

HOWARD UNIVERSITY

OFFICE OF THE PRESIDENT

April 9, 2018

Dear Howard University Community:

In keeping with my commitment to transparency, today I am writing to you to provide an update on the University's ongoing efforts to review the oversight and operations of the Office of Financial Aid. I want to assure you all that I am committed to getting to the bottom of this situation and to strengthening our financial aid policies and procedures to ensure that this never happens again.

To that end, today we are releasing the Howard University Preliminary Investigation Report. As described in the report, the University's initial investigation uncovered problematic practices in the awarding of certain Howard University-provided financial aid grants. In response to this discovery, the University, through its leadership including myself, took immediate steps to initiate an ongoing investigation into this matter. The report sets forth the events underlying the University's decision to terminate six University employees for their misconduct related to this matter. The report also identifies additional steps that the University will be taking to improve our financial aid policies, processes, and procedures to ensure that issues like this do not arise again.

The University's investigation is ongoing and includes a review of the University's administration of Federal Student Aid to identify any noncompliance with applicable policies and procedures. In the summer of 2017, as we confirmed our preliminary findings, I personally discussed with the U.S. Department of Education the issues that the University discovered in its investigation and explained that the University is continuing to investigate the administration of financial aid, including federal financial aid. As the University's investigation continues, there may be additional facts the University learns or needs to confirm that will inform the next steps in the investigation.

Howard University is committed to uncovering any impropriety in the administration of University-provided financial aid and Federal Student Aid, to remediating all problems identified during this investigation, and to maintaining a robust compliance program to prevent any inappropriate dealings in the administration of financial aid. It is my sincere belief that Howard will be an even stronger University because of the financial aid reforms we have implemented and will continue to implement. In service to our University community, I look forward to continuing to work with and on behalf of our students and our entire community to get to the truth.

Excellence in Truth and Service,



Wayne A. I. Frederick, M.D., MBA
President



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Howard University Preliminary Investigation Executive Summary

This Executive Summary briefly sets forth the events underlying Howard University's decision to terminate six University employees for their misconduct in connection with financial aid matters. The University's initial investigation uncovered problematic practices in the awarding of certain Howard University-provided financial aid grants. As part of its ongoing investigation, the University is also analyzing its administration of federal student financial aid to identify any noncompliance with Federal Student Aid policies and procedures.

Howard University Investigation Origins & Forensic Accounting

- During routine assessment of University's financial transactions, Office of the Controller became concerned about internal controls related to University's grant funds. A forensic auditing firm was retained in October 2016. Due to importance to University students, Office of Financial Aid was identified as an area for evaluation.
- Walk-through of University's tuition remission process in November 2016 revealed student/employee received both tuition remission benefits and University Grants, resulting in a "refund" to the student of additional financial aid, leading to further inquiry.

Forensic Investigation into Disbursement of University Funds

- University began investigation with then-current employees in Office of the Bursar and Office of Financial Aid in May 2017. Forensic firm simultaneously investigated recipients of large refund amounts. Findings indicated most of the disbursement transactions deemed "irregular" were posted to Banner, the software system that Howard uses for financial aid processing, by several now-former University employees.

Findings from Howard University Internal Investigation into Institutional Grant Funds

- University interviewed relevant employees still at Howard. Determined that six employees demonstrated egregious violations of their responsibility as stewards of University resources. These employees were terminated either for awarding or receiving University-provided aid inappropriately.
- In total, it was determined that from 2011-16 these six individuals inappropriately awarded and/or received approximately \$90,000 in Tuition Remission and \$279,000 in University Grants. The Tuition Remission and University Grant amounts were applied to student accounts to reduce institutional charges and, in some cases, resulted in credit balances that were distributed as Refunds or Loan Forgiveness. It was determined that \$303,000 in Refunds and \$18,000 in Loan Forgiveness resulted from the Tuition Remission and University Grants applied to student accounts. Some University Grant funds were used to reduce charges and did not generate Refunds.
- The six individuals engaged in misuse of University funds, as distinct from Federal aid. An investigation is ongoing to determine whether there are any issues with Federal aid.

Additional Steps to Improve Howard's Financial Aid Policies, Processes, and Procedures

- Completion of the investigation to determine whether there are any irregularities in the administration of federal financial aid; Howard has retained outside counsel and a financial aid consulting firm to assist.

- University officials met with U.S. Department of Education officials on April 4, 2018.
- University is putting additional resources in place to improve administration of financial aid, including retention of financial aid consulting firm to conduct an operational and compliance review of Financial Aid Office, creation of a customized action plan with recommendations based on such review, creation of a comprehensive policy and procedure manual, Financial Aid foundations training for new and existing Financial Aid office employees, and provision of technical assistance to optimize operation of the Banner system.

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Howard University Preliminary Investigation Report

Introduction

The following Preliminary Investigation Report briefly sets forth the events underlying Howard University's decision to terminate six University employees for their misconduct in connection with financial aid matters. Howard University is committed to improving the administration of its financial aid programs and to overhauling the Office of Financial Aid's oversight and operations as necessary to achieve this objective. The University has already taken several concrete steps to improve its financial aid operations as of the date of this report.

Howard University's investigation into this matter is ongoing and is proceeding on multiple paths, supported as necessary by independent consultants including Third Coast Higher Education (TCHE). The University's initial investigation uncovered problematic practices in the awarding of certain Howard University-provided financial aid grants. As a result of these findings, the University, in conjunction with TCHE, is also investigating its administration of Federal Student Aid to determine whether there has also been any noncompliance with Federal Student Aid policies and procedures. This investigation is proceeding with all due speed.

Howard University is committed to uncovering any impropriety in the administration of University-provided financial aid and Federal Student Aid, to remediating all problems identified during those investigations, and to maintaining a robust compliance program to prevent any inappropriate dealings in the administration of financial aid.

The Preliminary Investigative Report is divided into four parts:

- Part One explains the origins of the University's initial investigation, including how the University first learned of potential issues in the awarding of University-provided financial aid in the Financial Aid Office and the immediate steps taken by the University to prevent institutional grants from being inappropriately awarded.
- Part Two describes the preliminary investigation and findings of RSM US LLP (RSM), which performed a forensic accounting investigation into the awarding of Howard's institutional grant funds.
- Part Three describes the results of the subsequent investigation by the University's Office of General Counsel (OGC) that resulted in the termination of six University employees based on the investigation's findings.
- Part Four explains the additional steps that the University will be taking to improve its financial aid policies, processes and procedures, including ongoing investigations and future corrective actions, to ensure that issues like this do not arise again.

I. Origins of the Howard University Investigation & the Engagement of RSM to Carry Out a Forensic Accounting Review

Howard University's Office of the Controller routinely assesses the University's financial transactions to ensure that these transactions are accurate and appropriate and that sufficient internal controls are maintained to prevent inappropriate financial dealings.¹ As part of this work the Office of the Controller retained a consultant to assist in assessing the University's internal controls over financial reporting in several University offices.

The Office of the Controller undertook this effort to assess the effectiveness of the University's internal controls because of an earlier enterprise risk assessment, which identified strong internal financial controls as an important risk mitigation tool. The assessment also identified baseline controls that the Office of the Controller should seek to implement in all University offices.

In August 2016, as part of its ongoing effort to improve the University's internal controls, the Office of the Controller directed its consultant to review the system controls in the University's financial aid processing software system. Due to its importance to University students and to the operations of the University overall, the Office of Financial Aid was identified as an area for evaluation. During the review of internal controls in the Office of Financial Aid, the Controller's consultant became concerned about the controls related to the awarding and disbursement of certain University-provided financial aid funds.

In October 2016, the Controller's Office retained the forensic accounting firm RSM to perform forensic analyses of the relevant records and processes in a different segment of the University's financial systems.

In November 2016, as part of the Controller's consultant's review of the Office of Financial Aid's internal controls, the consultant performed a walk-through of the Office's administration of the University's employee/dependent tuition remission process. (A walk-through is a methodology used to identify problems in financial reporting systems. By walking through how the University handles a single transaction, an auditor can extrapolate to determine how other transactions are being handled, whether information is recorded properly, whether fraud-prevention controls function as intended, and whether the system catches errors effectively. A walk-through can also help identify potential weak points or other areas prone to mistakes.)

In the November 2016 walk-through, conducted with the individuals responsible for administering the employee/dependent tuition remission program, the consultant tested one transaction to observe the implementation of the tuition remission process and procedure. The consultant noted that the student/employee in the test case received both a tuition remission

¹ Internal control, as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies

benefit and also other institutional aid in the form of a University Grant. Tuition remission benefits in the employee tuition remission program offset tuition expenses, and in many cases, reduce the tuition owed by a Howard employee taking University courses to zero. Since the tuition remission benefit reduced the student/employee's balance owed to the University to zero, there appeared to be no reason why the individual in question would have received any additional University-provided financial aid.

When aid is granted in excess of student charges, an individual receives a "refund" of the "excess" aid.² In this specific case, even though there appeared to be no reason why a University Grant would be awarded in addition to the remission of tuition, the awarding of the University Grant resulted in a payment of University funds to the affected individual. Upon discovering that an individual received both employee tuition remission and a University Grant, the University engaged in further inquiry.

As a first step, the Controller's consultant began working with the Office of Financial Aid to review additional tuition remission transactions and to determine whether any patterns could be observed. On December 1, 2016, an Office of the Controller staff member was briefed by the consultant, and agreed that the practice of awarding institutional aid grants in addition to tuition remission appeared to be problematic. On December 2, 2016, the Controller's Office notified the Chief Financial Officer's Office and the General Counsel's Office of the concerning activity.

That same day, the University decided to expand its engagement with RSM to include a detailed investigation of the awarding and disbursement of University-provided financial aid in the Office of Financial Aid. The University requested that RSM provide these services due to its experience in forensic accounting, its knowledge of the University's financial systems and processes, and in order to ensure expedited handling of the investigation. Under the expanded statement of work, RSM agreed to provide forensic accounting services in connection with:

- Identifying suspicious and potentially fraudulent activity involving tuition-related employee benefits given to employees and/or their dependents.
- Evaluating whether any suspicious activity involved use of the tuition-related employee benefits and University grants.

RSM's scope of work included:

² A student may receive a "refund," which is also known as a "credit balance payment," if the student receives financial aid in an amount that exceeds the amount the student owes the University. Usually, a credit balance payment is generated when a student receives financial aid that exceeds the cost of tuition, fees, and other direct costs (e.g., on-campus housing) that are paid directly to the University. The amount of additional financial aid that remains due to the student after paying University charges is "refunded" to the student via direct deposit to a bank account or paid via check.

- Interviewing the consultant who made the initial finding and certain Howard University staff;
- Obtaining and analyzing electronic information, student activity, and source documentation related to tuition charges, tuition related employee benefits, student loans, and University grants for each employee and dependent receiving tuition assistance from the University; and
- Compiling and analyzing a list of eligible employees and dependents maintained by Human Resources as compared to the list of participants actually receiving tuition assistance from the University;
- Evaluating any other procedures determined to be necessary after the preliminary investigation.

On December 6, 2016, the Controller's Office also requested an audit of data in Banner, the software system that Howard uses for financial aid processing. (Banner facilitates financial aid administration by allowing the University to create, manage, and monitor award packages, disburse and monitor funds, and by facilitating compliance with regulatory requirements. Banner also provides self-service capabilities to students.)

RSM conducted meetings and interviews with Howard employees and other stakeholders to gain a better understanding of the identified suspicious aid transactions, as well as the accounting and management controls in place in the Office of Financial Aid. RSM also performed analysis and investigation of activity from 2011-2016 related to 131 individuals who received tuition remission, grants, and/or refunds.

On December 20, 2016, RSM provided a status update to University management. RSM informed University management that some of those charged with management responsibilities in the Office of Student Financial Aid and the Office of the Bursar may not have been acting in the University's best interest and may have been responsible for carrying out inappropriate practices. RSM also determined the underlying cause: Financial Aid Office managers had been granted authority to implement financial aid awards without adequate external controls and consequently were able to make inappropriate aid awards without proper documentation and oversight. These findings led to the University conducting its own investigation into individual employee conduct, discussed below in Section III.

According to RSM's findings:

- One hundred and thirty-one (131) employees or dependents received tuition remission, grants and refunds from 2011-2016. These refunds were made through 171 single or multiple disbursement types, which involved 775 transactions.
- The top 50 individuals accounted for ninety percent of the total disbursed. Significantly, the top five individuals received \$689,375 in total refunds of all types over six years.

It is important to note that the list of 131 individuals was not a list of individuals who had been determined to have received aid inappropriately, but rather a list of individuals whose aid

transactions over the period 2011-2016 RSM suggested should be investigated in more detail to determine whether inappropriate provision of aid had occurred.

RSM and the University held a number of status meetings in December 2016. RSM provided an update to University management on December 20, 2016, focusing on their initial data compilation, and attempting to assess the scale and scope of the issues. RSM confirmed that some employees and their dependents had received both tuition remission and University Grants, and had received refunds as a result. RSM confirmed that some employees with management responsibilities were responsible for condoning and implementing inappropriate aid awards. On January 13, 2017, the Office of the General Counsel (OGC) held a meeting with RSM and representatives of the Controller's Office and the CFO's Office who had been involved in the investigation. At this meeting, the Office of the General Counsel assumed oversight of the RSM engagement, as the focus of the investigation was now shifting to the investigation of the conduct of specific University employees and possible disciplinary action. RSM continued to provide status updates on their findings through 2017.

In response to RSM's findings, the University's management instituted new internal controls over the awarding of financial aid in August 2017.

Under these revised procedures, annual budgets for each category of unrestricted institutional University financial aid are approved by the University Budget Office and then are loaded into Banner, and these budgets are now consistent with the overall University Unrestricted Financial Aid budget.³

All disbursements of unrestricted financial aid are now required to be reviewed and approved by the Budget Office, which is overseen by the Office of the Chief Financial Officer, prior to disbursement. Additional restrictions have also been placed on access to financial aid information in Banner with adequate third-party review. Further, financial aid charged to grants must now be approved by the University's Grant Accounting Unit prior to disbursement and all grant-funded aid must be charged to a specific grant project.

As for restricted financial aid, the current available balances for each restricted financial aid account have been loaded into Banner and restricted financial aid must be reviewed and approved by the University Office of the Controller prior to award.

The University will complete a reconciliation of awarded unrestricted financial aid to approved unrestricted financial aid at least annually to test the effectiveness of these controls.

II. RSM Investigation into Disbursement of University Funds

RSM also identified the following instances of inappropriate aid awarding:

³ See the Appendix for supplemental background information about the definitions used in this Report, financial aid administration procedures at Howard University, and the types of aid available for University students.

- Tuition remission or grants granted without student enrollment or without course completion;
- Remission and University grants issued when at least one transaction was posted in Banner more than two months after the end of an academic term;
- Tuition remission issued to students who were not in good academic standing; and
- Tuition remission issued for ineligible courses or for more than the two course limit.

RSM's findings indicated that most of the disbursement transactions deemed to be "irregular" were posted to Banner by several now-former University employees.

The University began its investigation with then-current employees in the Office of the Bursar and the Office of Financial Aid. Simultaneously, RSM was directed to investigate the recipients of large refund amounts. Based on the outcome of these initial investigations, the University and RSM would then decide where next to focus their investigatory efforts.

In May 2017, Howard University retained outside counsel to advise the University on Federal Student Aid requirements, in order to ensure that identified irregularities in the disbursement of University-provided financial aid had not in any way resulted in inappropriate awarding of Federal Student Aid.

III. Findings from Howard University Internal Investigation into Institutional Grant Funds

The Office of General Counsel and Human Resources began a detailed review of the materials, and developed a priority list for interviews. All of the employees identified in the internal investigation were at-will employees who could have been terminated from employment at any time. Nonetheless, in the interest of obtaining all relevant information before jumping into decision-making, the University elected to interview the relevant employees to determine the nature of their conduct, and to gain additional information relevant to the overall investigation.

Through these interviews the University determined that six employees demonstrated egregious violations of their responsibility as stewards of University resources and were terminated either for awarding or receiving University-provided aid inappropriately. In total, it was determined that from 2011-16 these six individuals inappropriately awarded and/or received approximately \$90,000 in Tuition Remission and \$279,000 in University Grants. The Tuition Remission and University Grant amounts were applied to student accounts to reduce institutional charges and, in some cases, resulted in credit balances that were distributed as Refunds or Loan Forgiveness. It was determined that \$303,000 in Refunds and \$18,000 in Loan Forgiveness resulted from the Tuition Remission and University Grants applied to student accounts. Some University Grant funds were used to reduce charges and did not generate Refunds.

It should be noted that the University's investigation determined that the six individuals engaged in the misuse of University funds, as distinct from Federal Student Aid. The scope of the investigation to date has been insufficient to be entirely conclusive as to whether any

irregularities have occurred relative to the disbursement of Federal Student Aid, so the investigation continues in order for the University to make a final determination on this issue.

IV. Additional Steps to Improve Howard's Financial Aid Policies, Processes, and Procedures

After terminating the above-referenced individuals, Howard University has continued its investigation into the operations of its Financial Aid Office and its efforts to improve the integrity, effectiveness, and efficiency of the operations of its Office. In this next phase of the University's investigatory efforts, the University seeks to determine conclusively whether there have been any irregularities in the administration of Federal Student Aid at Howard. Howard University has retained outside counsel and Third Coast Higher Education, a financial aid consulting firm, to assist with this investigation. At this point, the University cannot report on the findings of this ongoing investigation beyond reaffirming its commitment to a complete analysis and investigation of its financial aid policies and procedures. In light of its ongoing nature, the University had not publicly reported on this matter previously because it intended to report on its findings once all of its investigations were completed. As it has throughout this investigation, the University remains committed to protecting the privacy of its employees and students from unlawful public disclosure.

In addition to continuing the investigation, the University is also putting additional resources in place to improve the administration of financial aid, including retention of a financial aid consulting firm to conduct an operational and compliance review of the Financial Aid Office, create a customized action plan with recommendations based on such review, create a comprehensive policy and procedure manual, conduct Financial Aid foundations training for new and existing Financial Aid office employees, and provide technical assistance on optimization of the Banner system.

Management is also in the process of hiring for the open positions in the Financial Aid Office and to provide the new hires with appropriate job descriptions and training.

In a recent development, Howard University officials also met with U.S. Department of Education officials on campus on April 4, 2018. The Department has commenced a Program Review of the University's Federal Student Aid administration. Program Reviews are routinely conducted to confirm that a school meets Federal Student Aid requirements for institutional eligibility, financial responsibility, and administrative capability. The University is committed to cooperating with all federal agencies tasked with oversight authority over financial aid administration and will continue to operate with candor while the investigation is continuing. In that same vein, to the extent that the results from the ongoing investigation require additional coordination with federal authorities, the University will consider the appropriate action to be taken at the conclusion of its investigation.

APPENDIX

This Appendix provides supplemental background information about the definitions used in this Report, financial aid administration procedures at Howard University, and the types of aid available for University students. This Appendix also summarizes recent trends in University-provided financial aid at Howard University.

I. Howard University's Process for Providing Financial Aid

Like many universities, Howard offers University Grants – University-provided financial aid – to help students and their families afford a college education. University-provided aid is awarded at Howard University to undergraduate, graduate and professional students.

As at other institutions, University-provided financial aid at Howard University is awarded based on specific criteria. Some aid is based on merit. This includes not only awards based on academic performance but also athletic scholarships and talent scholarships. Other aid is based on financial need.

Awarding criteria for each category of University-provided financial aid are established annually by the University's senior enrollment management team.

For graduate and professional students, overall aid allocations are determined by the senior enrollment management team, but awards to students are then determined by the Deans, who are responsible for each graduate and professional program. Similarly, the overall allocation for athletic scholarships is determined by the senior enrollment management team, but awards to students are then determined by the Athletic Director and the Vice President for Student Affairs.

The University's policy, approved by the Board of Trustees, is to provide tuition remission for employees and for dependents of employees. The program is administered by the University's Human Resources Office.

To be clear, University-provided financial aid generally is a remission of student charges, not a pool of money. It is a specifically budgeted university expense.

In most cases, University-provided financial aid is limited to some percentage of Student Charges.⁴ In these cases, University-provided financial aid is a discount to the student bill, which is an accounting adjustment, not a payment of funds.

In other cases, in particular for non-resident students, University-provided financial aid is limited to some percentage of the Cost of Attendance. When University-provided financial aid exceeds Student Charges, the amount of aid that exceeds Student Charges is provided to the

⁴ "Student Charges" means the bill students must pay to the university, including tuition, fees, room and board. "Cost of Attendance" equals "Student Charges" plus an estimate of the out-of-pocket spending that students need to be able to fund while attending their institution. For all students, this additional allotment includes costs for books, transportation, and other incidental expenses. For students not living on campus and not participating in the Meal Plan, this additional allotment also includes costs for housing and meals.

recipient student as a bank deposit or a check. These payments are commonly known as “Refunds.”

II. Other Financial Aid Available to Howard University Students

The Report references several types of financial aid available to University students, including:

Donor-Restricted Scholarships: Howard University also administers a program of donor-restricted scholarships. These scholarships involve funds that are donated to the University with a restriction that the funds must be used for scholarships. In some cases, the donation is in the form of an “endowment,” that is, an amount of money that is invested by the University. The annual earnings on the invested money are then available for distribution as scholarships. In other cases, the donor provides the University with an amount of money and requires the entire gift to be expended as scholarships, rather than being invested. Donors determine what the eligibility criteria are for these scholarships. Donor-restricted scholarships are also referred to as “Restricted Financial Aid.” Of note no donor-restricted scholarship funds have been implicated in the issues described in the Report.

Other External Grants and Loans: Students at Howard may qualify for a variety of forms of externally-provided scholarships and loans. Some of these are provided by state-level student financial programs. Other funds come from private foundations and other organizations.

Federal Student Aid: Students at Howard are also able to receive Federal Student Aid. Some Federal Student Aid is provided in the form of grants – such as Pell Grants, SEOG Grants and TEACH Grants. These grants are need-based and capped in terms of the size of the maximum available award. In other cases, the Federal Government provides students and their families with loans. These include Subsidized Direct Loans, Unsubsidized Direct Loans, Parent PLUS Loans and Grad PLUS Loans. Federal rules limit the maximum amount of Federal Student Aid that any student can access (regardless of funding type) as the difference between Cost of Attendance and all other types of financial aid received by the student (whether grant or loan) from all non-Federal sources.

III. Recent Trends in University-Provided Financial Aid at Howard University

Howard has been increasing University-provided financial aid to help students and families meet the cost of attending college. In the current 2017-18 academic year Howard’s University-provided financial aid is close to \$112 million. Aid has been increasing faster than student charges, which has reduced net tuition charged to students.

From 2008 to 2017, student charges billed to students – before the application of University-provided financial aid – increased by an annual average of 4.6% but University-provided financial aid increased by an annual average of 11.5%. As a result, net tuition reduced by awarded University-provided financial aid has decreased from \$164 million in 2014 to \$145 million in 2018. In other words, total tuition charges being billed to students, after adjustment for University-provided financial aid, are actually lower today than they were five years ago.