

**UC MERCED AUDIT AND ADVISORY SERVICES**

March 1, 2019

To: Michael Riley – Interim Vice Chancellor and Chief Financial and Administration Officer  
Subject: Tuition, Student Fees, and Receivables Audit  
Ref: Audit Report No. M18A001

As part of the Fiscal Year 2018 – 2019 Audit Plan, Internal Audit has completed an audit of UC Merced’s management of tuition, student fees, and receivables. While the audit focused on the work of the Student Business Services department, we also reviewed processes managed by the Registrar’s Office, Student Information Systems in the Office of Information Technology, the Budget Office, and other departments that impacted charges on student accounts. We appreciate the help we received from the staff in these various departments during the audit.



Todd Kucker  
Director of Internal Audit

Attachment

cc Senior Vice President and Chief Compliance and Audit Officer Bustamante  
Chancellor Leland  
Vice Chancellor Nies  
Associate Chancellor and Senior Advisor Putney  
Associate Vice Chancellor Kovalchick  
Associate Vice Chancellor Orcutt  
Assistant Vice Chancellor Coker  
Interim Controller and Assistant Vice Chancellor Groesbeck  
Assistant Vice Chancellor Kaur  
Chief Information Security Officer Dugan  
University Registrar Webb  
Executive Director Reed  
Director Robinson  
Director Radney  
Manager Garcia  
Manager Wilcox

**UNIVERSITY OF CALIFORNIA, MERCED  
AUDIT AND ADVISORY SERVICES**

Tuition, Student Fees, and Receivables Audit  
Report No. M18A001

March 1, 2019

Work completed by:  
Brandi Masasso – Staff Auditor

## **Management Summary**

As part of the fiscal year (FY) 2018 - 2019 audit plan, Internal Audit conducted a review of student tuition, fees and receivables at UC Merced. Student tuition, fees and receivables are a core business function of the university.

Based on our audit procedures, we concluded that there are adequate internal controls over the assessment, collection, and disbursement of tuition, fees and other charges recorded on student accounts. Overall, it appears that controls have been designed to adequately manage the risks in these processes.

Positive observations included:

- Billing, collection and receivable functions are effectively managed.
- Internal controls established over billing and receivables procedures for tuition and fees are in place to ensure effective operating control practices.

However, we noted opportunities for improvement in the following areas:

- Utilization of a Statement of Financial Responsibility Agreement
- Billing management of third-party textbook vendor fees
- Student fee oversight
- FERPA training for all users of Banner

## **Purpose, Objectives, and Scope**

The purpose of our review was to assess risks related to student accounts and evaluate the adequacy of internal controls over the assessment, collection, and disbursement of student tuition, fees, and receivables, including delinquent and bad debt write-off practices. The following were the objectives of our audit:

- Obtain an understanding of significant processes and practices employed in the implementation of student tuition, fees, and receivables; and
- Determine whether internal controls have been properly designed and implemented to mitigate identified risks related to tuition, fees, and receivables.

The scope of our review was to complete an overall risk assessment of Student Business Services and amounts charged and payments made to student accounts. We completed this risk assessment by discussing procedures with employees in Student Business Services, as well as Office of Registrar, Financial Aid, Budget, and Information Technology whose procedures have an effect on the management of student accounts. We also reviewed documentation related to the current reconciliations and other control processes.

Based upon our overall risk assessment, we considered the following areas:

- General control environment in Student Business Services

- Business processes related to recording and reviewing amounts
- Access to information in the Student Information System (Banner)
- Business processes related to management of student fees

## **Background**

Student Business Services is a division within Finance and Administration. They are directly responsible for the billing and collection of student tuition, fees, and other university related charges owed by current and former UC Merced students. The department is made up of six employees: a Director, an Operations Supervisor, a Student Collections Coordinator, an Operations Coordinator, and two Student Account Specialists.

A number of other campus offices have responsibilities that are also integral to the overall management of fees and receivables. For example, the Registrar's Office is responsible for management of the various fee tables. Financial Aid is responsible for the management of financial aid awards to qualifying students. And, Student Information Systems supports the information technology used for managing student fees and receivables. UC Merced's student information system is Ellucian's Banner system.

## **Conclusion**

Based on our audit procedures, we concluded that there are adequate internal controls over the assessment, collection, and disbursement of tuition, fees and other charges recorded on student accounts. Overall, it appears that controls have been designed to adequately manage the risks in these processes.

However, we noted opportunities for improvement in the following areas:

- Utilization of a Statement of Financial Responsibility Agreement
- Billing management of third-party textbook vendor fees
- Student fee oversight
- FERPA training for all users of Banner

## **Observations and Recommendations**

### **1. Utilization of a Statement of Financial Responsibility Agreement**

It was noted during our review that UC Merced is the only campus systemwide that does not require students to sign a Statement of Financial Responsibility Agreement (SFRA) form. An SFRA is an agreement that outlines a student's financial responsibilities associated with enrolling for classes, and explains the potential consequences that may result if a student fails to fulfil those obligations.

Based on discussions with the Student Business Services Director, an SFRA form was compiled by the Office of the President and approved by Office of General Counsel for the campus to utilize. However, there have been difficulties with the form being approved and implemented at UC Merced. See the Appendix for the Office of the President approved SFRA form.

Financial institutions, including the financial departments of colleges and universities, are required by federal debt collection and consumer protection laws to be transparent with their financial policies/procedures and requirements. Additionally, it is common practice among higher education institutions across the US to use a similar financial responsibility agreement form to ask students to affirm their understanding of their financial obligations to the institution.

Enrollment at UC Merced generates a financial obligation as tuition and fee charges are incurred at the point of registration. It is important for students to understand the cost of their education and acknowledge their understanding of university financial policies and responsibilities associated with enrollment.

As a result of not requiring students to accept and sign an SFRA form, UC Merced is not in compliance with federal debt collection and consumer protection laws. Additionally, UC Merced does not have the assurance to the collection of enrollment fees.

Audit recommends that Student Business Services work with Office of Legal Affairs, Student Affairs, and the Controller's Office to review the Statement of Financial Responsibility Agreement compiled by the Office of the President to determine if UC Merced should require students to sign an SFRA form prior to registering for classes and periodically thereafter.

### ***Management Corrective Actions***

*Student Business Services counterparts across the UC worked together with Student Affairs staff at UCOP to draft a student Statement of Financial Responsibility (SFR). A final draft of that document was reviewed and approved by the office of the UC General Counsel on October 3, 2016. Since that time, it is my understanding that some form of the SFR has been implemented at every UC campus except UC Merced.*

*Student Business Services understands the importance of helping students to understand the financial commitment they are making by registering for UC Merced courses. We also believe it is important for students to understand UC Merced financial policies and their responsibilities associated with enrollment. For these reasons, Student Business Services will commence a conversation with representatives from UC Merced Student Affairs, Legal Affairs, and the Controller's Office to determine the appropriate methodology for presenting a SFR to students and gaining their consent. We are hopeful that, together, this group will be able to fast-track implementation of a SFR as an Information Technology project.*

*This action plan will be completed by October 31, 2019.*

## 2. Billing management of third-party textbook vendor fees

During the review, we noted instances where student accounts were being charged fees by the Campus Bookstore for digital adaptive material. These fees were after tuition costs were assessed and financial aid payments were disbursed. It was identified that these fees were part of the Inclusive Access Program.

The Inclusive Access Program at UC Merced provides digital adaptive material for courses in place of traditional textbooks at a lower cost to the student. Fees vary depending upon the platform and content used by the instructor. Access is provided electronically when the student enrolls in the course and fees are billed to student accounts after the drop course date. If students prefer to purchase the materials through a different source, they have the option to “opt-out” of the program and the fees will not be billed to their student accounts.

The Campus Bookstore Manager stated that UC Merced has partnered with a third party vendor to provide the digital adaptive materials for courses in the Inclusive Access Program. One difficulty with the program has been the process of billing student accounts for the materials. The current process involves working with the third party vendor to obtain a listing of students participating in the program that have not “opted-out.” Once the list has been finalized, the Campus Bookstore manually uploads those students into the Banner system and the charges are applied to their accounts. As a result of this very manual process, the fees appear on student accounts after their tuition costs have been assessed and financial aid payments are disbursed.

The untimeliness of the additional charges to student accounts can cause a financial burden to those students already struggling with the cost of college. In addition, registration holds and additional penalties for non-payment can be added to their accounts.

Audit recommends the Campus Bookstore work with Student Business Services, Office of Information Technology and Financial Aid to improve billing processes related to the Inclusive Access Program.

### ***Management Corrective Actions***

*As the Inclusive Access program continues to grow at UC Merced, the Campus Store is working with Data Services and Student Business Services to apply inclusive access fees in a timelier manner. Currently, students are billed for Inclusive Access fees after Census day of each semester. At the request of Student Business Services, Admissions, and the Office of the Registrar, the Campus Store is exploring options to apply Inclusive Access fees either at the time of registration or before student’s financial aid is distributed so that these fees are billed and collected at an earlier time.*

*Additionally, the role of Inclusive Access transaction manager, the vendor in charge of tracking student Opt Outs, remitting payment to publishers, as well as the direct billing and credits to the student bill, is in the process of being put out to bid via RFP. The Campus Store, in collaboration with Office of Information Technology, Student Business Services, and the Office of the Registrar, is working on selecting a transaction manager to take over the management of the Inclusive Access program, through full integration with Banner 9.*

*This action plan will be completed by August 31, 2019.*

### 3. Student fee oversight

During the audit, we reviewed various student fees. From our review of financial accounts for these various student fees, we identified instances where it appears that the amounts collected from students for the various course materials fees are significantly more than the costs these fees are designed to pay for. From our review of the annual activity in these accounts, we could not determine whether too much was collected or whether material costs were not correctly charged to the accounts.

UC “Guidelines for Implementing Course Materials Fees” define “course materials” as materials, supplies, tools, or equipment, which are consumed, retained or used by the student, or other materials or services necessary to provide a special supplemental educational experience of direct benefit to the student. Guidelines for implementing course materials fees include procedures for fee assessment and fee accountability. Fees should be reviewed annually and costs accurately documented.

Based on discussions with the Director of Administrative Budget and Policy, the accountability for monitoring the various student fee uses and balances has been decentralized to departments and schools. The Budget Office periodically reviews balances but does not monitor uses. In recent years, additional staffing has been added to the Budget Office and there has been a stronger focus on improving budget processes, including better monitoring of student fee uses and balances.

Student fees are designed and intended for specific purposes. The risk of maintaining financial accounts with balances significantly more than actual costs could imply that fees being collected from students are excessive. It is important to monitor fee balances to determine if the amounts being collected are appropriate and used for approved purposes.

To ensure proper control over the administration of student fees, audit recommends the Budget Office establish processes for periodically reviewing and evaluating that fee rates are set appropriately and being utilized for the approved purpose. Additionally the Budget Office should work with departments and schools to review balances and establish thresholds to provide formal justifications or action plans to reduce account balances.

#### ***Management Corrective Actions***

*As part of the annual call for Course & Miscellaneous Fees for Fall 2020, departments requesting renewals or revisions to existing course fees will be required to provide a report detailing actual expenditures from fee revenues for the prior two fiscal years. If a department incurs a surplus or deficit in excess of 8% of the original budget, an explanation must be provided.*

*These reports will be shared with Financial Planning & Analysis staff for periodic review with departments during regularly scheduled budget meetings. Departments will be expected to provide feedback on the intended use of fees and plans for properly aligning funding with expenditures. During fiscal close, Financial Planning & Analysis will analyze fiscal year-end*

*balances and expenditures and work with departments on spending plans for unspent funds and resolution of deficits.*

*This action plan will be completed by March 31, 2019.*

#### 4. FERPA training for all users of Banner

The Family Educational Rights and Privacy Act of 1974 (FERPA) is a federal law that protects the privacy of student educational records. The Student Information System, Banner, contains student information so employees with access to Banner should understand the requirements of FERPA in keeping student information confidential.

During the audit, we reviewed how access is assigned to users in Banner. During summer 2018, the Office of the Registrar and the Student Information Services group began requiring new Banner users to complete FERPA training which is available in the UC Learning Center. The new requirement was only directed at new users and employees who already had Banner access were not required to complete FERPA training.

The risk is that there are employees with access to student data who don't realize the importance of keeping the student data confidential. As a result, student data protected by FERPA might be shared or misused.

We commend the decision to require FERPA training for new users and we recommend that all Banner users complete FERPA training. Currently, there are around 150 UC Merced employees with access to Banner and the online FERPA training only lasts 29 minutes.

#### ***Management Corrective Actions***

*The Family Educational Rights and Privacy Act of 1974 (FERPA) is a federal law that protects the privacy of students' educational records. As an institution, faculty, staff, and student employees are required to protect all student information making sure it remains confidential.*

*In response to the audit finding of FERPA training for all users of Banner, the Office of the Registrar will take the following corrective actions. The Office of the Registrar will require all Banner users complete the online FERPA training available through the UC Learning Center. The Office of the Registrar will allow one month to comply with the request for training completion. If the training has not been completed within one month access to Banner will be suspended. This will be the timeline and model moving forward until such a time as the training is required on an automated schedule through the UC Learning Center.*

*The Office of the Registrar understands the risk that comes with employee access to student data.*

*This action plan will be completed by July 1, 2019.*

**UCOP & DSFS Work Group Guidance for Campuses  
Financial Responsibility Agreement**

Please review the following information regarding student financial responsibility. If you choose not to consent to the final three processes you will need to contact [applicable campus info and link](#) for information on how to proceed. All other statements are disclosures for your understanding.

- 1) Tuition and mandatory fee information can be found at [applicable campus info and link](#). I am responsible for the payment of tuition, registration fees, room, board, health insurance, activity fees, or any other authorized charges assessed to me on my student account by the due date.
- 2) While there are monthly payment plans/extension of credit to serve as short-term financing solutions, tuition and mandatory fees cannot be considered satisfied until all payment plan installments are paid in full.
- 3) If my charges are not paid by the due date, a late fee will be assessed. If my account balance becomes delinquent, I cannot enroll in classes for a future term. Additionally, I cannot be issued a formal transcript until my account balance is paid in full or brought into a current status. At the discretion of the campus, I may be administratively dropped from my courses for nonpayment.
- 4) An unresolved delinquent balance, persisting for multiple months, could eventually result in interception of tax refunds or lottery winnings, and additional charges such as collections costs and/or court fees.
- 5) To drop enrollment in a class or to withdraw from the university, I must complete and submit all required online or hard-copy documentation by the [applicable deadlines](#). A lack of class attendance does not constitute an official drop or withdrawal.
- 6) I will receive billing information and related financial communications electronically. I understand that my payment obligation remains whether or not I view my billing statement/account activity, and whether or not my account is being paid by me or someone else.
- 7) If I wish to allow the university to communicate with my parents or a third party about my personal information, I must complete the appropriate process to provide such consent. The university may disclose personal information to servicing agencies and other agents for the purpose of conducting university business while maintaining data security as required by law.
- 8) I will immediately communicate any change of my legal name, SSN/TIN, address, phone number, email and citizenship/visa to the university and keep my student account information up to date.
- 9) I consent to the university and its agents, representatives, and contractors to contact me through my residential phone or mobile phone, including by way of text, using automated message calls or an auto dialer concerning my student account and any campus-based loans I have borrowed or will borrow. This is in addition to the pre-existing ability of the above parties to reach me by mail, email, and individually by phone. I am solely responsible for receiving and responding to messages and correspondence from the university.
- 10) I consent to electronic delivery of IRS Form 1098-T, which is necessary to obtain a tax credit. I understand that I can withdraw consent by contacting the appropriate office below to identify the paper process by which to request paper 1098-Ts. I understand that I only need to consent once for current and future years. Not consenting or withdrawing consent to electronic delivery will result in having the 1098-T Form go through the postal service to an address on file, which I must keep up to date.
- 11) If I do not waive student health insurance, I consent to electronic delivery of the IRS Form 1095-B, which is necessary to avoid a health care tax penalty, to my email address on file. I understand that I can withdraw consent by contacting the student health insurance office to identify the paper process by which to request a paper 1095-B. I understand that I only need to consent once for current and future years. Not consenting or withdrawing consent will result in having the 1095-B Form go through the postal service to an address on file which I must keep up to date.

I have read, understand, and consent to the terms of this agreement, as applicable, and that I have an opportunity to ask any questions I may have by contacting [applicable campus info and link](#).

I Agree