

SHEPHERD COLLEGE
SHEPHERDSTOWN, WEST VIRGINIA

REPORT OF AUDIT
PELL GRANT PROGRAM
SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM
COLLEGE WORK-STUDY PROGRAM
NATIONAL DIRECT STUDENT LOAN PROGRAM
GUARANTEED STUDENT LOAN PROGRAM

U.S. DEPARTMENT OF EDUCATION
ENTITY NUMBER: 1-55-6000-799-A1

FOR THE PERIOD
JULY 1, 1983 - JUNE 30, 1985

LEGISLATIVE AUDITOR'S OFFICE
STATE OF WEST VIRGINIA

TABLE OF CONTENTS

<u>Part I - Introduction</u>	1
<u>Part II - Highlights of Audit Results</u>	3
<u>Part III - Auditors' Report on Statement of Changes in Student Financial Assistance Programs Fund Balances</u>	4
Exhibit A - Statement of Changes in Student Financial Assistance Programs Fund Balances	6
Notes to Statement of Changes in Student Financial Assistance Programs Fund Balances	8
<u>Part IV - Auditors' Report on Internal Accounting Control</u>	10
<u>Part V - Auditors' Report on Compliance</u>	12
Findings and Recommendations:	
Incorrect National Direct Student Loan Program FISAPS	14
National Direct Student Loan Program Receivables Not Supported by the Detail	14
Excessive Administrative Cost Taken	15
Apparent Excess Cash	15
<u>Part VI - Auditors' Comments on Audit Resolution Matters Relating to the Student Financial Assistance Programs</u>	17
<u>Supplemental Information</u>	
Schedule 1 - Schedule of Disbursements and Expenditures for Each Student Financial Assistance Program	20
Schedule 2 - Statement of Changes in Student Financial Assistance Programs Fund Balances for the Year Ended June 30, 1985	21
Schedule 3 - Statement of Changes in Student Financial Assistance Programs Fund Balances for the Year Ended June 30, 1984	23
Schedule 4 - Balance Sheet as of June 30, 1985 for Pell Grant Program	25
Schedule 5 - Balance Sheet as of June 30, 1985 for Supplemental Educational Opportunity Grant Program	26
Schedule 6 - Balance Sheet as of June 30, 1985 for College Work-Study Program	27

Schedule 7 - Balance Sheet as of June 30, 1985 for National Direct Student Loan Program	28
Schedule 8 - Analysis of Student Loans Receivable	29
Schedule 9 - Statement of Changes in Non-Capital and Capital Fund Balance	30
Schedule 10 - Computation of Default Rate as of June 30, 1985	31
<u>Certificate of Legislative Auditor</u>	32

West Virginia



LEGISLATIVE AUDITOR

CHARLESTON

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

In compliance with your instructions and the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the Pell Grant, Supplemental Educational Opportunity Grant, College Work-Study, National Direct Student Loan and the Guaranteed Student Loan Programs at Shepherd College.

Our examination covers the period July 1, 1983 through June 30, 1985. The results of the examination are set forth on the following pages of this report.

Respectfully submitted,

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

TLS/dws

Shepherd College
Shepherdstown, West Virginia

Report of Audit
Pell Grant Program
Supplemental Educational Opportunity Grant Program
College Work-Study Program
National Direct Student Loan Program
Guaranteed Student Loan Program

U.S. Department of Education
Entity Number: 1-55-6000-799-A1

For the Period July 1, 1983 - June 30, 1985

Part I - Introduction

Background

Shepherd College is an institution of higher education and was last approved on December 1, 1981 by the U.S. Department of Education for participation in the Student Financial Assistance Programs. Our examination of the Pell Grant Program, Supplemental Educational Opportunity Grant Program, College Work-Study Program, National Direct Student Loan Program and the Guaranteed Student Loan Program for the two-year period ended June 30, 1985 was directed toward the objectives set forth in the U.S. Department of Education's March 1984 Audit Guide for Student Financial Assistance Programs (Guide).

Pell Grant Program (PGP)

The PGP (formerly Basic Educational Opportunity Grant Program) was established under Title IV, Part A-1 of the Higher Education Act of 1965 (P.L. 89-329), as amended. The College began participating in the PGP on July 1, 1973. During the two-year period ended June 30, 1985, awards to students aggregated \$764,990.78 while up to 379 students annually participated in the program. U.S. Department of Education authorization award letters to the College aggregated \$764,991.00 and were in the amounts of \$376,339.00 and \$388,652.00 for the fiscal years ended June 30, 1984 and 1985, respectively.

Supplemental Educational Opportunity Grant Program (SEOGP)

The SEOGP was established under Title IV, Part A of the Higher Education Act of 1965, as amended. The College began participating in the SEOGP on July 1, 1966. During the two-year period ended June 30, 1985, up to 94 students participated in the program each year and awards to students aggregated \$89,239.70. U.S. Department of Education authorization award letters to the College aggregated \$87,818.00 and were in the amounts of \$43,726.00 and \$44,092.00, for fiscal years ended June 30, 1984 and 1985, respectively.

College Work-Study Program (CWSP)

The CWSP was established under Title IV, Part C of the Higher Education Act of 1965, as amended. The College began participating in the CWSP on January 25, 1965. During the two-year period ended June 30, 1985, up to 209 students participated in the program each year and expenditures for wages for the period aggregated \$211,528.80. U.S. Department of Education authorization award letters to the College aggregated \$182,741.00 and were in the amounts of \$94,049.00 and \$88,692.00, for the fiscal years ended June 30, 1984 and 1985, respectively.

National Direct Student Loan Program (NDSLPL)

The National Direct Student Loan Program (NDSLPL) was established under the National Defense Education Act of 1958, which was transferred in 1972 to Part E of Title IV of the Higher Education Act of 1965. The College began participating in the NDSLPL in September 1958 and since that date it has made 2,911 loans aggregating \$2,809,273.00. The principal outstanding on loans in default amounts to 3.5% of the matured principal on all loans as of June 30, 1985.

Guaranteed Student Loan Program (GSLP)

The GSLP was established under Title IV, Part B of the Higher Education Act of 1965, as amended. The College began participating in the GSLP no later than August 1, 1975. During the two-year period ended June 30, 1985, guaranteed loans were received by 1,011 students with 495 students and 516 students receiving loans in the fiscal years of 1983-84 and 1984-85, respectively.

In addition, the Parent Loans for Undergraduate Students (PLUS) program, which was also authorized under the same criteria, provided loans to 60 students during the two-year period ended June 30, 1985. During the fiscal year 1983-84, loans were made to 25 students while 35 students received loans during the fiscal year 1984-85.

Administration of Programs

The College officials responsible for overall administration of the programs are the Director of Financial Aid and the Dean of Finance and Facilities. The Director of Financial Aid is responsible for application processing and loan approvals, as well as the College's compliance with the various U.S. Department of Education regulations governing the College's participation in Federal and State financial assistance programs. The Dean of Finance and Facilities is responsible for the programs' financial management, general ledger accounting, payments, collections and financial reports.

Scope of Audit

Our audit of the Pell Grant Program, Supplemental Educational Opportunity Grant Program, College Work-Study Program, National Direct Student Loan Program and the Guaranteed Student Loan Program was performed in accordance with the financial and compliance elements of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1981 Revision) and the Guide. The purpose of the audit was to formulate an opinion of the basic financial statement taken as a whole and to determine if these programs were administered in accordance with the applicable laws, regulations, agreements to participate, and U.S. Department of Education's directives which are set forth in the Guide.

The audit included:

1. Expressing an opinion on the statement of changes in Student Financial Assistance Programs fund balances and supplementary schedules.
2. Evaluation of the institution's policies, procedures and practices used to administer the programs.
3. Determination of compliance with applicable sections of the acts, related Federal regulations and U.S. Department of Education policies and procedures.
4. Evaluation of the institution's system of internal control, accounting and reporting, and the controls maintained in the operation of and accounting for the funds provided for the programs.
5. Reconciliation of the information reported on the appropriate financial statements with ED Form 646-1 and ED Form 255-4 for the years audited.

As part of our audit, we obtained confirmation from selected students' with National Direct Student Loan Program loan balances as of June 30, 1985.

Part II - Highlights of Audit Results

During our audit, nothing came to our attention which caused us to believe that Shepherd College had not generally administered its Student Financial Assistance Programs (PGP, SEOGP, CWSP, NDSLPL, and GSLP) in accordance with the U.S. Department of Education's Federal regulations and directives cited in the Guide for PGP, SEOGP, CWSP, NDSLPL, and GSLP. However, certain areas of the College's management of the Student Financial Assistance Programs were in need of attention. More specifically, for NDSLPL (1) the FISAPs for the fiscal years ended June 30, 1984 and June 30, 1985 do not agree with the accounting records, (2) the NDSL receivables as of June 30, 1985 per the detail of the individual student loan balances does not agree with the receivable per the FISAP, (3) the College took administrative cost in excess of the amount earned for the fiscal year ended June 30, 1985 and (4) the June 30, 1985 balance of cash on hand and in depository appears excessive.

These matters are discussed more fully under the "Findings and Recommendations" section of this report. (See pages 14-16.)

Part III - Auditors' Report on Statement of Changes in Student Financial Assistance Programs Fund Balances

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

We have examined the accompanying statement of changes in the Student Financial Assistance Programs fund balances of Shepherd College for the two-year period ended June 30, 1985. Our examination was made in accordance with Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the U.S. Comptroller General (GAO) in June 1972 and revised February 1981 and the U.S. Department of Education's March 1984 Audit Guide for Student Financial Assistance Programs and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying statement was prepared for the purpose of complying with the audit requirement relating to the Student Financial Assistance Programs of the U.S. Department of Education and is limited to the activities related to these programs.

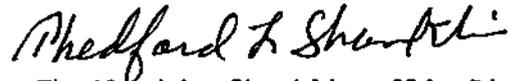
As described in Note One and in accordance with prescribed practices of the Program, the College has not accrued interest on student loans receivable nor provided an allowance for doubtful loans receivable. Interest on loans is recorded when received. Uncollectible loans are recognized when cancelled or written-off in conformity with the National Direct Student Loan requirements. These practices do not conform with generally accepted accounting principles.

In our opinion, except for the effects of not accruing earned interest on student loans receivable and of not providing an allowance for doubtful loans receivable, the statement referred to above presents fairly the changes in Student Financial Assistance Programs fund balances of Shepherd College for the two-year period ended June 30, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the accompanying statement of changes in Student Financial Assistance Programs fund balances taken as a whole. The information included in the supplementary schedule of disbursements and expenditures for each Student Financial Assistance Program for the two-year period ended June 30, 1985, is presented for purposes of additional analysis and is not a required part of the accompanying statement of changes in Student Financial Assistance Programs fund balances. The information has been subjected

to the auditing procedures applied in the examination of the accompanying statement of changes in Student Financial Assistance Programs fund balances of Shepherd College and, in our opinion, is fairly stated in all material respects in relation to the accompanying statement taken as a whole.

Respectfully submitted,



Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

September 28, 1988

Auditors: Raymond V. Shingler, CPA, Supervisor
Donald T. Moore, Auditor-in-Charge

SHEPHERD COLLEGE
STATEMENT OF CHANGES IN STUDENT FINANCIAL
ASSISTANCE PROGRAMS FUND BALANCES
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 1985

	Grants and College Work-Study		
	<u>Pell</u>	<u>SEOG</u>	<u>CWS</u>
Additions:			
Federal Awards	\$764,991.00	\$87,818.00	\$182,741.00
Other	20,787.83	1,809.76	1,538.41
Other Administrative Cost Allowance Received	<u>3,685.00</u>	<u>-0-</u>	<u>-0-</u>
Total Additions	789,463.83	89,627.76	184,279.41
Deductions:			
Grants	764,990.78	89,239.70	-0-
Wages	-0-	-0-	211,528.80
FICA Matching	-0-	-0-	855.44
Loan Cancellations	-0-	-0-	-0-
Collection Costs	-0-	-0-	-0-
Administrative Expenses	3,685.00	4,462.49	10,577.00
Cost of Litigation	-0-	-0-	-0-
Defaulted Loan Principal and Interest Assigned to U.S.	-0-	-0-	-0-
Other Costs or Losses	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Deductions	768,675.78	93,702.19	222,961.24
Other Changes:			
Institutional Matching Funds	-0-	-0-	43,161.21
Interest	-0-	-0-	-0-
Reimbursement on Loans Cancelled	-0-	-0-	-0-
Transfer Among Programs	-0-	9,746.00	(9,746.00)
	-0-	(3,861.00)	3,861.00
Carry Forwards/Carry Backs	-0-	-0-	8,816.00
	<u>-0-</u>	<u>-0-</u>	<u>(5,872.00)</u>
Total Other Changes	-0-	5,885.00	40,220.21
Net Increase in Fund Balances	20,788.05	1,810.57	1,538.38
Beginning Fund Balance - July 1, 1983	<u>(3,473.38)</u>	<u>(3,765.01)</u>	<u>5,934.97</u>
Ending Fund Balance - June 30, 1985	<u>\$ 17,314.67</u>	<u>(\$ 1,954.44)</u>	<u>\$ 7,473.35</u>

See Notes to Financial Statement

<u>Student Loans</u>	<u>Combined</u>
<u>NDSL</u>	<u>Total</u>
\$ -0-	\$1,035,550.00
27,136.48	51,272.48
<u>-0-</u>	<u>3,685.00</u>
27,136.48	1,090,507.48
-0-	854,230.48
-0-	211,528.80
-0-	855.44
6,660.26	6,660.26
1,902.49	1,902.49
15,838.76	34,563.25
3,393.55	3,393.55
16,459.93	16,459.93
<u>(880.90)</u>	<u>(880.90)</u>
43,374.09	1,128,713.30
-0-	43,161.21
21,275.98	21,275.98
7,410.00	7,410.00
-0-	-0-
-0-	-0-
-0-	8,816.00
<u>-0-</u>	<u>(5,872.00)</u>
<u>28,685.98</u>	<u>74,791.19</u>
12,448.37	36,585.37
<u>827,045.92</u>	<u>825,742.50</u>
<u>\$839,494.29</u>	<u>\$ 862,327.87</u>

Exhibit A

Notes to Statement of Changes in Student Financial
Assistance Programs Fund Balances

(1) Basis of Presentation

The accompanying statement of changes in Student Financial Assistance Programs fund balances has been prepared in accordance with accounting practices prescribed for such programs by the U.S. Department of Education's fiscal control and fund accounting procedures and the format as set forth in the publication Audit Guide for Student Financial Assistance Programs. The purpose of the statement is to present, in summary form, student financial assistance activities of Shepherd College for the two-year period ended June 30, 1985, which have been financed by the U.S. Department of Education. Except as described in the following paragraph, these accounting practices are in agreement with generally accepted accounting principles.

The National Direct Student Loan Program does not provide for accrual of interest on student loans receivable nor for a provision of allowance for doubtful loans. Interest on loans is recorded as received and uncollectible loans are recognized when the loans are cancelled or written-off. These practices are in conformity with the National Direct Student Loan requirements. The effects of these variations from generally accepted accounting principles have not been determined.

Because the statement of changes in fund balances presents only a selected portion of the activities of Shepherd College, it is not intended to and does not present either the financial position, changes in fund balances or the current funds, revenues, expenditures and other changes in fund balances of the College.

(2) Administrative Expenses

Participating colleges earn an Administrative Cost Allowance to use as an offset to the actual cost of administering the Student Financial Assistance Programs. The U.S. Department of Education pays the allowance earned by the Pell Grant Program directly to the College. The campus-based programs, (i.e. Supplemental Educational Opportunity Grant Program, College Work-Study Program and the National Direct Student Loan Program) provide for the allowance to pay the College from monies in the various programs. The Regulations also allow for the payment of the allowance from each of the programs or from any one of the programs.

The College's earned allowance from the campus-based programs was \$30,878.25 and this amount is reflected in the \$34,563.25 for Administrative Expenses in the Total Column on Exhibit A. The Administrative Expenses shown under the SEOG, CWS and Student Loans columns are the actual amount to be paid from each of the programs.

(3) Other Changes

These changes represent increases or decreases to the various program funds due to transfers among programs, carry forwards and carry backs within the same programs from and to fiscal years outside our audit period, overdraws of Federal authorizations, amounts returned to the U.S. Department of Education, and Federal awards authorized but not requested.

(4) Combined Totals

The combined totals contain the totals of similar accounts of the various programs. The totaling of the accounts is for memorandum only and does not indicate that the combined balances are available for any purpose other than provided by laws, rules and regulations governing the separate programs.

(5) National Direct Student Loan Program

Fund Balance, Beginning Year

The ending fund balance at June 30, 1983 was overstated by \$765.25. This overstatement resulted from the failure to include a June 30, 1983 College Work-Study payable which was proposed to be paid from the NDSLPL.

Fund Balance, Ending Year (June 30, 1983)	(\$373,906.56)
Failure to Include Accrued Administrative Expenses Payable at June 30, 1983	<u>(765.25)</u>
Fund Balance, Beginning of Year	<u>(\$374,671.81)</u>

(6) College Work-Study Program

Fund Balance, Beginning Year

The ending fund balance at June 30, 1983 was understated by \$853.44. This understatement resulted from the failure to consider a June 30, 1983 receivable for the College matching of the accrued wages payable.

Fund Balance, Ending Year (June 30, 1983)	\$5,081.53
Failure to Include Accrued Matching Receivable at June 30, 1983	<u>853.44</u>
Fund Balance, Beginning of Year	<u>\$5,934.97</u>

Part IV - Auditors' Report on Internal Accounting Control

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

We have examined the statement of changes in fund balances for the Student Financial Assistance Programs of Shepherd College for the two-year period ended June 30, 1985, and have issued our report thereon dated September 28, 1988.

As part of our examination, we made a study and evaluation of the system of internal accounting control of Shepherd College to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

1. Receipts
2. Disbursements
3. Granting of Loans
4. Payment of Administrative Expenses
5. Collection of Loan Principal and Interest
6. Payment of Litigation Costs
7. Cancellation of Loans
8. Federal and Institutional Capital Contribution
9. Posting of Transactions

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of performing the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

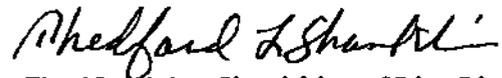
The management of Shepherd College is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Shepherd College taken as a whole or on any of the categories of controls identified in the first paragraph. However, except as described in the "Findings and Recommendations" section of this report our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the U.S. Department of Education and should not be used for any other purpose.

Respectfully submitted,



Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

September 28, 1988

Auditors: Raymond V. Shingler, CPA, Supervisor
Donald T. Moore, Auditor-in-Charge

Part V - Auditors' Report on Compliance

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

We have examined the accompanying statement of changes in Student Financial Assistance Programs fund balances of Shepherd College for the two-year period ended June 30, 1985 and have issued our report thereon dated September 28, 1988. As part of our examination, we made a study and evaluation of those internal administrative methods and procedures established by Shepherd College to administer and account for Student Financial Assistance Programs in accordance with the significant administrative requirements of the U.S. Department of Education's March 1984 Audit Guide for Student Financial Assistance Programs (Guide), Section II and the following compliance requirements:

- I. Cash Management
- II. Financial Reporting
- III. Institutional Eligibility and Participation
- IV. Coordination of Student Aid Programs
- V. Student File Maintenance Fiscal Procedures and Record Keeping
- VI. Student Eligibility
- VII. Institutional Disbursements to Award Recipients
- VIII. Refund Calculation and Overpayment Determination Procedures

We understand that procedures and systems in conformity with the criteria contained in these significant administrative requirements are considered by the U.S. Department of Education to be adequate for its purposes in accordance with the provisions of the Higher Education Act, as amended. Based on this understanding of our study and evaluation, we believe the institution's procedures and systems were adequate for the U.S. Department of Education's purposes.

In addition, our examination also included tests of controls to ensure compliance with the provisions of certain major program terms and conditions identified in Section II - Compliance Requirements of the Guide. Based upon our examination, we found that for the items tested the institution complied with the material terms and conditions of the student financial assistance award agreements except as described in the "Findings and Recommendations" section of this report.

Further, based on our examination and the procedures referred to above, except as discussed in the preceding paragraph, nothing came to our attention to indicate that Shepherd College had not complied with the material terms and conditions identified in the first paragraph above of Shepherd College's Student Financial Assistance Programs.

This report is intended solely for the use of Shepherd College, the cognizant audit agency and other Federal audit agencies and should not be used for any other purpose.

Respectfully submitted,



Theford L. Shanklin, CPA, Director
Legislative Postaudit Division

September 28, 1988

Auditors: Raymond V. Shingler, CPA, Supervisor
Donald T. Moore, Auditor-in-Charge

Findings and Recommendations

Incorrect National Direct Student Loan FISAPs

Our review showed that the FISAPs for fiscal years ended June 30, 1984 and June 30, 1985 did not agree with the accounting records for the same periods. For the years ended June 30, 1984, and June 30, 1985, the accounting records are greater than the FISAP by a net amount of \$21,581.16 and \$5,531.16, respectively.

A further review of this discrepancy disclosed that the major difference occurred in the Cash on Hand and in Depository account. For the fiscal years ended June 30, 1984 and June 30, 1985, the accounting records exceeded the FISAPs by \$13,457.32 and \$8,869.55, respectively.

During the latter part of fiscal year 1984 and the first part of fiscal year 1985, the College was involved in converting from their own billing system to one provided by the Academic Financial Services Association (AFSA) and it appears that accounting control was lost. Furthermore, the College did not reconcile the FISAPs to the accounting records for either year.

We recommend that in the future the College reconcile the FISAPs to the accounting records before submission to the Department of Education. We also recommend the College submit corrected FISAPs for fiscal years 1984 and 1985 to the Department of Education.

We concur in your recommendations. Our staff will reconcile the FISAP reports to the accounting records before submission to the Department of Education. Corrected FISAP reports for fiscal years 1984 and 1985 have been prepared and submitted to the Department.

FISAP's National Direct Student Loan Receivables

Not Supported by the Detail

Our reconciliation of the National Direct Student Loan receivables per the detail of the individual student loan balances does not agree with the calculated NDSL receivables per the FISAP as of June 30, 1985. The NDSL receivables per the FISAP were \$713,889.00 while the detail of the individual student loan balances was \$714,281.93. The detail is greater than the FISAP by \$392.93.

On May 24, 1984, the College converted from their own billing system to one purchased from Academic Financial Services Association (AFSA). At the time of conversion some errors occurred, however these were reconciled subsequent to the end of the current audit period.

We recommend that when submitting the corrected FISAPs for fiscal years ended June 30, 1984 and 1985, (See pages) the one for June 30, 1985 reflect the NDSL receivables per the detail and the necessary corrections to the accounting records be made.

As noted in your audit, on May 24, 1984 the College converted from our own billing system to the Academic Financial Services Association billing system.

At the time of this conversion, some errors occurred and were not reconciled until subsequent to the end of the current audit period. The corrected FISAP for 1985 referred to in item 1 above, reflects the proper NDSL receivables per the detail and the necessary corrections to our accounting records have been made.

Excessive Administrative Cost Taken

Our review showed the College took \$50.87 in excess of the amount earned for administrative cost for the fiscal year ended June 30, 1985. The excess cost was for the purchase of checks used in the National Direct Student Loan Program and is to be considered in calculating administrative cost earned.

During the period, the College earned NDSL administrative cost of \$15,787.89. However, the College took \$14,397.14 plus \$68.62 for the purchase of checks and reported a payable of \$1,373.00 which was taken on June 18, 1986. This totals \$15,838.76; however, the College was entitled to only the amount earned of \$15,787.89. This excess overclaim of \$50.87 was caused by administrative oversight as the College Business Office personnel were not aware that cost for checks was to be considered a part of program administrative cost.

We recommend the College immediately reimburse the National Direct Student Loan Program fund for the \$50.87 and to become more aware of what constitutes program administrative costs.

As noted in your audit, \$68.62 for the purchase of NDSL checks was charged to the NDSL administrative costs, therefore resulting in an overclaim of administrative fees by \$50.87. The College has reimbursed the National Direct Student Loan Program for the \$50.87.

Apparent Excess Cash

Our review of the balance of the various NDSL accounts as of June 30, 1985 showed a cumulative balance of \$126,730.55. This balance consisted of \$68,868.52 in the checking account, \$7,543.82 in the Investment account, \$50,000.00 in a certificate of deposit, and \$318.21 in the account used for deposits by their billing service, Academic Financial Services Association (AFSA).

Although there is no specific Federal criteria regarding NDSL balances, the amount appears excessive. Accordingly, a portion of the balance should be returned to the Federal government and the College.

We recommend the College analyze the ending cash balances through the current year ended June 30, 1988 and determine if the balance is excessive. The College should justify the existence of any balance maintained or return any excess portion of the balance to the Federal government and to the College in the same ratio as capital contributions.

The College concurs with your recommendation to analyze the ending cash balances through the current fiscal year ended June 30, 1988 to determine if the balance is excessive. It is our opinion that with the enrollment growth experienced

during the period of this audit, any excess NDSL funds available in 1985 is now being utilized. As you know, our records are currently being audited through June 30, 1987 under the State of West Virginia single audit process. We will review this matter with our current audit team and ascertain what additional action is needed, if any.

Part VI - Auditors' Comments on Audit Resolution Matters
Relating to the Student Financial Assistance Programs

The College has taken corrective action on four of the five findings from the prior audit report of the National Direct Student Loan Program, College Work-Study Program, Supplemental Educational Opportunity Grant Program and the Pell Grant Program (formerly Basic Educational Opportunity Grant program) for the period July 1, 1983 through June 30, 1985.

Finding No. 1 There is a weakness in internal control in that the person who posts transactions to the NDSL individual loan ledger cards also distributes loan advance checks to students.

Action Taken In May 1984, the College entered into a contract with Academic Financial Services Association (AFSA) to provide, among other things, accounting and billing services. As part of their responsibility, AFSA posts all transactions to the individual student loan ledgers.

Finding No. 2 Student loan ledger cards are not kept in fireproof containers as required by Federal regulations.

Action Taken After June 1984, the College no longer maintained student loan ledger cards. This became AFSA's responsibilities.

Finding No. 3 As of June 30, 1983, the College had in excess of \$100,000.00 deposited in a local bank.

Action Taken During our review, we did not note any occasions when the College had in excess of \$100,000.00 deposited in any of its NDSL local accounts.

Finding No. 4 The CWS time record in use reflects the time a work-study student worked each day but does not identify the exact hours worked.

Action Taken During fiscal year ended June 30, 1985, the College initiated a new CWS time record which reflects the exact hours worked.

The College has not taken the necessary action to correct the following finding:

Finding No. 1 The College did not have a self-evaluation system during the period of this audit.

Action Taken The self-evaluation system is not a requirement of Department of Education, only a suggestion; therefore this finding is dropped.

SUPPLEMENTAL INFORMATION

SHEPHERD COLLEGE
 SCHEDULE OF DISBURSEMENTS AND EXPENDITURES
 FOR EACH STUDENT FINANCIAL ASSISTANCE PROGRAM
 FOR THE PERIOD JULY 1, 1983 - JUNE 30, 1985

<u>Disbursements</u>	<u>Year Ended June 30,</u>		<u>Total</u>
	<u>1984</u>	<u>1985</u>	
National Direct Student Loan Program:			
Funds Advanced to Students	\$144,907.86	\$170,850.00	\$ 315,757.86
Administrative Expenses	7,199.14	8,639.62	15,838.76
Collection Costs	5,350.48	(54.44)	5,296.04
Other Costs or Losses	(880.90)	-0-	(880.90)
	<u> </u>	<u> </u>	<u> </u>
Total Disbursements	<u>\$156,576.58</u>	<u>\$179,435.18</u>	<u>\$ 336,011.76</u>
<u>Expenditures</u>			
College Work-Study Program	\$115,388.84	\$106,716.96	\$ 222,105.80
Supplemental Educational Opportunity Grant Program	49,255.19	44,447.00	93,702.19
Pell Grant Program	<u>376,338.78</u>	<u>388,652.00</u>	<u>764,990.78</u>
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$540,982.81</u>	<u>\$539,815.96</u>	<u>\$1,080,798.77</u>

Schedule 1

SHEPHERD COLLEGE
STATEMENT OF CHANGES IN STUDENT FINANCIAL
ASSISTANCE PROGRAMS FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1985

	<u>Grants and College Work-Study</u>		
	<u>Pell</u>	<u>SEOG</u>	<u>CWS</u>
Additions:			
Federal Awards	\$388,652.00	\$ 44,092.00	\$ 88,692.00
Other	13,030.83	(3,934.24)	22,948.41
Other-Administrative Cost Allowance Received	<u>1,830.00</u>	<u>-0-</u>	<u>-0-</u>
Total Additions	403,512.83	40,157.76	111,640.41
Deductions:			
Grants	388,652.00	42,330.00	-0-
Wages	-0-	-0-	101,634.96
FICA Matching	-0-	-0-	451.30
Loan Cancellations	-0-	-0-	-0-
Collection Costs	-0-	-0-	-0-
Administrative Expenses	1,830.00	2,117.00	5,082.00
Cost of Litigation	-0-	-0-	-0-
Defaulted Loan Principal and Interest Assigned to U.S.	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Deductions	390,482.00	44,447.00	107,168.26
Other Changes:			
Institutional Matching Funds	-0-	-0-	20,778.31
Interest	-0-	-0-	-0-
Reimbursement on Loans Cancelled	-0-	-0-	-0-
Transfer Among Programs	-0-	4,169.00	(4,169.00)
		(3,814.00)	3,814.00
Carry Forwards/Carry Backs	-0-	-0-	3,925.00
			(5,872.00)
Total Other Changes	-0-	355.00	18,476.31
Net Increase (Decrease) in Fund Balances	13,030.83	(3,934.24)	22,948.46
Beginning Fund Balance - July 1, 1984	<u>4,283.84</u>	<u>1,979.80</u>	<u>(15,475.11)</u>
Ending Fund Balance - June 30, 1985	<u>\$ 17,314.67</u>	<u>(\$ 1,954.44)</u>	<u>\$ 7,473.35</u>

<u>Student Loans</u>	<u>Combined</u>
<u>NDSL</u>	<u>Total</u>
\$ -0-	\$521,436.00
11,400.76	43,445.76
<u>-0-</u>	<u>1,830.00</u>
11,400.76	566,711.76
-0-	430,982.00
-0-	101,634.96
-0-	451.30
2,778.86	2,778.86
(1,133.23)	(1,133.23)
8,639.62	17,668.62
1,078.79	1,078.79
<u>13,228.73</u>	<u>13,228.73</u>
24,592.77	566,690.03
-0-	20,778.31
12,433.09	12,433.09
7,410.00	7,410.00
-0-	-0-
-0-	-0-
-0-	3,925.00
<u>-0-</u>	<u>(5,872.00)</u>
<u>19,843.09</u>	<u>38,674.40</u>
6,651.08	38,696.13
<u>832,843.21</u>	<u>823,631.74</u>
<u>\$839,494.29</u>	<u>\$862,327.87</u>

Schedule 2

SHEPHERD COLLEGE
STATEMENT OF CHANGES IN STUDENT FINANCIAL
ASSISTANCE PROGRAMS FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1984

	<u>Grants and College Work-Study</u>		
	<u>Pell</u>	<u>SEOG</u>	<u>CWS</u>
Additions:			
Federal Awards	\$376,339.00	\$ 43,726.00	\$ 94,049.00
Other	7,757.00	5,744.00	(21,410.00)
Other-Administrative Cost Allowance Received	<u>1,855.00</u>	<u>-0-</u>	<u>-0-</u>
Total Additions	385,951.00	49,470.00	72,639.00
Deductions:			
Grants	376,338.78	46,909.70	-0-
Wages	-0-	-0-	109,893.84
FICA Matching	-0-	-0-	404.14
Loan Cancellations	-0-	-0-	-0-
Collection Costs	-0-	-0-	-0-
Administrative Expenses	1,855.00	2,345.49	5,495.00
Cost of Litigation	-0-	-0-	-0-
Defaulted Loan Principal and Interest Assigned to U.S.	-0-	-0-	-0-
Other Costs or Losses	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Deductions	378,193.78	49,255.19	115,792.98
Other Changes:			
Institutional Matching Funds	-0-	-0-	22,382.90
Interest	-0-	-0-	-0-
Transfer Among Programs	-0-	5,577.00	(5,577.00)
		(47.00)	47.00
Carry Forwards/Carry Backs	-0-	-0-	8,816.00
			<u>(3,925.00)</u>
Total Other Changes	<u>-0-</u>	<u>5,530.00</u>	<u>21,743.90</u>
Net Increase (Decrease) in Fund Balances	7,757.22	5,744.81	(21,410.08)
Beginning Fund Balance - July 1, 1983	<u>(3,473.38)</u>	<u>(3,765.01)</u>	<u>5,934.97</u>
Ending Fund Balance - June 30, 1984	<u>\$ 4,283.84</u>	<u>\$ 1,979.80</u>	<u>(\$ 15,475.11)</u>

<u>Student Loans</u> <u>NDSL</u>	<u>Combined</u> <u>Total</u>
\$ -0-	\$514,114.00
15,735.72	7,826.72
<u>-0-</u>	<u>1,855.00</u>
15,735.72	523,795.72
-0-	423,248.48
-0-	109,893.84
-0-	404.14
3,881.40	3,881.40
3,035.72	3,035.72
7,199.14	16,894.63
2,314.76	2,314.76
3,231.20	3,231.20
<u>(880.90)</u>	<u>(880.90)</u>
18,781.32	562,023.27
-0-	22,382.90
8,842.89	8,842.89
-0-	-0-
-0-	-0-
-0-	8,816.00
<u>-0-</u>	<u>(3,925.00)</u>
<u>8,842.89</u>	<u>36,116.79</u>
5,797.29	(2,110.76)
<u>827,045.92</u>	<u>825,742.50</u>
<u>\$832,843.21</u>	<u>\$823,631.74</u>

Schedule 3

SHEPHERD COLLEGE
PELL GRANT PROGRAM
BALANCE SHEET AS OF JUNE 30, 1985

Assets

Cash on Hand and in Depository	\$17,167.47
Accounts Receivable - Redeposit	<u>187.00</u>
Total Assets	<u>\$17,354.47</u>

Liabilities and Fund Balance

Liabilities	\$ 39.80
Fund Balance	<u>17,314.67</u>
Total Liabilities and Fund Balance	<u>\$17,354.47</u>

Schedule 4

SHEPHERD COLLEGE
SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM
BALANCE SHEET AS OF JUNE 30, 1985

Assets

Cash on Hand and in Depository	<u>\$ 162.56</u>
Total Assets	<u><u>\$ 162.56</u></u>

Liabilities and Fund Balance

Liabilities:	
Accrued Administrative Expenses Payable	<u>\$2,117.00</u>
Fund Balance	<u>(1,954.44)</u>
Total Liabilities and Fund Balance	<u><u>\$ 162.56</u></u>

Schedule 5

SHEPHERD COLLEGE
COLLEGE WORK-STUDY PROGRAM
BALANCE SHEET AS OF JUNE 30, 1985

Assets

Cash on Hand and in Depository	\$15,908.44
Accounts Receivable:	
Institutional Matching	839.33
Error in Matching	<u>88.85</u>
Total Assets	<u>\$16,836.62</u>

Liabilities and Fund Balance

Liabilities:	
Accrued Wages Payable	\$ 4,263.84
Accrued Administrative Expenses Payable	5,082.00
College Share of Recovery	<u>17.43</u>
Total Liabilities	9,363.27
Fund Balance	<u>7,473.35</u>
Total Liabilities and Fund Balance	<u>\$16,836.62</u>

Schedule 6

SHEPHERD COLLEGE
 NATIONAL DIRECT STUDENT LOAN PROGRAM
 BALANCE SHEET AS OF JUNE 30, 1985

Assets

Cash on Hand and in Depository	\$126,730.55
Student Loans Receivable	<u>714,136.74</u>
Total Assets	<u>\$840,867.29</u>

Liabilities and Fund Balance

Liabilities:	
Accrued Administrative Expenses Payable	\$ <u>1,373.00</u>
Fund Balance	
Capital:	
Federal Contributions:	
Authorized	1,171,546.00
Repaid	<u>90,000.00</u>
Balance	1,081,546.00
Institutional Contributions:	
Authorized	130,171.73
Repaid	<u>10,000.00</u>
Balance	120,171.73
Capital Fund Balance	1,201,717.73
Non-Capital Fund Deficits	<u>(362,223.44)</u>
Total Fund Balance	<u>839,494.29</u>
Total Liabilities and Fund Balance	<u>\$ 840,867.29</u>

Schedule 7

SHEPHERD COLLEGE
NATIONAL DIRECT STUDENT LOAN PROGRAM
ANALYSIS OF STUDENT LOANS RECEIVABLE
TWO-YEAR PERIOD ENDED JUNE 30, 1985
AND THE PERIOD SEPTEMBER 1, 1958 THROUGH JUNE 30, 1985

	For the Period September 1, 1958 Through June 30, 1985	Two-Year Period Ended June 30, 1985
Balance, Beginning of Period	\$ -0-	\$ 641,714.00
Funds Advanced to Students	<u>2,809,273.00</u>	<u>315,757.86</u>
Totals	<u>2,809,273.00</u>	<u>957,471.86</u>
Less Credits:		
Collections	1,590,777.57	221,625.17
Cancellations:		
Teaching Service -		
Prior to July 1, 1972	388,185.45	200.00
July 1, 1972 and After	40,335.38	4,420.00
Military Service	5,278.14	-0-
Death	9,164.61	-0-
Bankruptcy	11,229.71	1,470.61
Disability	1,300.00	-0-
Defaulted Loan Principal and Interest Assigned to and:		
Accepted by the U.S.	45,960.94	-0-
Received by the U.S.	-0-	13,806.51
Loan Principal:		
Adjustments - Other	<u>2,904.46</u>	<u>1,812.83</u>
Total Credits	<u>2,095,136.26</u>	<u>243,335.12</u>
Balance, June 30, 1985	<u>714,136.74</u>	<u>714,136.74</u>
Total of Individual Loan Balances	<u>714,281.93</u>	
Difference	<u>(\$ 145.19)</u>	

Schedule 8

SHEPHERD COLLEGE
 NATIONAL DIRECT STUDENT LOAN PROGRAM
 STATEMENT OF CHANGES IN NON-CAPITAL AND CAPITAL FUND BALANCE
 FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 1985

<u>Non-Capital Fund Balance</u>	<u>Year Ended June 30,</u>		<u>Total</u>
	<u>1984</u>	<u>1985</u>	
Additions:			
Interest on Loans:			
Collected	\$ 8,242.87	\$ 9,909.27	\$ 18,152.14
Cancelled	(1,562.87)	321.86	(1,241.01)
Assigned	2,162.89	2,201.96	4,364.85
Reimbursement on Loans			
Cancelled	-0-	7,410.00	7,410.00
Other Income	<u>15,735.72</u>	<u>11,400.76</u>	<u>27,136.48</u>
Total Additions	24,578.61	31,243.85	55,822.46
Deductions:			
Loan Principal and Interest			
Cancelled:			
Teaching Service	2,385.06	2,778.86	5,163.92
Bankruptcy	1,496.34	-0-	1,496.34
Administrative Costs	7,199.14	8,639.62	15,838.76
Cost of Litigation	2,314.76	1,073.79	3,393.55
Collection Costs	3,035.72	(1,133.23)	1,902.49
Defaulted Loan Principal and			
Interest Assigned to U.S.	3,231.20	13,228.73	16,459.93
Other Costs or Losses	<u>(880.90)</u>	<u>-0-</u>	<u>(880.90)</u>
Total Deductions	<u>18,781.32</u>	<u>24,592.77</u>	<u>43,374.09</u>
Net Increase for Year	5,797.29	6,651.08	12,448.37
Fund Deficit, Beginning of Year	<u>(374,671.81)</u>	<u>(368,874.52)</u>	<u>(374,671.81)</u>
Non-Capital Fund Deficit, End of Year	<u>(\$368,874.52)</u>	<u>(\$362,223.44)</u>	<u>(\$362,223.44)</u>
 Capital Fund Balance			
	<u>Federal</u>	<u>Institutional</u>	<u>Total</u>
Fund Balance, Beginning of Period	\$1,081,546.00	\$ 120,171.73	\$1,201,717.73
Add Contributions:			
July 1, 1983 - June 30, 1985	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Capital Fund Balance, End of Period	<u>\$1,081,546.00</u>	<u>\$ 120,171.73</u>	<u>\$1,201,717.73</u>

Schedule 9

SHEPHERD COLLEGE
 NATIONAL DIRECT STUDENT LOAN PROGRAM
 COMPUTATION OF DEFAULT RATE
 AS OF JUNE 30, 1985
 (CUMULATIVE INFORMATION)

Principal Outstanding on Loans in Default

Total Amount Advanced on Loans in Default	\$ 115,712.00
Deduct: Principal Amount Repaid or Cancelled	<u>28,512.00</u>
Total Remaining Principal Amount Which Has Not Been Paid, Cancelled or Assigned on Notes in Default	<u>\$ 87,200.00</u>

Total Amount of Matured Principal

Total Amount Advanced to All Borrowers	\$2,809,273.00
Deduct: Amount Not In Repayment Status:	
Student Status	\$250,947.00
Grace Period	<u>89,471.00</u>
Total Amount Not in Repayment Status	<u>340,418.00</u>
Total Amount of Matured Principal	<u>\$2,468,855.00</u>
Percentage of Loans in Default (\$87,200.00 ÷ \$2,468,855.00)	3.5%

Schedule 10

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Encil Bailey, Legislative Auditor, do hereby certify that the report of audit appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 5th day of December, 1988.

Encil Bailey

Encil Bailey, Legislative Auditor

Copy forwarded to the Commissioner of the Department of Finance and Administration to be filed as a public record. Copies forwarded to the U.S. Department of Education; Shepherd College; West Virginia Board of Regents; Governor; Attorney General; and, State Auditor.