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To: CSU Presidents
From: David S. Spence 
Subject: **Student Financial Aid Administration – Consideration of Best Practices**

During the Office of University Auditor's review of the financial aid program administration during 2002, audit staff concluded that documentation by the financial aid office required improvement at three of the ten campuses reviewed. The systemwide report (Audit Report Number 02-22) included recommendations that:

- the chancellor's office establish a means to assure that campuses periodically evaluate supporting documentation in comparison to best business practices for adding extra housing allowances, augmenting budgets for computer purchases, and exercising professional judgment; and
- the chancellor's office examine the need for a CSU systemwide policy requiring financial aid recipients receiving computer allowances to provide receipts supporting costs incurred, and take appropriate action.

The *Program Participation Agreement (PPA)* that each President has executed with the Secretary of Education conditions the institution's eligibility to participate in federal Title IV student financial aid programs upon compliance with various requirements that include establishing and maintaining such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary [20 U.S.C. 1094(a)(3)].

Discretion of Student Financial Aid Administrators

The Higher Education Act of 1965 (HEA), as amended, in 20 *United States Code* (U.S.C.) 1087tt provides that student financial aid administrators may exercise discretion, commonly referred to as professional judgment, in recognizing, on a case-by-case basis, the special circumstances of applicants for federal Title IV student aid programs. As most recently revised by the Higher Education Amendments of 1998, Public Law (P.L.) 105-244, Section 479A(a), the statute provides that:

Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make

adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, the number of parents enrolled at least half-time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 1094 of this title, or other changes in a family's income, a family's assets, or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this subchapter and part C of subchapter I of chapter 34 of title 42 shall be interpreted as limiting the authority of the student financial aid administrator in such cases to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this subchapter and part C of subchapter I of chapter 34 of title 42. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

With limited exceptions, the Department of Education does not issue detailed guidance on the discretion that may be exercised by student financial aid administrators. References to the discretionary authority and the use of professional judgment are annually included in the *Federal Student Aid Handbook* issued by the Department in chapters dealing with applications and verification and with need analysis and packaging.

In exercising their discretionary authority, CSU campus financial aid administrators are advised to refer to the referenced statutory provision above, the *Federal Student Aid Handbook*, guidance that the Department of Education issued on dependency overrides in GEN 03-07, and other guidance and informational materials that the Department of Education may, from time to time, issue or distribute.

With respect to best practices, CSU financial aid administrators are also referred to the "Statement of Ethical Principles" and the "Recommended Good Practices" that are included in the *Self-Evaluation Guide for Institutional Participation in Title IV and Other Federal Programs* published by the National Association of Student Financial Aid Administrators (NASFAA). NASFAA has also published a monograph titled *Professional Judgment in Eligibility Determination And Resource Analysis* that, although somewhat dated, serves as a primer on need analysis issues and factors that might be

considered in evaluating special circumstances appropriate for professional judgment considerations.

Documentation Requirements for Professional Judgment Determinations

As indicated above, the statute provides that “Adequate documentation for such adjustments shall substantiate such special circumstances of individual students.” The *Federal Student Aid Handbook* advises financial aid administrators of the need to document the reason for any adjustment that must relate to an individual student’s special circumstances that differentiate that individual student and not to circumstances or conditions that exist for a whole class of students. The *Handbook* further indicates, relative to adjustments for cost of attendance allowances, that the law does not specify what documentation should be collected and that aid administrators “can document these expenses in any reasonable way, such as documenting an interview with the student or obtaining a written statement from the student or other appropriate sources.”

The *Professional Judgment* monograph from NASFAA should be viewed as a guide to best practices with its advice that adjustments “be sufficiently documented in the student’s record so that any aid awarded as a result of the change can be explained in an audit or program review” and “sufficient notes should be made so that another aid administrator reviewing the student’s case could easily ascertain the reason any changes were made as well as their effect on the need analysis and aid package.”

Cost of Attendance (COA) In General

The HEA, in 20 U.S.C. Section 108711, prescribes the various student expenses that are to be included, as appropriate, in the cost of attendance used by institutions in determining the financial need and eligibility of students applying for federal Title IV student aid programs. The Department of Education provides guidance on the cost of attendance in the *Federal Student Aid Handbook*. NASFAA has published a monograph titled *Constructing Student Expense Budgets* that sets forth general principles for student budget construction, examines the various expenses that make up student budgets, and suggests approaches for determining and substantiating standard student budgets or costs of attendance. The monograph also includes discussion of various circumstances in which aid administrators might consider adjustments to standard costs of attendance to recognize other expenses for certain students.

COA Adjustments for the Purchase or Lease of a Personal Computer

Amendments to the HEA in 1998 incorporated a provision in Section 472 of P.L. 105-244 for including in the cost of attendance “a reasonable allowance for the documented rental or purchase of a personal computer, for a student attending the institution on at least a halftime basis, as determined by the institution.”

The *Congressional Record* for September 26, 1998 (page H9068) indicates that in adopting the provision:

The conference substitute provides authority to schools to include the cost of computers in students' costs of attendance. The conferees also believe that financial aid administrators will use this authority to ensure that students are not given an unwarranted allowance. The conferees believe that each school will handle this matter in a way that is appropriate for its student and operations.

In response to the University Auditor's recommendation regarding the necessity of a CSU systemwide policy requiring receipts to document the purchase or rental of a personal computer, Chancellor's Office staff consulted with CSU campus financial aid administrators to review current campus policies and practices for computer allowances and documentation standards relative to federal statutes, regulations, and guidelines and in comparison to the prevailing practices at other institutions. Based on that review, the CSU Financial Aid Advisory Council (FAAC) was convened to determine if the CSU should adopt a systemwide policy requiring receipts to document the purchase or lease of a personal computer.

The Financial Aid Advisory Council advised the Chancellor that, since neither Congress nor the U.S. Department of Education had deemed it necessary to require receipts or to specify the precise nature of documentation for inclusion of the computer allowance, the Council recommended that the decision about documentation be left to the individual CSU campus financial aid offices given what is appropriate for their student population, the availability of and access to computers on campus, and their financial aid operations and internal controls.

The Chancellor has accepted the recommendation of the Council. As indicated in the Council's recommendation, nothing precludes financial aid administrators from requiring the submission of receipts or other documentation from students, and they still have an obligation under federal statute and regulations to document the "reasonable" basis for the amount of any computer allowance and the inclusion of such an allowance either as a standard allowance for groups of students where a personal computer is required or for individual students where it is determined, on a case-by-case basis, that such a purchase or rental allowance is necessary and appropriate.

Recommended Best Practices for CSU Financial Aid Administrators

In response to the University Auditor's recommendation, the Chancellor's Office responded that staff would consult with campus financial aid administrators in order to compile a summary of current policies and procedures relative to allowable budget adjustments and professional judgment modifications and engage in discussion in an effort to agree upon best practices. After review and discussion with campus aid administrators, staff in the Chancellor's Office has concluded that the "Recommended Good Practices" provided in the NASFAA *Self-Evaluation Guide* should serve as guidance to the campuses.

The Department of Education indicated in GEN-03-07: “We applaud the practice of financial aid professionals in seeking the advice and counsel of their colleagues on... professional judgment cases through the use of the Internet, and the efforts by associations of financial aid administrators in developing and conducting training workshops on the reasonable use of this authority.”

CSU financial aid directors have reported that local staff meetings involve discussion of professional judgment cases and related issues. These discussions have value for staff training and sharing perspectives on the types of special circumstances that merit the use of discretion on the part of aid administrators. The list-serve currently employed by CSU financial aid administrators as well as periodic conference calls and workshops hosted by the Chancellor’s Office provide a forum for discussion and sharing of information and procedures among CSU financial aid administrators.

CSU financial aid directors are strongly encouraged to use the NASFAA *Self-Evaluation Guide* as a tool for assessing campus compliance with federal statutes and regulations as well as conformance with the “Recommended Good Practices” included in the *Guide* and commonly regarded best practices in the financial aid community. Management staff in financial aid offices should also ensure that internal controls provide for periodic reviews of the professional judgment exercised by staff members and associated documentation to ensure that consistent treatment is being accorded to students in similar circumstances.

Staff in the Chancellor’s Office will continue to consult with campus financial aid administrators regarding best practices and will reassess the need for additional recommended best practices based on subsequent findings and recommendations in audits and program reviews and any modifications to relevant financial aid statutes and regulations.

Questions regarding this memorandum, and the information and references contained herein, may be directed to Ms. Mary L. Robinson, Associate Director for Student Financial Aid, Academic Affairs, Student Academic Support, at (562) 951-4737 or mrobinson@calstate.edu.

DSS/mlr

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