allow for flexibility within financial aid satisfactory academic progress policies. However, we did note some institutions that did have policies that were not in compliance with the federal regulations. The most significant issues were:

- One consolidated college policy did not contain a provision for reinstatement of financial aid after a student is suspended.
- Two technical college policies did not include a maximum timeframe provision.

- Two community colleges allow students to receive financial aid during a summer term following a spring term where students became ineligible to receive aid based on failure to meet the college's satisfactory academic progress provisions.
- One state university evaluates student performance on an academic year basis rather than a cumulative basis.

We also noted that 19 colleges and universities were missing one or more required elements as defined in the federal regulations. The missing elements included not defining the effects of course incompletes, withdrawals, repetitions, and noncredit remedial courses.

Finally, our assessment found that six colleges and universities had policies that were confusing or difficult to understand. This was the result of poorly written policies or where required provisions were not found in one comprehensive policy, rather the provisions were found in multiple policies.

Monitoring Academic Progress

The Integrated Student Record System (ISRS) used by each college and university contains functionality to automate the process of monitoring academic progress for both academic and financial aid purposes. The functionality places academic progress holds on individual student accounts when a student is not making progress based on the parameters setup by an individual institution. Due to variances in college and university policies, this automation is dependent on college and university employees understanding the complexity of setting up the parameters correctly within ISRS. In addition, employees need to understand how to correctly use the automated process to ensure holds are placed correctly on individual student records.

We noted several issues related to the implementation of the automated ISRS process for monitoring academic progress. These included:

- Ten colleges and one university are not using the automated process within ISRS to monitor academic progress. These institutions have either developed queries using ISRS data or have employees manually review student transcripts to ensure students are eligible to receive aid. When warranted, employees manually enter probation and/or suspension holds on student records within ISRS.

Many financial aid directors commented on the complexity of the system and their lack of confidence and/or understanding of the automated process as reasons that the ISRS process was not being used.

- One university does not use the ISRS process to place suspension holds for students who are not maintaining a satisfactory grade point average. The university relies on a

manual process of reviewing student records to determine whether a suspension hold should be placed on a student's record. The university does use the ISRS process for placing suspension holds for percentage of completion concerns.

- Several colleges and universities are not using the ISRS academic progress process to monitor the required maximum timeframe provision. Federal regulations require that students complete their educational program within 150 percent of the published length of the program in order to receive financial aid. Our analysis found that most of these institutions were either relying on an edit within the financial aid module or completing a manual process to ensure compliance with this provision.
- We noted that many colleges and universities were incorrectly using the appeal functionality within ISRS. The functionality allows institutions to track student suspension appeals from receipt to approval or denial. The appeal functionality is robust and therefore is complicated to understand. Many of the financial aid directors we spoke with did not understand or were unfamiliar with all of the appeal features.
- Five colleges did not setup a provision with their financial aid academic progress policy correctly within ISRS.
- Five colleges and one university either did not set up any effects or did not set up financial aid effects within ISRS for academic progress suspension holds. Holds do not automatically prevent anything within ISRS until an institution defines what the effect of a hold should be. For example, if a student has a suspension hold, an institution must define whether that hold should prevent a student from being able to register for courses and/or whether the hold should prevent a student from receiving financial aid disbursements. By not setting up effects, institutions must rely on manual workarounds to ensure suspended students do not receive financial aid disbursements.
- One technical college is not using the ISRS financial aid module for packaging and awarding student financial aid. This college uses a stand-alone purchased software package called SARA. Awards are interfaced from SARA to ISRS for disbursement to students. By not using the integrated ISRS financial aid module, the college must use a manual work around to prevent students who have a suspension hold on their account in ISRS from receiving student financial aid.
- We found varying practices at institutions on who was responsible for monitoring academic progress for financial aid recipients. In most cases it was the responsibility of either the financial aid director, registrar or a combination of both. Federal and state regulations do not specify who should monitor academic progress for financial aid recipients. However, it is important that the responsibility is clearly assigned, and that whoever has the responsibility is familiar with financial aid regulations and implications.

Finally, we noted several system-wide technical issues related to the automated process for monitoring academic progress using ISRS. The specific technical issues have been given to the System chief information officer.

Policy Matters for Board Consideration

Existing Board Policy 2.9 primarily recites federal regulations for monitoring academic progress for financial aid recipients. Federal regulations provide institutions with significant discretion on the rigor of their academic progress monitoring practices. As a result, System colleges and universities have adopted widely varying institutional policies. Some institutions have very rigorous policies that monitor academic progress frequently and intervene immediately to suspend financial aid privileges when a student falls below academic performance standards. Other institutions have very lenient policies that may permit students to struggle academically for three or more consecutive academic terms before intervening to suspend financial aid privileges. Institutions also have broad authority to override financial aid suspensions based on student appeals. As mentioned above, these variances are allowable under the federal regulations. System institutions have developed these policies presumably to provide the best possible service to their students.

The Board of Trustees may wish to consider the reasons for differing financial aid policies for monitoring academic progress among the colleges and universities, and to what degree such variations should be permitted. Institutional policies currently vary considerably in the following areas:

- **Frequency of monitoring.** Some institutions monitor academic progress at the end of each academic term. Other institutions monitor it only once per year, which is the minimum requirement contained in federal regulations.
- **Inclusiveness of monitoring.** Some institutions delay monitoring academic progress until a student has completed a prescribed number of credits, often 12 credits, and/or do not monitor progress after the summer term. The combination of those practices allows students to attend two or more academic terms before initiating any monitoring of academic progress. Institutions with the most rigorous practices begin monitoring academic progress as soon as the student enrolls in their first course.
- **Immediacy of suspensions.** Once a student has been flagged for academic difficulties, some institutions suspend the student immediately. Other institutions place the student on probation, but allow the student to continue receiving financial aid contingent on improved academic performance.
- **Financial aid reinstatement procedures.** Students who have encountered previous academic difficulties face varying barriers to later return to their academic pursuits. Some institutions prohibit students from receiving financial aid

for one academic term immediately following a suspension. One institution has a special “bridge” program that allows students to retain financial aid eligibility if they comply with the program requirements and improve their academic performance. All institutions have processes for removing financial aid suspensions based on appeals from students. The rigor of the appeal processes varies widely.

- **Handling of transfer credits.** Credits previously earned at other institutions are handled very differently among System institutions. Some institutions include transfer credits in both their qualitative and quantitative analyses. Other institutions disregard transfer credits from either or both of these analyses. Furthermore, current implementation of federal data practices law does not permit System institutions to access academic records of students who attended other System institutions. The law does allow System institutions to provide access once a student informs us they attended another institution.
- **Consistency between financial aid and academic monitoring policies.** At some System institutions, students who receive financial aid are subject to more stringent academic monitoring than students who do not receive financial aid. At other institutions, all students are subject to the same academic monitoring standards.
- **Treatment of students who withdraw or drop-out completely for a term.** Institutions may be liable to return financial aid funds to the federal government for students who withdraw or drop-out completely for an academic term after the drop/add period has expired. The amount of funds returned to the federal government depends on the point during the term that the student ceases attending classes. Nonetheless, students who act in this manner create a financial burden for the institution. The institution is required to repay the federal government and may seek recovery from the student if possible. As a result of this financial burden, a policy consideration is whether these students should be suspended immediately and be required to file an appeal to regain financial aid eligibility. In addition, most financial aid offices have great difficulty determining when a student stops attending classes. A few institutions have begun requiring faculty to keep attendance early in the academic term and report students who have not been attending, but most institutions have not taken that action.

More rigorous monitoring policies allow for earlier intervention to offer support for students who may be encountering academic difficulties, but they also require a greater investment in academic support services such as academic advisors and tutors. The trade-offs between the costs and benefits must be part of the debate over the rigor of monitoring academic progress. Also, the movement toward seamless enrollment practices raises a question as to whether greater uniformity among financial aid eligibility policies may be merited, or whether there are varying needs among students served by the institutions that justify retaining different practices.

RECOMMENDATIONS

1. Colleges and universities should immediately take the steps necessary to ensure that institutional financial aid policies comply with federal regulations, correct ISRS set-up errors, and resolve any potential questioned costs with state and federal financial aid authorities.
2. The Chancellor should create a cross-functional task force to reevaluate existing Board Policy 2.9 and make recommendations to the Board on whether to establish greater uniformity in institutional policies for defining and monitoring satisfactory academic progress. The Chancellor should develop any Chancellor procedures that are needed.
3. The Information Technology Services (ITS) Division should review the ISRS programs and modules related to monitoring academic progress and implement any changes necessary to facilitate system-wide use.
4. Academic & Student Affairs, in conjunction with ITS, should develop training and awareness programs to ensure that institutions monitor academic progress properly.
5. Following completion of recommendations 3 and 4, the Office of the Chancellor should require System colleges and universities to use the ISRS system for monitoring academic progress.

Internal Auditing will follow-up on the status of corrective actions periodically and report progress toward implementation to the Chancellor.

SUBSEQUENT EVENT

On October 10, 2003, the U.S. Department of Education requested information from all System colleges and universities about “current and past practices regarding withdrawn students and monitoring Satisfactory Academic Progress.” The department attributed this request to the problems experienced by Metropolitan State University. It plans to “evaluate this information in an effort to determine if the issues at Metropolitan are indicative of systemic problems throughout the MnSCU system.” Although this risk assessment revealed issues that need to be addressed, it found that the extreme problems experienced by Metropolitan State University were unique and not shared by other System colleges and universities. Nonetheless, we will continue to work cooperatively with the department to resolve any concerns that it may have and to rebuild its confidence in the financial aid practices of System colleges and universities.