Using Governance and Risk Management Strategies to Keep Up with the Changing Landscape of Financial Aid by*y*

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The financial aid industry in the United States has undergone dramatic change since 2008. Most notably, the federal government is now directly administering 100% of federally insured loans for higher education through the Direct Loan Program – and private banks are out of the process.[1] As a result of this and other regulatory changes, post-secondary institutions can continue to expect increased oversight by the U.S. Department of Education – particularly with regard to financial aid compliance. Thus, institutions should reassess and, where necessary, enhance their governance and risk management processes to develop a Compliance Program that specifically address new regulations and financial aid compliance risk.

Financial aid issued by the federal government is highly regulated, and compliance requirements are not always easy for educational institutions to understand or adapt to quickly. Additionally, those participating in federal financial aid programs must comply with all applicable standards and regulations – with no tolerance for error. The Higher Education Opportunity Act (HEOA) of 2008, for example, includes more than 400 compliance changes and updates with various implementation dates. Most recently, the U.S. Department of Education Program Integrity rules and the proposed Gainful Employment regulations for For-Profit educational institutions will have significant affects on the way institutions operate their business.

Given the wide range of newly enacted legislation and associated regulatory change, it is important for post-secondary institutions to manage financial aid risk through a formal Compliance Program that includes good governance and risk management techniques.

Governance and Risk Management strategies for financial aid

How can institutions translate regulatory changes into specific risks that can potentially affect the organization, as well as develop an action plan for addressing those risks effectively? The first step is to identify key changes in federal legislation, and determine the following: Who in our

[1] The Health Care and Education Reconciliation Act, http://dpc.senate.gov/healthreformbill/healthbill63.pdf.

organization is addressing these changes? What processes do these changes affect? What is the timeline for implementation? What assurance do we and the regulatory authority require to ensure these risks are addressed and managed effectively?

Once the institution has a better understanding of how and when it may need to respond to specific regulatory changes, it then must rank the risks in terms of importance. Given that most higher education institutions today are working with limited resources, it is imperative they make informed decisions that will allow them to focus their attention on projects that will have the most impact. To determine what the key risks are, the institution should develop standard risk assessment criteria by asking the following types of questions:

- Who are my regulators (state/federal) and what do they care about?
- Who are the key stakeholders (e.g., the school, students)?
- What strategic objectives does each risk impact?
- Can we define the risk exposure qualitatively and quantitatively?
- What are the top drivers of each risk?
- What metric should we use to monitor the risks going forward?
- What are the key mitigation activities currently in place?
- What known gaps exist?
- What initiatives are under way to address the risks?

Third, the institution must identify the key attributes of a successful financial aid compliance program (see sidebar). These criteria can be used to evaluate the effectiveness of the program.

Sidebar

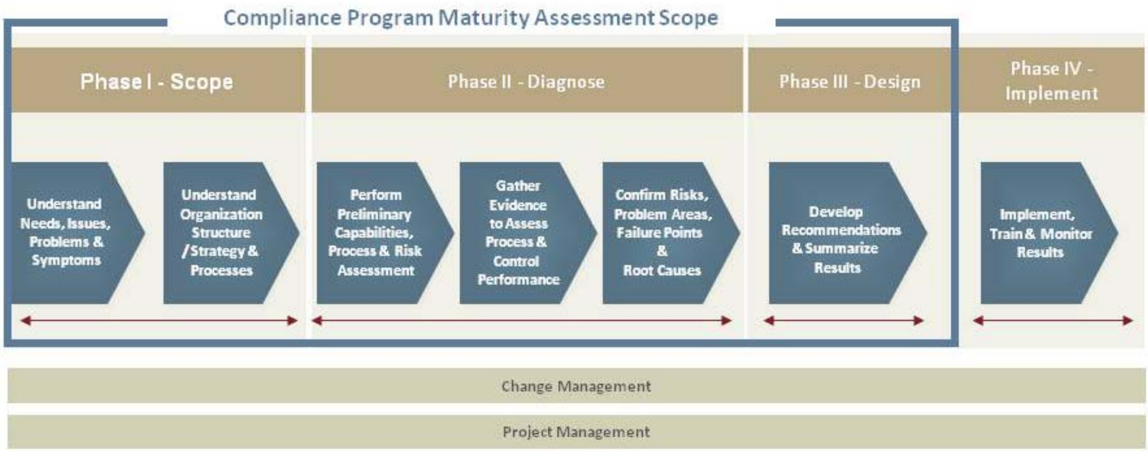
Eight Steps for Creating an Effective Compliance Program

The following eight steps for developing an effective financial aid compliance program can provide a basis for evaluating the effectiveness of an organization's compliance function:

1. **Establish Policies and Procedures** – Institutions need more than a book of regulations or the student financial aid handbook to adapt to regulatory change. The organization must establish a procedure for detecting and preventing noncompliance. Policies and procedures should include standards of conduct and adequate internal controls.
2. **Designate a Compliance Area Manager** – A clearly defined member of the management team should be made responsible for the implementation, maintenance and monitoring of the financial aid compliance program.
3. **Management Sponsorship** – The compliance program should be sponsored by management at an appropriate level within the organization. The person responsible for ensuring effectiveness of the compliance program must have the ability and authority to communicate with senior management.
4. **Communication and Training** – All persons affected by a regulation, both internal and external, should be aware of the compliance program and have a level of training commensurate to their role.
5. **Monitoring and Auditing** – The institution should monitor and audit internal and external parties subject to financial aid compliance regulations.
6. **Standards for Performance** – The institution should establish performance standards for compliance with policies and procedures by internal or external parties. These standards could be used in employee evaluations, or departmental metrics, for example.
7. **Standards for Remediation** – The institution should establish standard guidelines for implementing corrective action following changes to the regulatory environment or instances of noncompliance.
8. **Change Management** – The organization should maintain means of monitoring changes in the regulatory environment that may affect the organization policies, procedures or execution.

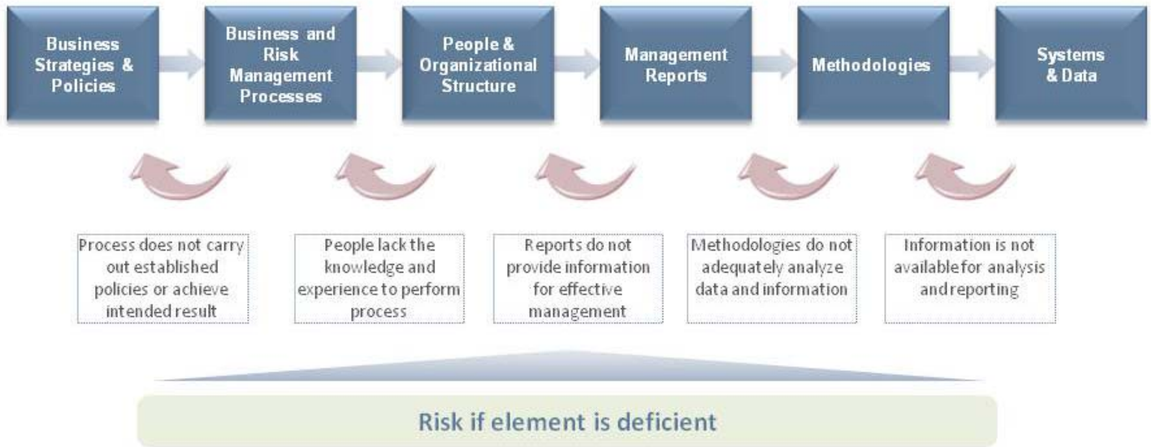
Using the compliance program to manage change

Once the institution has identified the key changes in federal legislation expected to affect the organization directly, translated these changes into risks, and identified the key attributes of a successful financial aid compliance program, it can use this program to affect change. One suggested approach, outlined below, includes four phases: Scope, Diagnose, Design and Implement.



Scope**:** In this phase, the institution should identify and confirm compliance areas and determine what business practices are likely to be affected by the newly identified financial aid compliance requirements. Management's risk appetite and the desired state of compliance program maturity also should be evaluated.

Diagnose**:** During the second phase of the assessment process, the institution should identify the current control practices it uses or will use to manage regulatory compliance requirements. (The eight elements outlined in the sidebar can be useful for identifying current control practices.) Additionally, the institution should evaluate potential gaps in the current ability to manage financial aid compliance requirements. The six elements of risk management infrastructure (see accompanying graphic) can be used to evaluate the institution's overall compliance program maturity.



Design: The objective of the design phase is to formulate procedures consistent with the organization's overall risk management strategies to comply with the new regulations. The outcome of this phase should be a list of practical and actionable recommendations that can be implemented and are consistent with the financial aid compliance program.

A "gap assessment" can be particularly useful during the design phase. It can help to provide an abundance of rich information regarding the institution's regulated business practices, compliance program capabilities, and strategies for improvement within the six elements of risk management infrastructure:

1. Business strategies and policies
2. Business and risk management processes
3. People and organizational structure
4. Management reports
5. Methodologies
6. Systems and data

For instance, by conducting a gap assessment, the institution may find that one of the strengths of its financial aid compliance program is that the segregation of duties between different personnel is effective in reducing the risk of noncompliance. However, it may also identify an opportunity to improve on this strength by performing formalized and regular reporting on an ongoing basis and instituting a process to verify that all compliance areas are addressed. Or, the institution may find that while one of its strengths is that it outsources portions of its compliance function to a third-party vendor, the vendor should have better management oversight.

Implement:

The final step is to implement the changes identified in the scoping phase, ranked and prioritized in the diagnose stage, and recommended in the design phase. Again, the steps as outlined in the Compliance Program framework can help guide the implementation process. Policies and procedures as written in the diagnose phase should be executed by people identified in the design phase and monitored by people already identified in the Compliance Program. Communication and training should be developed consistent with the design phase. .The results of these changes should be tested and audited internally to ensure compliance and provide a basis for performance management of the individuals executing the design of the procedures. This can also provide a valuable feedback loop that identifies problems or improvement opportunities of the designed procedures.

As post-secondary institutions work to adapt to the many regulatory changes brought about by new regulations, they will need to keep one eye to the future, as the compliance landscape is likely to continue to change. By establishing a formal process for translating regulatory changes into risks that can be prioritized and addressed, and taking a structured approach to evaluating the effectiveness of their compliance program, institutions will be better prepared to operate under the increased oversight of the U.S. Department of Education, while helping students achieve their dream of higher education.

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