



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

400 MARYLAND AVENUE, S.W.  
WASHINGTON, DC 20202-1500



August 25, 2006

**FINAL MANAGEMENT INFORMATION REPORT**

**Student Financial Aid No. 06-01**

**TO:** Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid

**FROM:** Helen Lew /s/  
Assistant Inspector General for Audit

**SUBJECT:** *Hurricane Relief Funds Provided to Mississippi Institutions of Higher Learning*  
**Control Number ED OIG/A04-G0014**

The purpose of this information report is to close out our audit by informing you of the results of our work to date on our audit of *Hurricane Relief Funds Provided to Mississippi Institutions of Higher Learning*. At this time we are unable to fully meet our audit objectives because the Mississippi Institutions of Higher Learning (IHL) has until September 30, 2006, to obligate the hurricane relief funding, and material events may occur in IHL's administration of the hurricane relief funding that could impact our current assessment. We will begin a separate audit to assess IHL's final distribution of the hurricane relief funds and perform additional audit work after the completion of the funding period ended September 30, 2006.

The audit was initiated to evaluate IHL's administration of the \$95 million appropriation authorized by the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006 (Public Law 109-148). Specifically, our audit objectives were (1) to assess IHL's methodology for allocating hurricane relief funds to schools, and to evaluate the adequacy of information provided by schools to IHL; and (2) to identify and assess IHL's controls over the accounting for the hurricane relief funds and compliance with laws and regulations. Our work covered the period February 1, 2006, to July 20, 2006.

IHL has implemented a methodology to allocate hurricane relief funds to its institutions and to make hurricane relief assistance awards to eligible students through the Special Leveraging Educational Assistance Partnership (SLEAP) Program. For the \$50.5 million in hurricane relief funds spent as of July 20, 2006, through the SLEAP Program, IHL appears to have implemented

an adequate internal control system. In our initial audit work performed in March through May 2006, we found that some institutions may have difficulty spending their full allocation of hurricane relief funding. In July 2006, after our initial audit work, IHL reallocated hurricane relief funds to institutions and received affirmation from each institution that it intend to fully obligate hurricane relief funds by September 30, 2006.

## **Background**

As a result of the effects of Hurricanes Katrina and Rita, IHL received an appropriation of \$95 million authorized by the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006 (Public Law 109-148) to provide hurricane relief funding to Mississippi higher education students. IHL developed a methodology to provide hurricane relief funding to affected students through the SLEAP Program. IHL's methodology was in accordance with its agreement with the Department of Education (Department), Federal Student Aid (FSA), signed on January 24, 2006, governing its administration of the \$95 million in hurricane relief funds. The agreement reflects IHL's intent to deliver the hurricane relief funds to students through the SLEAP Program.

With the assistance and approval of the Department, IHL developed a SLEAP Policy to provide direction to the participating institutions on eligibility requirements for the SLEAP Program. The Federal Emergency Management Agency (FEMA) designated the entire State of Mississippi as a hurricane impacted area, which, as provided by the SLEAP Policy, made all higher education students in Mississippi potentially eligible for hurricane relief funding. To participate in the SLEAP Program, students were also required to attend an institution that met the definition of an institution under Section 102 of the Higher Education Act of 1965, as amended (HEA), and to meet the student eligibility criteria to receive Title IV funds. As a result, hurricane relief funding was provided to students who attended large public universities, community colleges, private nonprofit colleges, and proprietary schools throughout Mississippi.

Recent changes enacted on June 15, 2006, in the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Pub. L. 109-234) will allow hurricane relief funds provided to IHL to be spent for institutional purposes under Title VII of the HEA. The Director of the IHL SLEAP Program informed us that IHL does not plan to redirect any of the \$95 million in hurricane relief funds to Title VII programs. The Director stated that the hurricane relief funds must be obligated by September 30, 2006, and the number of steps to accomplish the redirection of hurricane relief funds before this time would make it unrealistic to implement a program to use hurricane relief funds for institutional purposes under Title VII.

## **IHL Allocation Methodology In Accordance With SLEAP Program Regulations**

IHL used its existing Leveraging Educational Assistance Partnership (LEAP) Program allocation formula, as approved by FSA in May 2005, as a basis for distributing the hurricane relief funds. The existing LEAP participation agreement with FSA was amended to incorporate the SLEAP Program on February 1, 2006. The LEAP formula prorates the hurricane relief funds allocated to institutions based on the number of attending students and the average cost of attendance for all participating institutions. IHL also requested an estimate of expected hurricane relief funding needs from each institution participating in the SLEAP Program. The IHL Director stated that due to the short time period to disburse the hurricane relief funding, IHL did not provide detailed guidance to institutions about the method that should be used to calculate this estimate of hurricane relief funds needed.

During the initial allocation of hurricane relief funds in February 2006, if an institution identified less hurricane relief needs than the amount calculated under IHL's current SLEAP allocation formula, the excess funds were placed in a pool and redistributed to Mississippi's five largest coastal institutions. As a result, \$33.5 million in hurricane relief funds were redistributed to the five largest coastal universities and colleges in addition to what they received under the initial SLEAP formula allocation. IHL management limited the reallocation of hurricane relief funds to the five largest coastal institutions because coastal universities and colleges were the most impacted by Hurricane Katrina.

At the time of the initial allocation, IHL informed the institutions that it would make a reassessment of the institutions' use of the hurricane relief funds in June 2006 based on actual experience in making SLEAP grant awards to students. In June 2006, institutions requested IHL to redistribute \$376,000 that had originally been allocated to them to other institutions that had remaining hurricane relief funding needs. IHL reallocated the \$376,000 in hurricane relief funds to four small institutions that during the initial allocation had requested significantly less hurricane relief funds than were allowed by the SLEAP allocation formula. The IHL SLEAP Director also required the institutions to reassert that they would obligate all their hurricane relief funds by September 30, 2006. As of July 19, 2006, IHL through its participating institutions has awarded approximately \$50.5 million (53 percent) in SLEAP grants to students.

## **IHL Implemented Controls Over Use of Hurricane Funds**

IHL appears to have implemented a reasonable control system over the use of hurricane relief funds. IHL used its existing student financial aid systems to implement controls over the SLEAP Program that was used to provide hurricane relief funding. IHL's Mississippi Office of Student Financial Aid (MOFSA) has experience administering FSA and State grant programs for the state universities in Mississippi. IHL incorporated its existing controls over the LEAP Program into its SLEAP Program when it was created to use the hurricane funding. Based on our review

to date, we did not identify any significant internal control weaknesses from IHL's past Office of Management and Budget (OMB) Circular A-133 audit reports.

To evaluate the controls over the SLEAP Program, we interviewed IHL staff and reviewed documentation related to IHL's administration of the SLEAP Program. We traced the institutional requests for reimbursement of SLEAP grant awards through IHL's accounting system. We found that IHL's controls over the SLEAP Program appeared to be functioning as designed and should provide reasonable assurance over the proper use and accounting for the hurricane relief funding at IHL if maintained and followed. A listing of the controls tested at IHL is detailed in the objectives, scope, and methodology section of this report.

### **Institutional SLEAP Grant Awards In Accordance With SLEAP Policy**

In order to determine institutional compliance with the IHL SLEAP Policy, we performed an onsite review of 6 of the 37 institutions participating in the SLEAP Program. The 6 institutions we tested were the University of Mississippi, the University of Southern Mississippi, Gulf Coast Community College, Jones County Junior College, William Carey College, and Academy of Hair Design. We found that the institutions tested had made sufficient effort to notify students of the availability of the hurricane relief funding and were making awards to the students in accordance with the SLEAP Policy.

At each institution, we tested 50 randomly selected SLEAP grant awards to determine whether the institution had adequate controls over the SLEAP grants in conformance with IHL's SLEAP Policy guidance. We did not identify any SLEAP awards that were not supported by the student files. No SLEAP grant awards exceeded the student's unmet financial need (cost of attendance less other financial aid and expected family contribution) although, in some instances, a professional judgment determination increased the student's cost of attendance.

Professional judgment determinations were in accordance with the IHL SLEAP Policy and adequately documented the need of the student. The IHL SLEAP Policy allowed institutions to adjust the cost of attendance or expected family contributions if the student had a major financial need arising from the hurricanes. Professional judgments were most often used when a student had major damage to their home resulting in displacement and when the student or their parent lost employment. Of the 300 SLEAP awards reviewed at the six institutions, 37 were professional judgment determinations.

### **Objectives, Scope, and Methodology**

The audit objectives were to (1) assess IHL's methodology for allocating hurricane relief funds to schools, and evaluate the adequacy of information provided by schools to IHL; and (2) identify and assess IHL's controls over the accounting for the funds and compliance with laws and regulations. Our work covered the period February 1, 2006, to July 19, 2006.

To evaluate the controls over the SLEAP Program, we interviewed IHL staff and reviewed documents related to IHL's administration of the SLEAP Program. From our audit fieldwork, we identified and tested the controls over the following key processes in the IHL SLEAP Program.

- Institutional eligibility.
- Institutional certification statements.
- Institutional allocation amount.
- File layout development for institutions to request funds.
- Institutional reimbursement request submissions to IHL.
- SLEAP grant awards inputted into the IHL accounting system.
- Fund draws from the Department.
- Funds disbursed to the Institutions.
- Preparation of balancing report.
- Preparation of summary reports submitted to the Department.

In addition to testing the controls at IHL, we performed audit fieldwork at 6 of the 37 institutions participating in the SLEAP Program. The IHL allocation of the \$95 million to the institutions can be broken out by category of institution: proprietary, public, community college, or private nonprofit. We initially judgmentally selected four institutions based on the institution with the highest dollar allocation in each category. The institutions selected were –

- University of Southern Mississippi.
- Mississippi Gulf Coast Community College.
- Academy of Hair Design.
- William Carey College.

Two additional institutions were selected for review based on an analysis of SLEAP funds spent as of May 12, 2006. We judgmentally selected the University of Mississippi and Jones County Junior College because they had a large allocation of SLEAP funds and requested little in fund reimbursements from IHL.

To test IHL controls at the institutional level, we randomly selected 50 student files at each institution and tested those files for adherence to SLEAP Program requirements. Our sample for each institution tested was pulled from the student roster reports submitted by each institution in order to be reimbursed for its SLEAP grant awards. IHL provided each institution a software program that required specific information be entered for each SLEAP grant award. This information was summarized and submitted to IHL in a student roster report for reimbursement.

The primary information tested was in the data fields of the student roster report requests submitted by each institution to be reimbursed by IHL for SLEAP grant awards. We performed the following audit procedures to verify the information.

- Reviewed the student application for hurricane relief assistance.
- Reviewed financial aid award documentation and student summary reports to support other financial aid amounts. Other financial aid refers to all student financial aid received by the student which along with expected family contribution is subtracted from cost of attendance to determine the student's unmet financial need. SLEAP grants cannot exceed the student's unmet need.
- Identified cost of attendance in the student file.
- Identified the hurricane award amount and confirmed that it was paid in the student summary reports.
- Verified that the hurricane award did not exceed the unmet need (cost of attendance less other financial aid and expected family contribution).
- For professional judgment determinations, we verified that there was a SLEAP application.
- For professional judgment determinations, we evaluated the reasonableness of the adjustments to expected family contribution or cost of attendance.

In addition to testing information submitted to IHL for reimbursement of SLEAP grants awarded to students, we interviewed financial aid staff at each institution regarding their efforts to notify students of the availability of the SLEAP grant awards and their initial determination of hurricane need used by IHL for allocation of the \$95 million in hurricane relief funds. We also asked the financial aid staff if they anticipated any difficulty in using their allocation of SLEAP grant funds.

To meet the objectives of our audit, we relied, in part, on computer-processed data that IHL used to summarize and report SLEAP grant awards. As discussed above, we tested the controls at IHL and the institutions to verify the accuracy of the information contained in the student roster reports used by IHL to record expenditures in its accounting system and request reimbursement from the Department for SLEAP grant awards. Based on our assessment and tests to date, we concluded that the computer-processed data provided by IHL and the institutions was sufficiently reliable for the purpose of our audit.

We conducted our audit fieldwork during the period February 2006 through July 2006. As part of our audit, we visited (1) IHL's offices in Jackson, MS; (2) Mississippi Gulf Coast Community College in Perkinston, Gulfport, and Biloxi, MS; (3) University of Southern Mississippi in Hattiesburg, MS; (4) William Carey College in Hattiesburg, MS; (5) University of Mississippi in Oxford, MS; (6) Academy of Hair Design in Jackson, MS; (7) and Jones County Junior College, in Ellisville, MS. We contacted IHL and institutional officials as necessary to obtain additional information and clarifications during our audit work.

The audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above. At this time we are unable to fully meet our audit objectives due to Mississippi Institutions of Higher Learning's (IHL's) ongoing efforts to provide hurricane relief funding to students. In addition, recent changes in the law may divert some of the hurricane relief funding to institutional support under Title VII, although the IHL

Director stated that IHL does not currently intend to redirect the hurricane relief funding from the SLEAP Program.

### **Administrative Matters**

We are closing this audit because no further audit work can be performed at this time. IHL has until September 30, 2006, to obligate the hurricane relief funding, and material events may occur in IHL's administration of the hurricane relief funding that could impact our current assessment. Subsequent to the expiration of the hurricane relief funding availability effective September 30, 2006, we anticipate beginning a separate audit to complete an assessment of IHL's administration of the \$95 million in hurricane relief funding. The information provided in this management information report is for informational purposes only. It is not to be considered a completed assessment of IHL's administration of the \$95 million in hurricane relief funding received by IHL.

cc: James Manning  
Acting Assistant Secretary for Postsecondary Education

Thomas C. Meredith  
Mississippi Institutions of Higher Learning