Universidad Carlos Albizu, Inc.

Financial Statements and Supplemental Schedule
of Expenditures of Federal Awards

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Universidad Carlos Albizu, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Universidad Carlos Albizu, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of Universidad Carlos Albizu, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Universidad Carlos Albizu, Inc.'s internal control over financial reporting and compliance.

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San Juan, Puerto Rico
December 9, 2019
License No. LLC-322
Expires December 1, 2020

Universidad Carlos Albizu, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 3,195,651	$ 3,193,103
Restricted cash	1,384,899	286,517
Accounts receivable, net	2,441,751	3,652,416
Prepaid expenses and other assets	898,985	733,941
Investments	20,282,850	19,797,925
Investments, restricted	1,212,735	982,150
Property and equipment, net	23,317,742	22,228,257
Total assets	52,734,613	50,874,309
Liabilities and Net Assets		
Liabilities:		
Accounts payable	1,196,494	1,250,030
Accrued expenses	2,618,631	2,668,393
Deferred revenues	1,812,364	1,842,872
Derivative financial instrument	654,452	665,536
Obligations under capital leases	-	2,636
Long term-debt	6,496,418	7,404,679
Total liabilities	12,778,359	13,834,146
Net assets:		
Without donor restrictions	34,414,629	32,104,832
With donor restrictions	5,541,625	4,935,331
Total net assets	39,956,254	37,040,163
Total liabilities and net assets	$ 52,734,613	$ 50,874,309

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	$ 26,778,107	$ -	$ 26,778,107
Less scholarships	(706,962)	-	(706,962)
Net tuition and fees	26,071,145	-	26,071,145
Contributions and contracts	32,880	3,070	35,950
Private gifts, grants and contracts	1,309,388	1,435,561	2,744,949
Other sources	3,865,793	-	3,865,793
Contributed services	72,890	-	72,890
Net assets released from restrictions	899,433	(899,433)	-
Total revenues, gains and other support	32,251,529	539,198	32,790,727
Educational and general expenses:			
Instruction	9,138,252	-	9,138,252
Research	413,159	-	413,159
Public services	6,412,998	-	6,412,998
Academic support	4,647,288	-	4,647,288
Student services	2,123,489	-	2,123,489
Institutional support	9,905,153	-	9,905,153
Contributed services	72,890	-	72,890
Total educational and general expenses	32,713,229	-	32,713,229
Income (loss) before non-operating income (expenses)	(461,700)	539,198	77,498
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	11,084	-	11,084
Interest and dividend income	556,102	28,143	584,245
Net realized and unrealized gain on investments	1,341,517	38,953	1,380,470
Rental income, net	1,255,291	-	1,255,291
Interest expense	(392,497)	-	(392,497)
Total non-operating income, net	2,771,497	67,096	2,838,593
Change in net assets	2,309,797	606,294	2,916,091
Net assets, beginning of year	32,104,832	4,935,331	37,040,163
Net assets, end of year	$ 34,414,629	$ 5,541,625	$ 39,956,254

(Continues)

Universidad Carlos Albizu, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition and fees	$ 25,026,231	$ -	$ 25,026,231
Less scholarships	(677,147)	-	(677,147)
Net tuition and fees	24,349,084	-	24,349,084
Contributions and contracts	43,535	39,560	83,095
Private gifts, grants and contracts	884,943	1,170,208	2,055,151
Other sources	2,671,747	600	2,672,347
Contributed services	213,577	-	213,577
Net assets released from restrictions	838,537	(838,537)	-
Total revenues, gains and other support	29,001,423	371,831	29,373,254
Educational and general expenses:			
Instruction	9,265,451	-	9,265,451
Research	577,952	-	577,952
Public services	4,835,745	-	4,835,745
Academic support	4,446,350	-	4,446,350
Student services	2,464,688	-	2,464,688
Institutional support	7,834,855	-	7,834,855
Contributed services	213,577	-	213,577
Total educational and general expenses	29,638,618	-	29,638,618
Income (loss) before non-operating income (expenses)	(637,195)	371,831	(265,364)
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	312,343	-	312,343
Interest and dividend income	592,540	25,064	617,604
Net realized and unrealized gain on investments	1,491,408	144,426	1,635,834
Rental income, net	1,239,494	-	1,239,494
Insurance claim recovery due to Hurricane María, net of related expenses	1,340,150	-	1,340,150
Interest expense	(431,706)	-	(431,706)
Total non-operating income, net	4,544,229	169,490	4,713,719
Change in net assets	3,907,034	541,321	4,448,355
Net assets, beginning of year	28,197,798	4,394,010	32,591,808
Net assets, end of year	$ 32,104,832	$ 4,935,331	$ 37,040,163

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	2019	2018
Change in net assets	$ 2,916,091	$ 4,448,355
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	752,332	953,575
Provision for bad debts	527,193	269,328
Net realized and unrealized gain on investments	(1,380,470)	(1,635,834)
Unrealized gain on derivative financial instrument	(11,084)	(312,343)
Insurance claim recovery due to Hurricane María	-	(1,340,150)
Amortization of debt issuance costs	12,573	12,573
Changes in operating assets and liabilities:		
Accounts receivable	683,472	(1,220,385)
Prepaid expenses and other assets	(165,044)	(193,319)
Accounts payable	(53,536)	354,387
Accrued expenses	(49,762)	80,644
Deferred revenues	(30,508)	(10,462)
Total adjustments	285,166	(3,041,986)
Net cash provided by operating activities	3,201,257	1,406,369
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	(1,098,382)	144,070
Acquisition of property and equipment	(1,841,817)	(2,560,823)
Proceeds from sale and redemtion of investments	664,960	696,549
Net cash used in investing activities	(2,275,239)	(1,720,204)
Cash flows from financing activities:		
Payments of long-term debt	(920,834)	(379,166)
Payments of obligations under capital lease	(2,636)	(15,767)
Net cash used in financing activities	(923,470)	(394,933)
Net increase (decrease) in cash and cash equivalents	2,548	(708,768)
Cash and cash equivalents, beginning of year	3,193,103	3,901,871
Cash and cash equivalents, end of year	$ 3,195,651	$ 3,193,103
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 392,497	$ 431,706
Supplemental disclosure of non-cash investing activities:		
Retirement of fully depreciated property and equipment	$ -	$ 796,160

See notes to financial statements

Note 1- Nature of business

Organization

Universidad Carlos Albizu, Inc., (the University) is a not-for-profit institution incorporated under the laws of the Commonwealth of Puerto Rico. The University offers PhD, master and bachelor degrees, which include among others, psychology, and speech and language therapy. The University operates two campuses located in San Juan, Puerto Rico and Miami, Florida, respectively, and a Learning Center in Mayagüez, Puerto Rico.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Basis of presentation

Effective on July 1, 2018, the University adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Among other provisions, ASU No. 2016-14 reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. The adoption of ASU No. 2016-14 did not have a significant effect on the presentation of the financial statements of the University, since before the adoption of the ASU 2016-14, the University classified net assets with donor restrictions as temporarily restricted net assets and net assets without donor restrictions as unrestricted net assets. The accompanying financial statements have been prepared in accordance with Topic 958, which requires that all not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. It also requires presentation of net assets in the statement of financial position based on the existence of donor-imposed restrictions, as net assets with donor restrictions and net assets without donor restrictions, and that the change of the amounts in each of those classifications be presented in the statement of activities and changes in net assets.

Accordingly, the net assets of the University are classified and reported as follows:

- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations.

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Note 2 - Summary of significant accounting policies - (continued)

Basis of presentation – (continued)

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted cash

Restricted cash consists of the undisbursed balance of federal and state grants with donor-imposed stipulations. These balances are restricted until the applicable contractual provisions are satisfied.

Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability, aging of the receivables, prior credit loss experience and other relevant factors. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding receivables and the related allowance may change as a result of future developments. Accounts receivable write-offs and recoveries are charged to the allowance for doubtful accounts.

Note 2 - Summary of significant accounting policies - (continued)

Investments

The University accounts for its investments under the provisions of ASC No. 958-320, *Investments in Debt and Equity Securities, Accounting for Certain Investments Held by Non-for-Profit Organizations.* Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities and changes in net assets.

Property and equipment

Property and equipment are recorded at cost, or if donated, at fair value when received. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, ranging from 3 to 39 years. Equipment under capital leases is amortized over the estimated useful life of the respective assets or lease term, whichever is shorter.

Maintenance and repairs, if any, are charged to operations as incurred. Major renewals and improvements are capitalized. Construction in progress is carried in a temporary account until the related project is completed, at which time, a transfer is made to the corresponding property and equipment account.

Impairment of long-lived assets

The University periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. No impairment charges were recorded during the years ended June 30, 2019 and 2018.

Derivative financial instruments

The University has entered into an interest rate swap agreement to manage its interest rate exposure. Interest rate swap contracts generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal. Entering into interest-rate swap contracts involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts, but also the interest rate risk associated with unmatched positions. The University accounts its derivative financial instrument pursuant to ASC No. 815, *Derivatives and Hedging*. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. ASC 815 also requires that all derivative instruments be recognized as assets and liabilities at fair value.

Note 2 - Summary of significant accounting policies - (continued)

Derivative financial instruments – (continued)

The University's interest rate swap agreement has not been designated as a hedging instrument, accordingly, the changes in fair value of the derivative financial instrument are recorded in earnings.

Income taxes

The University is exempt from the payment of income taxes and other state and municipal taxes under the provisions of the Puerto Rico Income Tax Code. The University is also exempt from federal income taxes under the U.S. Internal Revenue Code.

Tuition and fees

Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Stipends and other payments made directly to students are presented as scholarships and fellowship expenses.

Government grants, contracts revenues and deferred revenues

Revenues from United States government and Commonwealth of Puerto Rico grants and contracts are recognized as revenue as it is earned through expenditures in accordance with the grant agreements. Funds received for student financial assistance (principally Pell Grant and Direct Loans) that are awarded directly to students are excluded from revenues and expenses. Unexpended grants and contracts received, if any, are recognized as deferred revenues until realization. As of June 30, 2019 and 2018, there were undistributed loans and other program funds amounting to $1,384,923 and $122,860, respectively, which are included as part of restricted cash in the accompanying statements of financial position.

Advertising

The University expenses the costs of all advertising campaigns and promotions as these are incurred. During the years ended June 30, 2019 and 2018, the advertising expense amounted to approximately $370,000 and $578,000, respectively.

Note 2 - Summary of significant accounting policies - (continued)

Contributed services

The University accounts for contributed services pursuant to FASB ASC No. 958-605, *Not-for-Profit Entities-Revenue Recognition,* which requires that contributions of services be recognized if the services received either: create or enhance a nonfinancial asset or; they require specialized skills, provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are reported as revenue and expenses in the period received.

Debt issuance costs

Debt issuance costs are deferred and amortized, using the straight-line method, over the term of the related debt. As of June 30, 2019 and 2018, the University follows the requirements of the FASB *Accounting Standards Update* No. 2015-03 *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The standard update requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from that debt liability, consistent with the presentation of a debt discount. Also, amortization of debt issuance costs shall be reported as interest expense in the statements of activities and changes in net assets.

Functional expenses allocation

Expenses are reported in the statement of activities and changes in net assets in categories recommended by the National Association of College and University Business Officers (NACUBO). The University's primary program services are instruction and public service. Expenses reported as academic support and student services are incurred in support of the University's primary program. Institutional support mainly includes management and general expenses. Certain expenses, such as operation and maintenance of facilities, depreciation and interest costs, which are related to more than one category, are allocated among the appropriate categories based primarily on equipment usage and building square footage.

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Note 2 - Summary of significant accounting policies - (continued)

New accounting pronouncements

ASC No. 606, *Revenue from Contracts with Customers*, establishes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity shall consider the terms of the contract and all relevant facts and circumstances when applying ASC 606. An entity shall apply ASC 606 consistently to contracts with similar characteristics and in similar circumstances. In addition, ASC 606 expands the disclosure requirements to include sufficient information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 is effective for the University on July 1, 2019.

ASC No. 842, *Leases*, requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases, among other new requirements. Pursuant to the provisions of ASC 842, a lessee should recognize in the statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASC 842 also requires the segregation of right-of-use assets arising from operating and finance (capital) leases in the statement of financial position and significantly expands the disclosures related to leases in the financial statements. ASC 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 is effective for fiscal years beginning after December 15, 2021.

The Company is in the process of determining the impact these new accounting pronouncements may have on its financial statements.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform them to the current year presentation.

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Note 3 - Accounts receivable

Accounts receivable at June 30, 2019 and 2018 consist of the following:

	2019	2018
Students	$ 1,451,255	$ 883,273
Grants receivable	57,303	236,973
Contracts receivable	340,705	246,228
Professional services for Promoting Safe and Stable Families	360,329	961,682
Insurance claim recovery receivable	-	1,249,478
Other receivables	902,684	663,988
	3,112,276	4,241,622
Less allowance for doubtful accounts	670,525	589,206
Accounts receivable, net	$ 2,441,751	$ 3,652,416

During the years ended June 30, 2019 and 2018, the University accounted for $462,723 and $204,468, respectively, for accounts written-off. Also, during the years ended June 30, 2019 and 2018, the University accounted for recoveries of bad debts written-off in prior years amounting to $16,849 and $19,096, respectively.

Note 4 - Investments

Investments at June 30, 2019 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations	$ 1,530,224	$ 1,448,318	$ 81,906
Corporate bonds	4,152,056	3,972,788	179,268
Mutual funds	3,715,594	3,780,139	(64,545)
Municipal bonds	8,852,020	8,875,488	(23,468)
Money market	2,032,956	2,032,956	-
Total	$ 20,282,850	$ 20,109,689	$ 173,161

Note 4 - Investments – (continued)

Investments at June 30, 2018 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations	$ 548,623	$ 513,563	$ 35,060
Corporate bonds	3,566,126	3,410,340	155,786
Mutual funds	5,736,806	6,239,897	(503,091)
Municipal bonds	9,253,906	13,106,612	(3,852,706)
Money market	692,464	692,464	-
Total	$ 19,797,925	$ 23,962,876	$ (4,164,951)

Restricted investments at June 30, 2019 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	$ 478,960	$ 477,292	$ 1,668
Municipal bonds	137,980	140,386	(2,406)
U.S. Government and agencies obligations	659	605	54
Money market	595,136	595,136	-
Total	$ 1,212,735	$ 1,213,419	$ (684)

Restricted investments at June 30, 2018 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	$ 167,338	$ 165,127	$ 2,211
Municipal bonds	410,014	668,583	(258,569)
Asset backed securities	404,798	423,375	(18,577)
Total	$ 982,150	$ 1,257,085	$ (274,935)

Note 4 - Investments – (continued)

Investment return

Investment gain for the years ended June 30, 2019 and 2018, consists of the following:

	2019	2018
Interest and dividends	$ 584,245	$ 617,604
Net realized and unrealized gain on investments	1,380,470	1,635,834
Investment gain, net	$ 1,964,715	$ 2,253,438

Note 5 - Property and equipment

Property and equipment at June 30, 2019 and 2018 consist of the following:

	2019	2018
Land	$ 7,200,000	$ 7,200,000
Building and improvements	18,664,236	17,343,169
Equipment	2,842,085	2,702,332
Furniture and fixtures	343,779	332,690
Library books	88,327	88,327
Vehicles	210,231	210,231
Software	1,870,823	1,866,979
Total	31,219,481	29,743,728
Less accumulated depreciation and amortization	(10,877,212)	(10,124,880)
	20,342,269	19,618,848
Construction in progress	2,975,473	2,609,409
Property and equipment, net	$ 23,317,742	$ 22,228,257

The University is currently undergoing certain construction and improvement projects. As a part of such projects, the University has entered into certain agreements with various independent contractors which had remaining commitments of approximately $163,100 at June 30, 2019.

Note 5 - Property and equipment – (continued)

There were no retirements of property and equipment for the year ended June 30, 2019. During the year ended June 30, 2018, the University retired fully depreciated property and equipment amounting to $796,160.

Note 6 - Long-term debt

Long-term debt as of June 30, 2019 and 2018 consists of the following:

	2019	2018
Mortgage loan, due on September 30, 2019, to a financial institution, payable in variable monthly installments, including principal and interest, plus a final installment for the remaining outstanding principal. Interest is due monthly at the applicable LIBOR (1-month) rate, plus 1.10% (3.50% and 3.19% at June 30, 2019 and 2018, respectively).	$ 6,575,000	$ 7,495,834
Less: unamortized debt issuance costs	78,582	91,155
Long-term debt, net	$ 6,496,418	$ 7,404,679

The loan is collateralized by the land and building of the Miami campus. Borrowings under the mortgage loan payable are subject to an interest rate swap agreement (see Note 7).

Under the terms of the loan, the University is required to comply with certain financial and restrictive covenants. As of June 30, 2019 and 2018, the University was in compliance with such covenants in the loan agreement.

Effective on September 30, 2019, the University refinanced the mortgage loan with another financial institution for a term of ten years, with a fifteen-year amortization of fixed monthly principal and interest payments at a fixed rate of 3.94%. Under the terms of the loan refinancing, the University is required to comply with certain financial and restrictive covenants. The proceeds of this loan were used to refinance existing indebtedness, fund associated existing swap breakage expenses, payoff swap agreement outstanding and fund other associated expenses of the transaction.

Note 7 - Derivative financial instrument

On September 11, 2000, the University entered into a variable-to-fixed interest rate swap agreement to manage its exposure to changes in variable interest rates related to its mortgage loan payable. Such interest rate swap agreement was not designated as a hedging instrument, accordingly, changes in its fair value are recorded in earnings. The fair value of the interest rate swap agreement liability increased by $11,084 and $312,343 during the years ended June 30, 2019 and 2018, respectively.

The University's interest-rate swap agreement outstanding as of June 30, 2019 and 2018 was as follows:

Year ending:	Notional Amount	Fixed Rate	Variable Rate	Maturity Date	Fair Value
June 30, 2019	$4,500,000	5.12 %	LIBOR + 1.10%	December 1, 2025	$ (654,452)
June 30, 2018	$5,000,000	5.12 %	LIBOR + 1.10%	December 1, 2025	$ (665,536)

The fair value of the interest rate swaps as of June 30, 2019 and 2018 is presented as a liability from derivative financial instrument in the accompanying statements of financial position.

Interest expense for the years ended June 30, 2019 and 2018, include interest from this swap agreement amounting to approximately $170,000 and $269,000, respectively.

As disclosed in Note 6, effective on September 30, 2019, the University refinanced the mortgage loan with another financial institution and the proceeds of the loan were used to fund associated existing swap breakage expenses and payoff the swap agreement outstanding, among other uses.

Note 8 - Rental income

The University leases a portion of the Miami campus facilities to an unrelated third party under operating lease agreement, expiring on July 31, 2020. After the expiration date, the University has the option to renew the operating lease agreement for four additional terms of five years each.

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Note 8 - Rental income – (continued)

Future minimum rentals under this operating lease as of June 30, 2019 are approximately as follows:

Years Ending June 30,	Amount
2020	$ 1,471,250
2021	133,750
Total	$ 1,605,000

Rental income, before deducting related expenses of $388,229 and $406,854 for the years ended June 30, 2019 and 2018, respectively, amounted to $1,643,520 and $1,646,348, respectively.

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets consist mainly of federal grants received from the U.S. Department of Education (USDE) under the Title V program, Endowment Challenge Grant, together with the income earned on the grants' amount. The University matches these grants dollar for dollar. The federal grants and the University's contribution constitute the Endowment Fund Corpus. The University must invest and shall not expend the Endowment Fund Corpus for a period of 20 years. Afterwards, the Endowment Fund Corpus can be used for any educational purpose.

Note 10 - Fair value of financial instruments

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

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Note 10 - Fair value of financial instruments – (continued)

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 — Inputs to the valuation methodology include,

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

U.S. Government and agencies obligations and municipal bonds — Valued using pricing models maximizing the use of observable inputs for similar securities. Examples of inputs that are commonly relevant for valuing particular classes of fixed-income securities, include prepayment speeds, actual pool, and collateral information for mortgage-backed securities and standard inputs and treasury curves and spreads for U.S. government securities. These investments are classified as Level 2.

Corporate bonds — Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available. These investments are classified as Level 2.

Note 10 - Fair value of financial instruments – (continued)

Mutual funds — Mutual funds classified as Level 1 are valued at the daily closing price as reported by the fund. These funds are open-ended mutual funds that are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily net asset value (NAV) and to transact at that price.

Level 2 mutual funds are valued based on NAV quotes provided by the broker-dealers and the market makers for these funds.

Money market funds — Valued at cost, plus accrued interest, which approximates fair value. Money market funds are classified as Level 2.

Interest rate swap contracts — The fair value of the University's interest rate swap agreement is determined using market observable inputs, including interest rate curves and widely published market observable indexes. Interest rate swap agreements are classified as Level 2.

The following table sets forth by level, within the fair value hierarchy, the University's investments, including investments with and without restrictions, as of June 30, 2019 and 2018:

2019

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	$ -	$ 1,530,883	$ -	$ 1,530,883
Corporate bonds	-	4,631,016	-	4,631,016
Mutual funds	2,631,616	1,083,978	-	3,715,594
Municipal bonds	-	8,990,000	-	8,990,000
Money market	-	2,628,092	-	2,628,092
Total	$ 2,631,616	$ 18,863,969	$ -	$ 21,495,585

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Note 10 - Fair value of financial instruments – (continued)

2018

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	$ -	$ 953,421	$ -	$ 953,421
Corporate bonds	-	3,733,464	-	3,733,464
Mutual funds	4,435,029	1,301,777	-	5,736,806
Municipal bonds	-	9,663,920	-	9,663,920
Money market	-	692,464	-	692,464
Total	$ 4,435,029	$ 16,345,046	$ -	$ 20,780,075

The University's derivative financial instrument consists of an interest rate swap agreement, which is recorded at fair value on a recurring basis. The fair value of this derivative financial instrument was $654,452 and $665,536 at June 30, 2019 and 2018, respectively, and has been presented as a liability in the accompanying statements of financial position. Such derivative financial instrument is classified as Level 2, within the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 11 - Employee benefit plans

Substantially all employees of the University participate in two separate retirement plans (the Plans), covering the employees of the Puerto Rico and Miami campuses. Participants are allowed to make contributions to the Plans, not exceeding the maximum deferral amount specified by law. The University contributions are based on a percentage of the participants' compensation. These plans are subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the Plans for the years ended June 30, 2019 and 2018 were $481,864 and $470,874, respectively.

Note 12 - <u>Concentrations of credit risk</u>

<u>Revenues</u>

Approximately 95% of the University's students participate in student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended, ("Title IV Programs") of the USDE.

<u>Cash</u>

Financial instruments, which potentially expose the University to concentrations of credit risk, consist primarily of cash and cash equivalents, investments securities and receivables. The University's cash and cash equivalents are deposited with federally insured financial institutions. Cash balances at banks are insured for up to $250,000 per financial institution. The University normally maintains bank accounts balances in excess of $250,000, nevertheless, it has not experienced any credit losses on such balances.

<u>Investments</u>

The University’s investment portfolio is diversified and includes high quality securities. In previous years, the University incurred in net unrealized losses on fair value of investments, mainly due to the downgrade of the Commonwealth of Puerto Rico (the Commonwealth) related debt. However, the University worked towards the diversification of the investment portfolio and restored the positive financial results of the investments.

<u>Accounts receivable</u>

Concentration of credit risk with respect to accounts receivable is relatively limited because a substantial portion of these balances is due from U.S. Federal and Commonwealth government agencies.

Note 13 - <u>Commitments and contingencies</u>

<u>Facilities lease agreements</u>

The University operates certain facilities under non-cancelable operating leases. Total rent expense for such operating leases amounted to $298,435 and $153,319 in 2019 and 2018, respectively.

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Note 13 - Commitments and contingencies – (continued)

Facilities lease agreements – (continued)

The estimated future minimum rental payments under the terms of these leases are as follows:

Years Ending June 30,		Amount
2020	$	121,646
2021		52,670
2022		63,956
2023		75,243
2024		86,529
Thereafter		613,229
Total	$	1,013,273

The University records rent expense over the lease term as it becomes payable according to the provisions of the underlying lease agreement. Accounting principles generally accepted in the United States of America require that expense from leases with scheduled rent increases be recognized on a straight-line basis over the lease term. However, the difference in methodology used does not have a material effect in the accompanying financial statements.

In addition, the University entered into an agreement with the Commonwealth on December 21, 2012 in which the Commonwealth ceded to the University the use of certain facilities for a period of 30 years, after which it reverts to the Commonwealth.

Operating leases

The University leases miscellaneous office equipments under operating leases. Also, the University contracts with various lessors for the maintenance of the equipments under lease. Rent and maintenance expense under the terms of such leases and agreements during the years ended June 30, 2019 and 2018 was approximately $112,416 and $66,200, respectively.

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Note 13 - Commitments and contingencies – (continued)

Operating leases – (continued)

Future minimum rentals under existing operating leases at June 30, 2019 are as follows:

Years Ending June 30,	Amount
2020	$ 112,416
2021	72,816
2022	53,016
2023	28,424
Total	$ 266,672

Government contracts and grants

As of June 30, 2019 and 2018, the University had a significant contract with the Department of Family of the Commonwealth of Puerto Rico (DFPR) to provide clinical services to victims of abuse and their families, among other services, which expired on September 30, 2019 and 2018, respectively. The contract is a pass-through from the DFPR for funds received under the program *Promoting Safe and Stable Families* of the U.S. Department of Health and Human Services.

Because of administrative difficulties caused by Hurricane María, further discussed in Note 15, the DFPR renewed the program contract on January 31, 2018. Since October 1, 2017 through January 30, 2018 the University provided the abovementioned clinical services through billings for professional services. As of June 30, 2018, the University had an account receivable related to these professional services amounting to $961,682. The account receivable for these professional services was fully collected during the year ended June 30, 2019.

Also, the University participates in various federally funded programs of the USDE, including student financial assistance under Title IV Programs. The contract with the DFPR and Title IV Programs are routinely subject to financial and compliance audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) or to compliance audits by the grantors and/or federal agencies. The reports on the audits of these programs, which are conducted pursuant to regulatory requirements by external auditors of the University, are required to be submitted to the USDE.

Note 13 - Commitments and contingencies – (continued)

Government contracts and grants – (continued)

The University also participates in other state grants awarded by the Higher Educational Council of Puerto Rico (HECPR) and the Florida Department of Education Office of Student Financial Assistance (Florida DE), the uses of which are also subject to financial and compliance audits in accordance with the provisions of the audit guide for financial assistance state programs issued by the HECPR and the Instructions for Program Compliance Audits of States Student Financial Assistance Programs issued by the Florida DE, respectively. Monies received under U.S. federal and local programs are subject to regulatory requirements and can only be expended for the purposes established in the grant or programs. Federal and state agencies have the authority to determine liabilities, if any, as well as, to limit, suspend, or terminate the federal and state student financial assistance programs. No provision has been made for any liability, which may arise from such audits since the amounts, if any, cannot be determined at this date.

The Health Insurance Portability and Accountability Act

Because of the nature of the services provided under the contract with the DFPR mentioned above, the University is subject to the Health Insurance Portability and Accountability Act (HIPAA) provisions. HIPAA was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Health care providers are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be in compliance with the provisions outlined in the regulations. The University believes to be in compliance with such provisions.

Legal contingencies

The University is subject to legal proceedings and claims arising in the ordinary course of its business. In the opinion of management, appropriate provisions have been made for such claims in the accompanying financial statements and the ultimate resolution of these matters will not have a significant effect on the financial position or the results of operations of the University.

Note 14 - Functional expenses

The statements of activities and changes in net assets report certain categories of expenses that are attributable to one or more program or supporting functions of the University. These expenses include depreciation and amortization, facilities maintenance and rent, among others. The allocation of these expenses by function was performed using the cost centers' personnel distribution. Other costs categories were directly allocated to the benefited activity.

Note 14 - Functional expenses - (continued)

Expenses by function for the year ended June 30, 2019 consist of:

	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Research	Institutional Support	Public Services	Contributed Services	Total
Salaries and benefits	$ 8,816,676	$ 2,411,053	$ 1,706,926	$ 351,504	$ 3,359,565	$ 4,382,466	$ -	$ 21,028,190
Professional services	42,043	326,542	14,424	31,667	1,281,414	1,367,468	72,890	3,136,448
Rent	-	151,955	15,387	-	491,235	57,640	-	716,217
Repairs and	-	650,198	2,690	-	796,201	23,658	-	1,472,747
Insurance	-	-	-	-	431,424	20,101	-	451,525
Utilities	-	75,271	729	-	699,397	19,834	-	795,231
Depreciation and amortization	45,199	96,630	-	-	606,146	4,357	-	752,332
Other	234,334	935,639	383,333	29,988	2,239,771	537,474	-	4,360,539
Total	$ 9,138,252	$ 4,647,288	$ 2,123,489	$ 413,159	$ 9,905,153	$ 6,412,998	$ 72,890	$ 32,713,229

Note 14 - Functional expenses – (continued)

Expenses by function for the year ended June 30, 2018 consist of:

	Program Activities			Supporting Activities				
	Instruction	Academic Support	Student Services	Research	Institutional Support	Public Services	Contributed Services	Total
Salaries and benefits	$ 8,816,956	$ 2,292,841	$ 2,185,230	$ 504,409	$ 3,041,104	$ 3,798,694	$ -	$ 20,639,234
Professional services	61,265	312,720	14,300	42,513	792,292	543,591	213,577	1,980,258
Rent	-	97,318	8,522	-	230,555	22,140	-	358,535
Repair & Maintenance	-	581,114	-	-	555,061	16,491	-	1,152,666
Insurance	-	-	-	-	298,717	18,931	-	317,648
Utilities	-	73,708	-	-	576,843	6,334	-	656,885
Depreciation and amortization	75,900	211,021			662,297	4,357	-	953,575
Other	311,330	877,628	256,636	31,030	1,677,986	425,207	-	3,579,817
Total	$ 9,265,451	$ 4,446,350	$ 2,464,688	$ 577,952	$ 7,834,855	$ 4,835,745	$ 213,577	$ 29,638,618

Note 15 - Hurricane María

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island.

As a result of the natural disaster, during the year ended June 30, 2018, the University retired fully depreciated property and equipment with a cost of approximately $796,160. The University has insurance coverage and during the year ended June 30, 2018, the insurance company paid the University an advance, amounting to $200,000, for its insurance claim of property damage and extra-expenses incurred in the aftermath of the hurricane. Also, on August 15, 2018, the University obtained a final settlement for its insurance claim, net of insurance deductible, amounting to $1,449,478. As a result, as of and for the year ended June 30, 2018, the University recorded an insurance claim receivable, amounting to $1,249,478, which is included in accounts receivable, net, in the accompanying balance sheet and insurance claim recovery income amounting to $1,340,150, net of related expenses amounting to $109,328, in the accompanying statement of activities and changes in net assets.

For the year ended June 30, 2018, no impairment losses have been recognized as a result of Hurricane María, since management believes that the potential long-term impact of Hurricane María on the University's ongoing operations will not have a significant effect on the recoverability of the University's assets.

Note 16 - Composite score

34 CFR Sections 668.171 and 668.175 require the University to demonstrate that it is financially responsible under certain criteria. Under these regulations, an institution is considered financially responsible, based in part on a composite score, as defined. If the institution achieves a composite score of at least 1.5 and meets certain other criteria, it is deemed to be financially responsible. As of June 30, 2019, the University's composite score was 3.0 and met all of the required criteria. Accordingly, the University is considered financially responsible at June 30, 2019, under the applicable regulations.

Note 17 - Financial assets to meet current general expenditures needs

The University's assets available within one year of the statement of financial position date to meet cash needs for general expenditures as of June 30, 2019 and 2018 consist of cash and cash equivalents, accounts receivable, net, and investments without restrictions amounting to $25,920,252 and $26,643,444, respectively.

Note 17 - Financial assets to meet current general expenditures needs – (continued)

None of the financial assets disclosed above are subject to donor or other contractual restrictions that make then unavailable for general expenditures within one year of the statement of financial position date.

Note 18 - Subsequent events

As disclosed in Note 6, effective on September 30, 2019, the University refinanced the mortgage loan with another financial institution for a term of ten years, with a fifteen-year amortization of fixed monthly principal and interest payments at a fixed rate of 3.94%. Under the terms of the loan refinancing, the University is required to comply with certain financial and restrictive covenants.

The proceeds of this loan were used to refinance existing indebtedness, fund any associated existing swap breakage expenses, payoff swap agreement outstanding and fund any other associated expenses of the transaction.

Management has evaluated subsequent events through December 9, 2019, which is the date the financial statements were available to be issued. No other events have occurred subsequent to the statement of financial position date and through the date the financial statements were available to be issued, that would require additional adjustment to or disclosure in the financial statements.

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Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Federal Agency/(Pass-Through Agency) and Program Tittle	Federal CFDA Number	Other Award Number	Federal Expenditures From Direct Awards	Federal Expenditures From Pass-Through Awards	Federal Expenditures Total Expenditures
Student Financial Assistance Program Cluster (Title IV):					
U.S. Department of Education:					
Federal Supplemental Educational Opportunity Grant Program	84.007		$ 110,425	$ -	$ 110,425
Federal Work-Study Program	84.033		501,859	-	501,859
Federal Pell Grant Program	84.063		2,414,658	-	2,414,658
Federal Direct Student Loan Program	84.268		37,774,150	-	37,774,150
U.S. Department of Health and Human Services:					
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925		650,000	-	650,000
Total Student Financial Assistance Program			41,451,092	-	41,451,092
Higher Education - Institutional Aid Programs:					
U.S. Department of Education:					
Higher Education-Institutional Aid (84.031):					
Higher Education-Institutional Aid	84.0315		724,638	-	724,638
Emergency Assistance to Institutions of Higher Education	84.98T		208,099	-	208,099
U.S. Departmenet of Health and Human Services:					
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	93.732		610,196	-	610,196
(Pass-Through from Families and Children Administration of the Department of Family of the Commonwealth of Puerto Rico) Promoting Safe and Stable Families	93.556		-	1,303,677	1,303,677
Federal Highway Administration:					
State Traffic Safety Information System Improvement Grants	20.616		-	424,920	424,920
Total Other Programs			1,542,933	1,728,597	3,271,530
Total Expenditures of Federal Awards			$ 42,994,025	$ 1,728,597	$ 44,722,622

See accompanying notes to schedule of expenditures of federal awards

Note 1 - Basis of Presentation

The accompanying supplementary Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Universidad Carlos Albizu, Inc. (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the University's financial statements.

Because the Schedule presents only a selected portion of the activities of the University, it is not intended to, and does not present the financial position, changes in net assets, and cash flows of the University. Funds received for students' financial assistance (principally Pell Grant and Federal Direct Student Loan Program) that are awarded directly to students for educational purposes are excluded from revenues and expenses. These grants are applied to the students' tuition and fees and any excess is paid to the students.

Note 2 - Summary of Significant Accounting Policies

a. The Schedule is prepared from the University's accounting records.
b. The financial transactions are recorded by the University in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
c. Expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The University does not use the 10-percent de minims indirect cost rate, as allowed under the Uniform Guidance.

Note 3 - Catalog of Federal Domestic Assistant (CFDA) Number

The CFDA numbers included in the Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance. CFDA numbers are presented for those programs for which such numbers were available.

Note 4 - Loan Program

The University participates in the Federal Direct Student Loan Program (Direct Loans) (CFDA 84.268). Loans made through the Direct Loans program are provided by the federal government; accordingly, the disbursements under the program and the outstanding loan balances are excluded from the financial statements of the University. However, such program is considered a component of the student financial assistance program at the University. Federal expenditures for these loans are determined when loans are made to students. The balance of loans for previous years is not considered federal expenditures of the current year because the lender accounts for them. Direct Loans are made by the Secretary of Education. The Student's Aid Reports (SAR) or Institutional Student Information Record (ISIR), along with other information, is used by the University to originate a student's loan. New loans processed for students during the year ended June 30, 2019 were $37,774,150.

PART II

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Universidad Carlos Albizu, Inc. (the University), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Universidad Carlos Albizu, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2019-001 to be a material weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2019-002 through 2019-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Universidad Carlos Albizu, Inc.'s Response to Findings

The University's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FPV & Galindez

San Juan, Puerto Rico
December 9, 2019
License No. LLC-322
Expires December 1, 2020

PART III

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
the Uniform Guidance

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on Compliance for Each Major Federal Program

We have audited Universidad Carlos Albizu, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universidad Carlos Albizu, Inc.'s major federal programs for the year ended June 30, 2019. Universidad Carlos Albizu, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Universidad Carlos Albizu, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Universidad Carlos Albizu, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Universidad Carlos Albizu, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Universidad Carlos Albizu, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-006 through 2019-009. Our opinion on each major federal program is not modified with respect to these matters.

Universidad Carlos Albizu, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Universidad Carlos Albizu, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Universidad Carlos Albizu, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Universidad Carlos Albizu, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-006 through 2019-009, that we consider to be significant deficiencies.

The University's response to the deficiencies in internal control over compliance identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FPV & Galindez

San Juan, Puerto Rico
December 9, 2019
License No. LLC-322
Expires December 1, 2020

PART IV

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

Part I - Summary of Auditors' Results

Financial Statements

a) Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified opinion

b) Material weaknesses in internal control over financial reporting identified: Yes, a material weakness in internal control over financial reporting was disclosed by the audit of the financial statements and was included in the schedule of findings and questioned costs as item 2019-001.

c) Significant deficiencies in internal control over financial reporting identified that are not considered to be material weaknesses: Yes, various instances of noncompliance considered to be significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and were included in the schedule of findings and questioned costs as items 2019-002 through 2019-005.

d) Noncompliance that is material to the financial statements: None

Federal Awards

a) Are there any reportable findings under Uniform Guidance § 200.516: Yes, there are various reportable findings, which were included in the schedule of findings and questioned costs as items 2019-006 through 2019-009.

b) Major programs:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Program Cluster (Title IV):	
U.S. Department of Education:	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Federal Direct Student Loan Program	84.268
U.S. Department of Health and Human Services:	
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925
U.S. Department of Health and Human Services:	
Promoting Safe and Stable Families	93.556

Part I - Summary of Auditors' Results – (continued)

c) Dollar threshold used to distinguish between Type A and Type B programs: $750,000.

d) Auditee qualified as a low-risk auditee under Uniform Guidance § 200.520: No.

e) Internal control over compliance with major programs:

   i. Material weaknesses identified? No
   ii. Significant deficiencies identified? Yes

f) Type of auditor's report issued on compliance for major programs: Unmodified opinion.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards

Finding No. 2019-001 Cash Fraud and Institutional Fraud Policy

Type of Finding:	Internal Control Over Financial Reporting
Questioned Cost:	$17,040

Category

Material weakness

Criteria

The University fraud policy is established to facilitate the development of controls that will aid in the detection and prevention of fraud against the institution. The purpose of this policy is to promote honesty and integrity, determine management responsibility on investigating acts or allegations of fraud, and facilitate the process to take the necessary measures in an instance of fraud. Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Any irregularity that is detected or suspected must be reported immediately to the President, or legal advisor, and to initiate investigation of all suspected fraudulent acts as defined in the policy.

Condition Found

During our examination of the cash area, we noted that twenty (20) fraudulent checks were cashed from the San Juan operational bank account during May and June 2019, totaling $51,225. As of October 4, 2019, the bank had returned $34,185 and the remaining funds amounting to $17,040 were still pending to be recovered.

Furthermore, as a result of our inquiries, we came to attention of two additional instances of fraud in July and August 2019 totaling $3,339. The instance in August was perpetrated by an electronic funds transfer. Such amount was claimed to the financial institution on September 10, 2019 and it was fully reimbursed.

For these instances of fraud, the accounting personnel did not follow the Institutional Fraud Policy procedures in none of the instances mentioned above.

Cause

There is absence of a proper supervision and review of the reconciliations of cash in order to timely identify and report fraud events following Institutional Fraud policy; and also to prevent further instances.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-001 Cash Fraud and Institutional Fraud Policy – (continued)

Effect

This condition has exposed the institutional funds to a higher risk of misappropriation environment. By not following the Institutional Fraud Policy it has also deprived an investigation to be timely initiated to identify the responsible parties and prevent further instances of fraud. As of the date of this report, there is no clear conclusion of the responsible party for the misappropriation of funds, which is a matter under investigation. Finally, as of the date of this report, the bank had not returned $17,040 of funds embezzled from the University's bank accounts.

Context

Of the twenty (20) bank accounts that the University has, one bank account was used for the misappropriation of funds. Twenty-one (21) checks, totaling $54,564, were duplicated, and cashed, during the months of May through August 2019, including one electronic fund transfer amounting to $499 that was fraudulently misappropriated. The bank had returned $37,524 and the remaining $17,040 were pending to be recovered.

Identification of a repeat finding

This is not a repeat finding.

Recommendation

The University must perform certain steps in dealing with this matter, among which, we recommend the following:

1. Investigate this matter in further detail to determine the full scope and magnitude of the event.
2. Determine its causes either internal or external.
3. Determine the internal and external control activities that failed in the process.
4. Once the cause and the weaknesses in the control structure have been clearly identified, the corresponding measures should be taken toward those specific matters.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-002 Unreconciled Bank Accounts

Type of Finding:	Internal Control Over Financial Reporting
Questioned Cost:	None

Category

Significant deficiency

Criteria

Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements.

Condition Found

During our examination of the cash area, we noted two cash accounts for which the reconciliation balance did not agree to the general ledger balance. One of these accounts was the Operational Bank Account of San Juan campus. Such account entails a significant quantity of financial transactions as well as material amounts of institutional funds.

Cause

There is absence of a proper supervision and review of the reconciliations of cash.

Effect

This condition could result in inaccurate reporting of cash and cash equivalents in the financial statements. Also, the lack of performing these procedures weakens, and even eliminates, the prevention or timely detection of unauthorized use of the University's liquid assets. Reconciliations can detect and prevent intentional fraud, along with errors made by the financial institution or University's accountable personnel.

Context

Of the twenty (20) bank accounts that the University maintains as of June 30, 2019, we examined all of them and noted two (2) bank reconciliations out of balance.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-002 Unreconciled Bank Accounts – (continued)

Identification of a repeat finding

This is a not repeat finding.

Recommendation

Most of the problems encountered within the cash area can be prevented if proper reconciliation procedures are performed. Therefore, in order to provide more accurate and timely accounting information, the University should establish more effective review and reconciliation policies and procedures for bank accounts as a customary part of the accounting process. This would involve monthly reconciliations of all bank accounts, making adjustments throughout the year that have typically been made at year end only, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments. We recommend that all bank accounts be reconciled on a monthly basis to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

Finding No. 2019-003 Cancellation of Authorized Signatures on Bank Accounts

Type of Finding:	Internal Control Over Financial Reporting
Questioned Cost:	None

Category

Significant deficiency

Criteria

Records of authorized signatures on financial institutions should be updated immediately when an authorized signer changes position, is terminated, leaves or is separated from the University in any manner.

Condition Found

During our examination of the fraud instance described in finding 2019-001, it came to our attention that the University cancelled the authorized signatures in the financial institution of certain employees approximately ten months after they ceased their professional labor relations with the University.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-003 Cancellation of Authorized Signatures on Bank Accounts – (continued)

Cause

There is absence of proper supervision and diligence to timely update financial records with financial institutions.

Effect

Authorized signers at the financial institution, which have ceased their professional labor relation with the University, can improperly manage institutional funds, since from the financial institution stand point, they still appear as clients-in-good-faith as per their outdated records. It is the University's responsibility to update these types of financial records periodically and on a timely basis.

Context

Two (2) authorized cash account former signers left the University during the year ended June 30, 2019. The University informed the financial institution approximately ten months after such signers terminated their professional labor relation with the University.

Identification of a repeat finding

This is not a repeat finding.

Recommendation

We recommend that the University maintains an updated record of authorized signatures in the financial institutions to lower the risks of misappropriations of assets or unauthorized cash withdrawals. This process should be updated semiannually and whenever an authorized signer is separated in any form from the University.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-004 Investments

Type of Finding:	Internal Control Over Financial Reporting
Questioned Cost:	None

Category

Significant deficiency

Criteria

Generally Accepted Accounting Principles (GAAP) establish that under the provisions of ASC No. 958-320, *Investments in Debt and Equity Securities*, all investments in debt and equity securities should be reported at fair value. Investments accounts should be reconciled monthly with the general ledger, and monitored, to ensure compliance with GAAP and promote accounting best practices. Also, accounting tasks, such as monthly reconciliations, play a key role in proving the accuracy of accounting data and information included in interim financial statements.

Condition Found

During our examination of the investments area, we noted that the investments accounts in the general ledger were not reconciled since December 2018. Furthermore, during our audit procedures we noted that the accounting department had not monitored the investments accounts and balances in the months that were not reconciled to the general ledger, specifically, because the accounting department did not have knowledge of various retirements of cash funds from the investments accounts until we brought such matter to their attention for the preparation of the statement of cash flows of 2019.

Cause

There is absence of an accountable personnel within the institution that monthly reconcile investments with general ledger and monitor them to ensure compliance with GAAP.

Effect

Interim financial statements from December 31, 2018 to June 30, 2019 did not account for investments balances at fair value as required by GAAP. Also, unrealized/realized gain on investments for such period were not presented correctly within the University’s financial records. This led to inaccurate reporting of financial statements regarding investment balances.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-004 Investments – (continued)

Context

Investments balances as of June 30, 2019 amounted to $21,495,585, or 41%, of the University's total assets. Investment income amounted to $1,975,799, for year ended June 30, 2019.

Identification of a repeat finding

This is not a repeat finding.

Recommendation

Monthly closing procedures should be followed so that the University's monthly financial statements are in compliance with GAAP. Also, this practice helps to mitigate the risk of inaccurate reporting of investments and helps promote monitoring of transactions on investment accounts. Therefore, in order to provide more accurate and timely accounting information, the University should establish more effective review and reconciliation policies and procedures for investments as a customary part of the accounting process.

Finding No. 2019-005 Schedule of Expenditures of Federal Awards (SEFA)

Type of Finding:	Internal Control Over Financial Reporting
Questioned Cost:	None

Category

Significant deficiency

Criteria

Federal regulation §200.510, *Financial statements*, requires that the auditee prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 *Basis for determining Federal awards expended*.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-005 Schedule of Expenditures of Federal Awards (SEFA) – (continued)

Criteria - continued

Auditee must identify in its accounts all federal awards received and expended, including:

- CFDA title and number
- Federal award identification number and year
- Name of the federal agency and the pass-through entity
- Programs where the University is a direct recipient or a subrecipient

The auditors' responsibility lies on issuing an opinion and determine whether the SEFA is stated fairly in all material respects in relation to the auditee's financial statements as a whole. Also, SEFA is used by auditors to perform major program determination.

Condition Found

During our audit we noted that there was no specific personnel in the University assuming responsibility over the preparation of the Schedule of Expenditures of Federal Awards. Information included on the SEFA was provided by the various departments of the University during the audit process. Various programs were identified by the auditors as the audit progressed. There were also programs where the University's management was unaware of the relationship of the University as a sub-recipient of federal funds.

Cause

Unawareness from management of the federal code of regulations and the laws that apply to the use of federal funds.

Effect

The University's management, as a direct recipient, is the ultimate responsible for the proper and adequate management of federal funds. The SEFA is a schedule that helps to monitor total awards received against budgeted amounts. By not having this schedule accurately compiled exposes the University to lose track of amounts received and expensed. Also, as a result of this deficiency, several programs, including programs where the University is a direct recipient (direct award), were identified and added to the SEFA by the auditor as the audit progressed.

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards – (continued)

Finding No. 2019-005 Schedule of Expenditures of Federal Awards (SEFA) – (continued)

Context

As of June 30, 2019, the University received $42,994,025 on federal awards as a direct recipient and $1,728,597 of federal awards as a subrecipient.

Identification of a repeat finding

This is not a repeat finding.

Recommendation

All expenditures of federal funds must be accounted for in the annual SEFA, whether funds are received directly from a federal agency or indirectly from a pass-through entity. To ensure that federal funds are properly included in the SEFA, an accountable personnel within the University's in management, with expertise and knowledge in administration of federal funds, should take care of preparing the SEFA and include all the programs where the University is a direct recipient or subrecipient. This practice helps to mitigate the risk of inaccurate reporting and helps to promote compliance with federal laws, regulations and provisions of agreements related to federal programs.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2019-006 Special Tests and Provisions – Enrollment Reporting

Federal Program

Students Financial Assistance Programs Cluster

CFDA 84.063	Federal Pell Grant Program
CFDA 84.268	Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Category

Compliance/Internal Control

Compliance Requirements

Special tests and provisions – Enrollment Reporting

Criteria

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's (USDE) central database for federal student aid disbursed under Title IV of the Higher Education Act of 1965 (HEA), as amended. Among other things, NSLDS monitors the programs of attendance and the enrollment status of Title IV aid recipients. The institution determines how often it receives the Enrollment reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website, as stated in 34 CFR Section 674.19 for Federal Perkin Loans, 34 CFR 690.83 (b)(2) for Federal Pell Grant Program and 34 CFR section 685.309 for Federal Direct Student Loan Program.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to Federal Direct Student Loan Program loan holders by USDE.

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-006 Special Tests and Provisions – Enrollment Reporting – (continued)

Criteria – (continued)

Enrollment reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

Condition Found

As part of our testing of 40 students who graduated and/or withdrew during 2019, we noted the following instances of non-compliance; one (1) student for which the University did not report to the National Student Loan Data System (NSLDS) the student status change within the required 60 days' period and; one (1) student for which the University did not report the student status change to the NSLDS.

Cause

The condition was mainly due to an administrative error in the monitoring of the information to be reported to the NSLDS.

Effect

As a result of this condition, the USDE was prevented the use of accurate reporting data, which is critical for the effective administration of the Federal Direct Student Loan Program, the Federal Pell Grant Program and for USDE budgetary policy analysis. It also may result in administrative sanctions by the grantor.

Questioned Cost

None.

Context

Of the 473 cases of status changes for 2019, we selected forty (40) students for testing and noted two (2) instances, or 5% of the sample selected, in which the University did not comply with the enrollment reporting requirements.

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, Finding No. 2018-001.

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-006 Special Tests and Provisions – Enrollment Reporting – (continued)

Views of responsible officials and planned corrective actions

The University's management agrees with this finding. Please refer to the corrective action plan on pages 62-68.

Recommendation

The University must ascertain that students' documentation and other information necessary to comply with the federal funds enrollment reporting requirements are readily available and up to date, and that all personnel assigned to such processes has the necessary knowledge and experience to ensure full compliance with the applicable regulations. Management should also review how is the process currently undertaken to identify and eliminate any inefficiencies and to adapt other steps necessary to improve the overall enrollment reporting process.

Finding No. 2019-007 Special Tests and Provisions – Timely Return on Title IV Funds

Federal Program

Students Financial Assistance Programs Cluster
CFDA 84.268 Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Category

Compliance/Internal Control

Compliance Requirements

Special Tests and Provisions – Timely Return on Title IV Funds

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-007 Special Tests and Provisions – Timely Return on Title IV Funds– (continued)

Criteria

34 CFR Section 668.22(a) states that: when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of the Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of such section. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs.

Also, 34 CFR Section 668.173 (b) states that: an institution returns unearned Title IV, HEA program funds timely if; (i) the institution deposits or transfers the fund into the bank account it maintains under Section 668.163 no later than 45 days after the date it determines that the student withdrew; (ii) the institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the students withdrew; (iii) the institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (iv) the institution issues check no later than 45 days after the date it determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Condition Found

In testing compliance with the return of Title IV funds requirement, we noted one (1) case, or four percent (4%), of the sample selected, in which the University failed to return the total corresponding refund within 45 days from the date the University determined that the student withdrew, dropped-out, or failed to attend to the University, as follows:

Finding Number	Student Identifier	OPEID	Pell Disbursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)
2019-007	01072400	1072400	$ -	$ -	$ -	$ 6,761	$ 104	$ -

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-007 Special Tests and Provisions – Timely Return on Title IV Funds– (continued)

Cause

The withdrawal date used by the University was not the actual date when the withdrawal process began.

Effect

Although the University subsequently corrected this error, the related Title IV funds were returned to the lender after the required 45-day period. Such late return may be considered by the grantor as a noncompliance with the above-mentioned criteria and could lead to administrative sanctions.

Questioned Cost

None.

Context

Of the two hundred eight (208) cases of students who withdrew, dropped-out, or failed to attend to the University, we examined twenty-five (25) cases and determined that one (1) case did not comply with the timely return of funds requirements.

Following is a description of each sample and the population from which the samples were drawn for students that received Direct Loans funds for the year ended June 30, 2019:

Sample				Population from which the Sample was drawn	
Sample Description	OPEID	Student Receiving Direct Loans (#)	Direct Loans Disbursed ($)	Students Receiving Direct Loans (#)	Direct Loans Disbursed ($)
Eligibility Sample	01072400	56	$ 1,084,060	2,168	$ 37,774,144
Return of Title IV Funds Sample	01072400	20	$ 143,614	50	$ 449,816
Sample and Population Overlap		-	$ -	50	$ 449,816

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-007 Special Tests and Provisions – Timely Return on Title IV Funds– (continued)

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Please refer to the corrective action plan on pages 62-68.

Recommendation

The University should improve its process and procedures to ensure that the registrar officers enter the correct withdrawal dates.

Finding No. 2019-008 Special Tests and Provisions – Disbursements to or on Behalf of Students

Federal Program

Students Financial Assistance Programs Cluster
CFDA 84.268 Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Category

Compliance/Internal Control

Compliance Requirements

Special tests and provisions – Disbursements to or on Behalf of Students

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-008 Special Tests and Provisions – Disbursements to or on Behalf of Students – (continued)

Criteria

34 CFR Section 668.22(a) states that: Whenever an institution disburses Title IV, HEA program funds by crediting a student's account and the total amount of all Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but—

(1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or

(2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period

34 CFR 668.164 (d) (2) (i&ii) states that an institution issues a check on the date that it –

(i) Mail the check to the student or parent; or
(ii) Notifies the student or parent that the check is available for immediate pick-up at a specified location at the institution. The institution may hold the check for no longer than 21 days after the date it notifies the student or parent. If the student or parent does not pick up the check, the institution must immediately mail the check to the student or parent, pay the student or parent directly by other means, or return the funds to the appropriate Title IV, HEA program.

Condition Found

During our evaluation of compliance with these requirements, we noted one (1) instance, or two percent (2%) of the sample selected, in which the University failed to return the corresponding refund within the 14 days time frame from the date the University determined that the student had a Federal Student Aid credit balance, as follows:

Finding Number	Student Identifier	OPEID	Pell Disbursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)
2019-008	224708	1072400	$ -	$ -	$ -	$ 23,445	$ -	$ -

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-008 Special Tests and Provisions – Disbursements to or on Behalf of Students – (continued)

Cause

This condition was mainly due to an administrative human error.

Effect

As a result of this condition, the USDE may issue warnings, sanctions and/or impose penalties to the University.

Questioned Cost

None.

Context

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan Program, we selected fifty-six (56) participants, from a total population of two thousand one hundred sixty-eight (2,168) students, who received Federal Direct Loans for the audit period and found one (1) instance of noncompliance.

Following is a description of each sample and the population from which the samples were drawn for students that received Direct Loans funds for the year ended June 30, 2019:

Sample				Population from which the Sample was drawn	
Sample Description	OPEID	Student Receiving Direct Loans (#)	Direct Loans Disbursed ($)	Students Receiving Direct Loans (#)	Direct Loans Disbursed ($)
Eligibility Sample	01072400	56	$ 1,084,060	2,168	$ 37,774,144
Direct Loans Disbursements Sample	01072400	56	$ 1,084,060	2,168	$ 37,774,144
Sample and Population Overlap		-	$ -	2,168	$ 37,774,144

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-008 Special Tests and Provisions – Disbursements to or on Behalf of Students – (continued)

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, Finding No. 2018 - 002.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 62-68.

Recommendation

The University must reinforce its procedures to ascertain that all FSA disbursement of credit balances to students comply with time frame criteria for refunds. Management also should review how is the process currently undertaken to identify and eliminate any inefficiencies and to adapt other steps necessary to improve the overall process.

Finding No. 2019-009 Special Tests and Provisions – Disbursements to or on Behalf of Students under the Federal Direct Student Loan Program - Notifications

Federal Program

Students Financial Assistance Programs Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants
CFDA 84.063	Federal Pell Grant Program
CFDA 84.268	Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Category

Compliance/Internal Control

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-009 Special Tests and Provisions – Disbursements to or on Behalf of Students under the Federal Direct Student Loan Program - Notifications – (continued)

Compliance Requirements

Special tests and provisions – Disbursements to or on Behalf of Students

34 CFR Section 668.165 (a) states that: Before an institution disburses Title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, HEA program, and how and when those funds will be disbursed. If those funds include Direct Loans or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. Except in the case of a post-withdrawal disbursement made in accordance with 34 CFR Section 668.22(a)(5), if an institution credits a student's account at the institution with Direct Loans, FFEL, Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education Grants (TEACH) Grant Program funds, the institution must notify the student or parent of:

- The anticipated date and amount of the disbursement;
- The student's right or parent's right to cancel all or a portion of the Direct Loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary. However, if the institution releases a check provided by a lender under the FFEL Program, the institution is not required to provide this information; and
- The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the Direct Loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

Condition Found

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we selected fifty-six (56) participants from a total population of two thousand one hundred sixty-eight (2,168) students who received Direct Loans, and examined the related disbursements notifications for a selected term.

During our evaluation of compliance with these requirements, we noted fifty-six (56) instances, or one hundred (100%) of the sample selected, in which the University failed to properly include all the required information on the loan disbursement notifications.

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-009 Special Tests and Provisions – Disbursements to or on Behalf of Students under the Federal Direct Student Loan Program - Notifications – (continued)

Cause

The condition was caused by a modification made to the notification letter in which part of the required notifications to the students was omitted.

Effect

Failure to make the required notifications may be considered by the grantor as a noncompliance with the above-mentioned criteria and could lead to administrative sanctions by the grantor. In addition, as a result of the condition, the student or parent was prevented of all the required and pertinent information about the loan disbursement necessary to reach an informed decision.

Questioned Cost

None.

Context

Of the fifty-six (56) notifications examined, sixteen (16) notifications did not have the date and amount of the disbursement, fifty-six (56) lacked the phrase "have the loan proceeds returned to the holder" on the notification and sixteen (16) notifications did not have the time by which the student or parent must notify their wish to cancel the loan.

Following is a description of each sample and the population from which the samples were drawn for students that received Direct Loans funds for the year ended June 30, 2019:

Sample				Population from which the Sample was drawn	
Sample Description	OPEID	Student Receiving Direct Loans (#)	Direct Loans Disbursed ($)	Students Receiving Direct Loans (#)	Direct Loans Disbursed ($)
Eligibility Sample	01072400	56	$ 1,084,060	2,168	$ 37,774,144
Direct Loans Disbursements Sample	01072400	56	$ 1,084,060	2,168	$ 37,774,144
Sample and Population Overlap		-	$ -	2,168	$ 37,774,144

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2019-009 Special Tests and Provisions – Disbursements to or on Behalf of Students under the Federal Direct Student Loan Program - Notifications – (continued)

Identification of a repeat finding

This is a repeat finding for the immediate previous audit, Finding No. 2018-003.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 62-68

Recommendation

The University should modify disbursement loans notifications and include all the information required by USDE regulations. Also, management should review how the process is currently undertaken to identify and eliminate any inefficiencies and to adopt other steps necessary to improve the overall process.

PART V

Universidad Carlos Albizu, Inc.

Corrective Action Plan

Universidad Carlos Albizu, Inc.

Corrective Action Plan

For the Year Ended June 30, 2019

<u>Finding No. 2019-001</u> Cash Fraud and Institutional Fraud Policy

Condition:

During our examination of the cash area, we noted that twenty (20) fraudulent checks were cashed from the San Juan operational bank account during May and June 2019, totaling $51,225. As of October 4, 2019, the bank had returned $34,185 and the remaining funds amounting to $17,040 were still pending to be recovered. Furthermore, as a result of our inquiries, we came to attention of two additional instances of fraud in July and August 2019 totaling $3,339. The instance in August was perpetrated by an electronic funds transfer. Such amount was claimed to the financial institution on September 10, 2019 and it was fully reimbursed. The accounting personnel did not follow the Institutional Fraud Policy procedures in none of the instances mentioned above.

Institution Response:

The University accepts this finding. The person in charge to this task did not comply to timely perform bank reconciliations in connection with a lack of supervision of these personnel. Although institution made a claim to the bank, it was untimely and also lacks to follow institutional Fraud Policy by notifying this matter to upper management or board of trustees. In the other side, this situation was also responsible to the financial institution for not enforcing the security established by the client that require two signatures and the security paper in checks as well.

Corrective Action Plan:

The University claimed to financial institution the total remaining funds through an Affidavit on October 10th, 2019. In addition, the University did not renew the contract to the accountable personnel in charge of bank reconciliations, which should identify and follow-up this matter. As such, the University appointed another accountable personnel to be in charge of bank account reconciliations. Furthermore, the University also will be sending a written communication to Finance Director to timely review bank reconciliations, and also to ensure that all fraud cases should be timely notified to upper management or board of trustees to comply with Institutional Fraud Policy.

<u>Finding No. 2019-002</u> Unreconciled Bank Accounts

Condition:

During our examination of the cash area, we noted two cash accounts for which the reconciliation balance did not agree to the general ledger balance. One of these accounts was the Operational Bank Account of San Juan campus. Such account entails a significant quantity of financial transactions as well as material amounts of institutional funds.

<u>Finding No. 2019-002</u> Unreconciled Bank Accounts – (continued)

Institution Response:

The University accepts this finding. The person in charge to this task did not comply to timely perform bank reconciliations and also ensure that balances agree to general ledger. Besides, there was a lack of supervision of these personnel to ensure that bank reconciliations agree with general ledger.

Corrective Action Plan:

The University did not renew the contract to the accountable personnel in charge of bank reconciliations, which should ensure that reconciliations agree with general ledger. As such, the University appointed another accountable personnel to be in charge of bank account reconciliations. The University also will be sending a written communication to the Finance Director enforcing to review bank reconciliations on a timely basis and to ensure that balances agree with the general ledger.

<u>Finding No. 2019-003</u> Cancellation of Authorized Signatures on Bank Accounts

Condition:

During our examination of the fraud instance described in finding 2019-001, it came to our attention that the University cancelled the authorized signatures in the financial institution of certain employees approximately ten months after they ceased their professional labor relations with the University.

Institution Response:

The University accepts this finding. Two ex-employees resign during the auditing period. The first to resign was on August and the second one on December and the board of trustees (BOT) resolution was sent in April 2019. As such, there was a delay in updating the authorized signatures with the financial institution.

Corrective Action Plan:

The University will send a written communication to the Finance Director to enforce that authorized signatures of personnel changes should be timely updated with the financial institutions.

Finding No. 2019-004 Investments

Condition:

During our examination of the investments area, we noted that the investments accounts in the general ledger were not reconciled since December 2018. Furthermore, during our audit procedures we noted that the accounting department had not monitored the investments accounts and balances in the months that were not reconciled to the general ledger, specifically, because the accounting department did not have knowledge of various retirements of cash funds from the investments accounts until we brought such matter to their attention for the preparation of the statement of cash flows of 2019.

Institution Response:

The University accepts this finding. The investment decisions are performed by the Board of Trustees (BOT). The finance area should only records investment activities and reconcile them. However, there was absence of an accountable personnel within the University that monthly reconcile investments with general ledger and monitor them. Also, there was a lack of supervision to ensure timely reconciliation of investment accounts.

Corrective Action Plan:

The University will appoint accountable personnel to be in charge of investment reconciliations. Also, the University will send a written communication to the Finance Director enforcing to review investment reconciliations on a timely basis and to agree with the general ledger.

Finding No. 2019-005 Schedule of Expenditures of Federal Awards (SEFA)

Condition:

During our audit we noted that there were was no specific personnel in the University assuming responsibility over the preparation of the Schedule of Expenditures of Federal Awards. Information included on the SEFA was provided by the various departments of the University during the audit process. Various programs were identified by the auditors as the audit progressed. There were also programs where the University's management was unaware of the relationship of the University as a sub-recipient of federal funds.

Institution Response:

The University accepts this finding. There was no specific person assuming the responsibility to prepare the Schedule of Expenditures of Federal Awards. University's locations and areas that receive federal awards reported them separately.

<u>Finding No. 2019-005</u> Schedule of Expenditures of Federal Awards (SEFA) – (continued)

Corrective Action Plan:

The University will appoint a specific personnel to be in charge of the preparation of the Schedule of Expenditures of Federal Awards. As such, University's management will consolidate and be aware of all programs.

<u>Finding No. 2019-006</u> Special Tests and Provisions – Enrollment Reporting

Condition:

As part of our testing of 40 students who graduated and/or withdrew during 2019, we noted the following instances of non-compliance; one (1) student for which the University did not report to the National Student Loan Data System (NSLDS) the student status change within the required 60 days' period and; one (1) student for which the University did not report the student status change to the NSLDS.

Institution Response:

The University accepts the finding. The reason for one of the findings is attributed to the fact that the school indeed reported the student status on time; however, the withdrawal date use was incorrect. The school has become aware of this issue and has identified the causes and developed an action plan to improve the compliance in reporting and receiving the accurate withdrawal date

The second instance was a case that, due to the nature of its enrollment status, the institution business solution did not identify correctly the student academic load.

Corrective Action Plan:

To correct the first of the issues the University has proceeded to provide training to the Registrar Office personnel in the procedure to identify the correct withdrawal date and the way this date is reflected in the Enrollment Status Report.

For the second issue, the Registrar Office has been instructed to review all cases in the Warning Report from the National Student Clearinghouse (NSC) and to establish if there are any cases needed to be modified in the Enrollment Report.

The Institutional Title IV Compliance Office will receive a certification by the Registrar that the Enrollment Report Warning was internally audited to correct any discrepancies between the institution business solution and the Enrollment Report.

<u>Finding No. 2019-007</u> Special Tests and Provisions – Timely Return on Title IV Funds

Condition:

In testing compliance with the return of Title IV funds requirement, we noted one (1) case, or four percent (4%), of the sample selected, in which the University failed to return the total corresponding refund within 45 days from the date the University determined that the student withdrew, dropped-out, or failed to attend to the University, as follows:

Finding Number	Student Identifier	OPEID	Pell Disbursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)
2019-007	01072400	1072400	$ -	$ -	$ -	$ 6,761	$ 104	$ -

Institutional Response:

The University expressed that this finding is a miscalculation as a result of the use of incorrect withdrawal date. A first withdrawal calculation was processed, and funds returned as established on the return of Title IV funds regulations. As an institutional procedure, we performed an internal audit for the said period and identified that this was the only case that needed to be corrected.

This is an isolated case and does not reflect the standard procedure of the University, however, if, in the course of our internal check and balance process the University identifies any error it will proceed and continue to correct and amend any incorrect calculation immediately

Corrective Action Plan:

The institution will continue its internal monitoring process to assess the data provided to calculate the student withdrawals. A re-training process has been provided to the Registrar and Financial Aid Officers to strength the withdrawal process and to continue the internal monitoring process at the University for Title IV Compliance.

Finding No. 2019-008 Special Tests and Provisions – Disbursements to or on Behalf of Students

Condition:

During our evaluation of compliance with these requirements, we noted one (1) instance, or two percent (2%) of the sample selected, in which the University failed to return the corresponding refund within the 14 days time frame from the date the University determined that the student had a Federal Student Aid credit balance, as follows:

Finding Number	Student Identifier	OPEID	Pell Disbursed ($)	Pell Under-payment ($)	Pell Over-payment ($)	Direct Loan Disbursed ($)	Direct Loan Under-payment ($)	Direct Loan Over-payment ($)
2019-008	224708	1072400	$ -	$ -	$ -	$ 23,445	$ -	$ -

Institution Response:

This is an isolated case and the student took possession of its check on day 15 after a credit balance was reflected in the student ledger. The evidence the institution has on record of the disbursement of this refund is the student signature on the voucher check with a date corresponding to the 15th day after the refund was issued. The University has recognized that in this case, the University failed to demonstrate that the it notified the student of the availability of the check within established 14 days.

Corrective Action Plan:

The University has proceeded to review the refund notification process to the students to comply with regulations. The institution has adopted a two steps procedure to manage students refund checks, that provide evidence of the issue date required by the US Department of Education.

1. The first step is where the Finance Office sends emails to corresponding students to notify of the availability of the checks at the University's Finance Office and the working hours to pick up the checks. This communication will also provide a cutoff date to hold the checks in the office before mailing the checks.

2. The second step is to mail the checks through US Post Office where they will be stamped using the service "Firm Mailing Book for Accountable Mail" available through US Post Office. This service will serve as evidence of the date mailed. The institution will monitor the enforcement of this procedure and will conduct a periodical review of the execution of the process.

Finding No. 2019-009 Special Tests and Provisions – Disbursements to or on Behalf of Students under the Federal Direct Student Loan Program - Notifications

Condition:

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we selected fifty-six (56) participants from a total population of two thousand one hundred sixty-eight (2,168) students who received Direct Loans and examined the related disbursements notifications for a selected term. During our evaluation of compliance with these requirements, we noted fifty-six (56) instances, or one hundred (100%) of the sample selected, in which the University failed to properly include all the required information on the loan disbursement notifications.

Institution Response:

The institution accepts this finding and wishes to express that the students indeed were notified on time of the information required, however, the notification was deficient in the content and did not include all required elements.

Corrective Action Plan:

The institution has proceeded to amend such notification and has included all required notification elements. The Compliance Officer will conduct periodical review during 2019 / 2020 Award Year to confirm that the Direct Loans notification to the student complies with all the required elements as established in the Title IV regulations.

PART VI

Universidad Carlos Albizu, Inc.

Summary Schedule of Prior Year Audit Findings and Questioned Costs

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2019

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2018-001	CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2018	In testing compliance and internal control over compliance with Special Test and Provisions-Enrollment Reporting, we selected twenty-five (25) participants of the Federal Pell Grant Program and/or the Federal Direct Student Loans Program from the total population who withdrew, graduated, dropped-out or failed to attend to the University during the year ended in June 30, 2018. During our test, we noted that in four (4) case, or 16% of the sample selected, the University did not report to the National Student Loan Data System (NSLDS) the students status changes within the time prescribed by the Code of Federal Regulations (CFR).	The Institution has designed a corrective action plan to improve the internal controls over the enrollment report of the campus. • Improve communication with NSC ensuring that our reporting submission dates are in line with both, what is required of NSC and with our academic calendar. For instance, ensuring we are submitting enrollment reports after the add/drop and no-show period has concluded. New dates are being set up to include all non-returning students. • Maintain contact with NSC to help determine what students did not return for the next regularly scheduled term by automatically withdrawn on the school's First-of-Term transmission. As they will compare the First-of-Term file for the new term to the last, file for the previous term to identify missing students. Once missing students are identified, NSC will generate a "Withdrawal" status on their record, which is effective on each student's last reported date of attendance. According to NSC "This edit has been put in place to assist schools in order to remain in compliance with NSLDS." • Providing prompt and timely information to confirm that we are sending the graduates only reports before the 60-day grace period. All academic programs will be required to submit all documents and clear necessary to process graduation in the system.	None.	Not corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit. However, a similar finding was identified in the year ended on June 30, 2019.
2018-002	CFDA 84.007 Federal Supplemental Educational Opportunity Grants CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2018	In testing compliance with the requirements for disbursements under the Federal Pell Grant and Federal Supplemental Educational Opportunity Grants programs, we noted five (5) instances, or 26% of the sample selected, in which the University failed to return the corresponding refund within 14 days from the date the University determined that the student had a FSA credit balance.	The Institution recognizes that regulations clearly stated that all credit balance disbursements shouldbe process within 14 days.The Finance Office with the assistance of the IT Department has developed an alternate emergency response plan to automate the process in student's services areas and maximize our resources to comply with existing regulations related to the timely reimbursement of student refunds.	None.	Not corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit. However, a similar finding was identified in the year ended on June 30, 2019.
2018-003	CFDA 84.007 Federal Supplemental Educational Opportunity Grants CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2018	In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we noted thirty four (34) instances, or 57% of the sample selected, in which the University failed to properly notify the anticipated date and amount of disbursement, the student's or parent's right to cancel all or a portion of that loan, and the procedures and time by which the student or parent must notify the University that he or she wishes to cancel the loan.	After correcting the technical error in our business solution software, the IT Department provided additional guidance and training to the Bursar's Office staff on the notification automated process. Concurrently, the Bursar's Office procedure to notify students of their disbursements has been reviewed and the staff has been re- rained. Additional follow up has been incorporated to the process to review that all students received their notifications.	None.	Not corrected.	The University implemented the Corrective Action Plan as described in the Prior Year Audit. However during current year there was a modification of the letter content and certain required disclosures were omitted.