

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: March 21, 2007

Agenda Item: Review of Backdated Drop Transactions.

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

A review of compliance with Board Policy 5.12, Part 2, Subpart C regarding waivers of tuition and fees.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

- Backdated drop transactions have been used by colleges and universities to drop course registrations and the associated revenue for a variety of reasons after the official “drop date”. The use of a backdated drop is considered a high risk transaction since the transaction can be executed by one individual and can alter transcripts, financial aid eligibility, and amounts owed to the college or university.
- Guidance and system changes are needed for granting security clearances to initiate transactions that cancel tuition and fee obligations and to ensure that an adequate separation of duties is carried out between the business office, registrar, and financial aid office.

Background Information:

- Internal Auditing provided a risk assessment of tuition waivers and backdated drop transactions to the Audit Committee in December 2006. The committee asked for more analysis of backdated drop transactions and an update on the topic to be delivered in March 2007.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD INFORMATION

REVIEW OF THE BACKDATED DROP TRANSACTIONS

Background

The Office of the Legislative Auditor has characterized the use of “backdated drop” transactions as high risk. The MnSCU Audit Committee asked Internal Auditing to provide it with more information on this issue. Following a preliminary report to the Audit Committee in December 2006, the Audit Committee asked Internal Auditing to seek additional input from colleges and universities. Internal Auditing has worked with the Finance Division and colleges and universities to gather information regarding reasons for using “backdated drop” transactions. Several institutions have offered insights and suggestions that have been incorporated into this analysis.

Backdated drop transactions are considered to be high risk since the process allows one person to cancel a course registration, clear a receivable, possibly force a recalculation of the student’s financial aid eligibility, and potentially improve a student’s academic standing rather than using individual procedures in place for each of those actions. Responsibilities for collecting receivables, determining financial aid awards, and monitoring academic progress are assigned to different offices at most institutions. However, when a backdated drop is used, the course disappears from the student’s transcript and the tuition and fees are reduced by a corresponding amount on the student’s account. The transaction may affect the student’s financial aid eligibility. It also may improve a student’s academic standing. For example, removal of a course for which a student had failed or withdrawn will result in improvement of a student’s grade point average and/or percent of course completion. The backdated drop transaction circumvents the normal separation of duties unless an institution creates a manual process to provide for independent reviews by the registrar, business office, and financial aid office.

The “backdated drop” transaction has a different effect than a “tuition waiver” transaction. A waiver eliminates the receivable only, but retains the course registration. The waiver transaction, though, requires institutions to calculate the tuition and fee amount manually. Whereas the “backdated drop” transaction automatically recalculates the adjusted net tuition and fee amount through the Integrated Student Record System “ISRS” accounts receivable module. Thus, institutions may prefer using a “backdated drop” because of its administrative ease.

Additional analysis of backdated drop transactions since December 2006 shows that the initial calculation of potential revenue loss by backdated drops which was presented to the Board of Trustees was overstated. This in part was due to the complexity of both the ISRS system and the variety of transactions for which the “backdated drop” process is used. Because of that

complexity, graphs and charts depicting the transactions involved have not been produced as part of this report.

How Backdated Drops are Used

Colleges and universities identified several primary reasons for using the “backdated drop” transactions:

1. **Delayed drops for non-payment.** Beginning with the fall 2006 term, Board Policy 5.12, Part 2, Subpart A, required that “colleges and universities shall drop all classes for students who have not paid in full, do not have a financial aid deferment, or have not established a payment plan.” Generally, institutions execute drops for non-payment before the end of the official drop/add period. Under certain circumstances, drop transactions are delayed until later in the term. One common cause for the delayed non-payment drop is for students who file financial aid applications but end up not completing the financial aid award process. The current automated process does not drop students for non-payment if the student has a pending financial aid application. Another cause for delayed non-payment drops is irregular course schedules, such as late starting courses or short courses that do not fit the traditional term-based academic calendar.

System Procedure 5.12.3 provides requirements for colleges and universities to use in determining whether students have made acceptable arrangements for their obligations to be considered “paid in full” (“paid in full” may mean financial aid awards and payment plans resulting in future payment). The procedure does not provide conditions under which a prior determination that a student has “paid in full” shall be considered negated. One example occurs when a student receives a deferment due to a pending financial aid application and is later determined ineligible for the aid. Potentially the procedure or additional guidance could be developed to achieve greater clarity and consistency in practice.

2. **Drops for non-attendance.** The requirement for dropping courses for non-payment discussed above applies whether or not students actually attend their courses. In some instances, however, a student who has paid their tuition fails to attend the classes for which they have registered (termed as “unofficial withdrawal” or “no show”). These instances present a problem if the student’s tuition and fees were paid with financial aid proceeds. Federal financial aid regulations may require institutions to recalculate financial aid awards based on course non-attendance or repay aid if students officially or unofficially withdraw from all courses. Some institutions have used the backdated drop transaction as a method for recording “unofficial withdrawals” and forcing a recalculation of financial aid. Although it is an expeditious solution to this problem, it introduces problems with tracking receivables and monitoring academic progress. To be construed as in compliance with Board Policy 5.12, non-attendance, in essence, would need to be interpreted as creating a non-payment condition that justifies cancelling the student’s class registrations. However, some institutional policies make it clear that students remain obligated to pay for classes even if they fail to attend them, unless the student drops the classes before the official drop/add period. In those cases, it would be

inappropriate to use a backdated drop because it may effectively allow the students to withdraw unofficially, and not in accordance with board policy.

Also, it is challenging for colleges and universities to determine “unofficial” withdrawals because students may just walk away without providing any notice. Most MnSCU colleges and universities do not have a policy on documenting class attendance. Some institutions have established policies that request faculty members to identify students who fail to attend their classes so administrative withdrawals may be processed for these students. A task force appointed by the Office of the Chancellor has developed a process that will allow institutions to implement improved procedures for tracking students who unofficially withdraw.

- 3. College error.** Board Policy 5.12, Part 2, Subpart E authorizes presidents to waive amounts due to the college resulting from college error. The policy stipulates that “colleges and universities shall, in consultation with students, develop guidelines to implement this policy.” Unlike the provisions for non-payment, the waiver provisions address only the business side of the transaction, and not the course registration. For the most part, though, board policies do not address authority for managing course registrations (the only exception being drops for non-payment). For example, Board Policy 3.29 on transcripts addresses the format of the transcript, but not criteria for whether a course withdrawal should be listed. College and university registrars make course registration decisions based on individual institutional policies and practices.
- 4. Course exchanges.** Board Policy 5.12, Part 2, Subpart C authorizes that, “If a student is obligated for a dropped class, the student may petition the college or university to apply the amount of the tuition and/or fees for the dropped class to the cost of an added class for the current term.” This provision implies that there are circumstances when students will be allowed to drop classes after the official drop/add period (thus removing the obligation). It does not address, though, whether a record of the dropped class (perhaps with a grade of “W”) should be retained for transcript purposes. MnSCU colleges and universities typically use “backdated drop” transactions to record such course exchanges, thus, eliminating the dropped course from the student’s academic record and replacing it with the new course. It is uncertain whether all colleges and universities require students to “petition” for course exchanges as required by the policy, but some institutions have prescribed policies and processes. For example, MSU Mankato has a “Credit Hour Exchange Policy” that allows certain routine circumstances for course exchanges, e.g. swapping course sections, but requires a formal appeal for other course changes.
- 5. Approved Appeals or Petitions.** In addition to college errors, Board Policy 5.12, Part 2, Subpart E authorizes presidents to approve waivers for reasons associated with specific students, such as medical reasons or significant personal circumstances. As discussed previously, MnSCU colleges and universities may use the “backdated drop” transaction for these reasons to eliminate both the course from the student’s academic record and the course obligation. Many colleges and universities, but not all, have a formal appeal process for students to use under these circumstances. Board policy does not address whether or not a formal appeal process is needed.

Other Policy Implications

The previous section cited some of the policy considerations associated with “backdated drop” transactions. Additional policy implications include:

- **Satisfactory Academic Progress.** Backdated drops complicate and may imperil the ability to monitor satisfactory academic progress as required by Board Policy 2.9. As mentioned, the “backdated drop” transaction results in a course being eliminated from a student’s academic record. As a result, the student is no longer accountable for not completing a course that had been attempted. Arguably, the course should be shown on the student’s transcript with a grade of either “W” or “F” to provide a complete record of courses attempted.
- **Missed Learning Opportunities and Lost Revenue.** Students who register for a course effectively claim a scarce resource – a seat in a class. Their registration may deny another student the opportunity to register for the course. Thus, if that student’s registration is later cancelled through a “backdated drop”, it may result in missed learning opportunities and lost revenue.

Process Improvements

Colleges and universities also suggested some process improvements that could be enacted through procedures or guidelines:

- **Improve security clearances.** Currently about 1,000 employees have clearance to execute “backdated drop” transactions. Most employees do not need such authority, but it is imbedded in security groups that include other tasks that the employees need to perform their jobs. To solve this problem, a new security group would have to be created that could be confined to employees needing authority for backdated drop transactions.
- **Add more reason codes to ISRS.** Currently the “actual” reason code is too broad of a category. It has been suggested that other reason codes, such as “college error” and “approved appeal” be added.
- **Review ISRS functionality for irregular course schedules.** Some college and university representatives were unclear in how to use ISRS functionality for courses with irregular schedules. Enhancements to ISRS functionality or additional documentation and training are needed to ensure that staff code these courses accurately.
- **Require an approval process.** Require an approval process that includes sign-offs by the registrar, business office, and financial aid office for any “backdated drops”. Alternatively, institutions could include representatives from these offices on an appeals committee that would have to approve any drops after the official drop/add period.
- **Automate the process for calculating waiver amounts.** The current process is manual for waivers, but automated for “backdated drops”.
- **Improve reporting and monitoring for “backdated drop” transactions.** An ISRS report showing details on “backdated drop” activity may be run on request at each institution.

The report is difficult to use and interpret. In addition, there is no expectation that it be used to monitor activity.

Recommendation

Based on this analysis, it does not appear necessary to amend board policies for issues related to tuition waivers and backdated drops; additional consideration should be given to whether any of the recommended changes should be addressed in System Procedure. Administrative improvements, however, are needed to tighten controls to limit security clearances for initiating these transactions and to ensure that an adequate separation of duties exists between the business office, registrar, and financial aid office. Internal Auditing will work with representatives from MnSCU Finance, Information Technology, Academic and Student Affairs, and the Office of General Counsel to pursue administrative solutions to these risks and to determine whether any changes to System Procedures are warranted.

Date Presented to the Board of Trustee: March 21, 2007