

Audit uncovers financial mismanagement at Paine College

Students speak out

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Paine College lost eligibility to one federal loan program for students and is at risk of losing more funding for mismanaging student financial aid and inaccurately reporting enrollment and financial data to the government, according to a recent financial audit.



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Paine College's actions have reduced its access to some student aid, and the school concedes it will run a deficit in 2013.

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Along with other bookkeeping failures, the school did not change enrollment statuses or return unused aid to the government after some students withdrew in the 2010-11 fiscal year, according to a financial audit of the 2009-10 and 2010-11 fiscal years by Augusta certified public accounting firm Cherry, Bakeart and Holland. The audit was certified March 22.

Losing government money at a school such as Paine, where more than 90 percent of students rely on federal aid, would have a “very negative impact on its ability to serve students,” according to Rick Staisloff, the founder and principal of Maryland-based rpkGROUP, a leading consulting firm in higher education.

The 130-year-old private, historically black college has been celebrated for increasing access to higher education for thousands of black students.

“For an institution that is heavily dependent on federal aid, that would have serious repercussions,” said Staisloff, who spoke about college finances in general and not Paine specifically. “Tuition is an important part of the revenue stream, and students’ ability to pay that tuition is in many cases dependent on their access to aid.”

Repeated requests to interview Paine President George Bradley were not granted, and the college

instead provided a 250-word written statement. The college's 12 Board of Trustee members either refused to comment or did not return calls.

The audit obtained by *The Chronicle* details the school's lack of resources and knowledgeable personnel dedicated to preparing financial statements and managing federal money. In the fiscal year ending June 30, 2011, the college spent \$500,000 more than it had in income and ended with \$343,000 in available cash, compared with \$1.1 million in the same account the year before.

The college has not met student enrollment goals for the current fiscal year of 2011-12, causing it to rely on additional financing sources such as credit lines from banks, according to the audit.

While the audit shows a relatively healthy 2009-10 fiscal year, it points to an abrupt change in 2010-11, with a series of financial issues and failures in how officials tracked and distributed financial aid.

Paine lost access until 2014 to the Federal Perkins Loan, a need-based program for students, after not properly accounting for the funds.

It did not have policies and procedures to administer the program, and more than 50 percent of students defaulted on the loan, adding to its ineligibility, according to the audit.

The audit also found Paine failed to correctly administer other Title IV financial aid programs:

- In a sampling of 40 students, Paine awarded financial aid to two who did not attend the school those semesters. The grants and loans totaling \$6,000 have not been returned to the federal government.
- The school did not return leftover federal money to the government within the 45-day requirement after students withdrew from the college in the 2010-11 school year. In two instances, returns totaling \$10,000 were almost one year late and were only returned "as a result of the auditor's inquiry during the testing of refunds," according to the audit.
- Of 21 students who withdrew during the 2010-11 year who were receiving loans, only one student's enrollment status was changed during the required time frame to show the person was no longer attending Paine. Auditors noted that not updating a student's enrollment status could result in that person paying unnecessary interest on loans.
- In an audit sample, there were two instances where Paine officials recorded they had disbursed loan money to students but actually never gave them the money. The oversight had to do with a failure to keep proper records of loans and disbursements, according to the audit.

Students speak out

Concerns about financial aid surfaced at the college when nearly 30 students protested in front of the administration building March 21. Some students said their financial aid checks bounced, while others said there were months of delays in receiving their checks.

Paine business management senior Adam Richmond, 25, said he received his check for the spring semester three months late in mid-March. When the school finally delivered the \$500 check, it was handwritten.

“When I spoke to my bank, they said they’ve never seen a handwritten check from a college,” he said.

A day after Richmond made the deposit, Wells Fargo told him the check had bounced.

He said it took a trip to Bradley’s office to get the situation rectified and to get credited for bank fees from the bounced check.

“It totally threw me off,” Richmond said. “It was midterm week, so I wasn’t really able to focus on my classes. I’m down here on my own. I have no family sending money, so every little thing counts. It really set me back.”

Staisloff said it is rare for institutions to distribute bad checks, because the money should be received from the federal government and put into proper accounts for students.

“It would certainly raise red flags,” he said. “There are very stringent rules and regulations surrounding how those funds are to be handled.”

Along with financial aid issues, a school’s deficit spending could also affect its long-term health, Staisloff said.

He said it’s important to look at what factors are causing the deficit – whether the negative is caused by start-up costs, investments or excessive spending.

“You have to look at what’s causing the deficit spending; how long has it been occurring?” he said. “When that’s occurring year after year, it starts to erode the long-term health of an institution.”

Paine’s response

According to Paine’s statement, officials realized in September that the school would have a budget shortfall for fiscal year 2013. Paine has not had to “utilize any funds to cover this budget shortfall” and the deficit should not affect daily operations, it said.

“Since becoming aware of these budget issues, Paine has moved swiftly to identify the necessary steps to ensure financial continuity,” the statement reads. “The school promptly put in place financial responsibility measures, including the termination of relevant personnel, and a complete review of college fiscal policies and procedures.”

In the audit, Paine officials said they hired a controller and assistant controller for the fiscal management team, each with almost 25 years of experience. The college has also started a national search for a chief fiscal officer, to be hired around July.

Federal measure

The U.S. Department of Education has its own safeguards in place to monitor the financial health

of a school.

Sue Menditto, the director of accounting policy for the National Association of College and University Business Officers, a membership organization that focuses on business practices at higher education institutions, said one of those, the Financial Responsibility Composite Score, rates a college on a three-point scale based on audited financial statements.

The score for the 2010-11 year, which the March 22 audit addresses, is not yet available from the Department of Education. Paine's score for 2009-10, when it had triple the available cash and no deficit spending, was 2.7 out of 3.

"One of the reasons they have the financial responsibility test is to set up a warning flag so a school wouldn't out of the blue close, so the students wouldn't show up and the doors would be closed," Menditto said.

Coming off a well-scored 2009-10 year, the 2010-11 year showed several difficulties. In 2009-10, Paine had a \$107,000 increase in net assets but a decrease of \$496,000, or deficit spending, in 2011, according to the audit.

Though available cash plummeted, the school still spent \$2 million on the purchase of property, plant and equipment.

Paine obtained a loan of \$7 million for the construction of a gym in January, which has a 4.25 percent interest rate due monthly.

In its statement, Paine officials said the school has made strides in new academic programs, capital improvements and strengthening its faculty. It promises to continue its presence and impact in the community.

"Paine continues to be an essential member of the Central Savannah River Area community through an alumni presence, economic development, board involvement and the school's research contributions," it said.

PAINE COLLEGE'S STATEMENT

Paine College officials refused an interview with *The Augusta Chronicle* about the audit's findings and instead provided a 250-word written statement:

"Over the past five years, Paine College has made significant strides in a number of key areas, including: new academic programs, accreditations, capital improvements, strengthened faculty, more diverse student population and an overhaul of the school's policies and procedures. Paine continues to be an essential member of the Central Savannah River Area community through an alumni presence, economic development, board involvement and the school's research contributions.

"We have also demanded accountability from our employees, faculty and students. Clear

goals and metrics for success have defined our ability to monitor progress and take corrective actions when needed.

“Late last September, we became aware that the school would experience an unanticipated financial shortfall for fiscal year 2013. Immediately, Paine sought to ascertain the scope of the financial deficit. To date, it has not been necessary to utilize any funds to cover this budget shortfall and we are confident that there will be no disruption to daily operations or plans for continued growth.

“Since becoming aware of these budget issues, Paine has moved swiftly to identify the necessary steps to ensure financial continuity. The school promptly put in place financial responsibility measures, including the termination of relevant personnel and a complete review of college fiscal policies and procedures.

“Paine leadership will continue to work closely with the college’s Board of Trustees to fulfill the school’s mission. It has been through the valuable support of our alumni, friends and the community that we are positioned to reach higher heights to become recognized as a premier leading liberal arts institution in the region.”