

FINANCIAL AID

SYSTEMWIDE

Report Number 02-22

July 21, 2003

Members, Committee on Audit

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ABBREVIATIONS

CFR	Code of Federal Regulations
CobiT	Control Objectives for Information and related Technology
CSU	California State University
EADA	Equity in Athletics Disclosure Act
FAFSA	Free Application for Federal Student Aid
FARMS	Financial Aid Records Management System
FERPA	Family Educational Rights and Privacy Act
FISAP	Fiscal Operations Report and Application to Participate
FY	Fiscal Year
NASFAA	National Association of Student Financial Aid Administrators
RA(s)	Resident Assistant(s)
SAM	State Administrative Manual
SUF	State University Fee
SUG	State University Grant

INTRODUCTION

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the student financial aid program and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Initiatives have recently been undertaken or completed to improve the effectiveness, efficiency, and economy of financial aid operations and maximize financial aid resources.
- ▶ Adequate consumer information on financial aid has been disclosed.
- ▶ Financial aid is supported by adequate automated record-keeping systems.
- ▶ Provisions have been made for safeguarding financial aid data and automated systems from inappropriate disclosure and loss.
- ▶ Complete, correct, and consistent information is circulated on financial aid.
- ▶ Other campus offices adequately coordinate with the financial aid office.
- ▶ The campus protects against overcommitment or underutilization of financial aid resources.
- ▶ Standard student budgets and cost of attendance are appropriately established.
- ▶ Financial aid recipients were eligible to receive assistance.
- ▶ The campus has complied with federal and state requirements and conditions stipulated by financial aid resource providers.
- ▶ Financial aid is packaged in accordance with applicable policies and procedures.
- ▶ Fee waivers have been factored into financial aid awards.
- ▶ Work-study limits have not been exceeded.
- ▶ Separation of duties is adequate between awarding and disbursing.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. Fiscal year (FY) 2001/02 and the financial aid cycles for fall 2001 and spring 2002 were the primary periods reviewed. In certain instances, we were concerned with representations of annualized data, and it was necessary to look at the last full fiscal year completed prior to the start of the audit (FY 2000/01).

Our primary focus involved the internal administrative, compliance, and operational controls over the management of the student financial aid program. Specifically, we reviewed and tested policies, procedures, and processes for:

- ▶ Identifying financial aid resources.
- ▶ Distributing information to potential applicants.
- ▶ Calculating student budgets.
- ▶ Establishing student eligibility.
- ▶ Packaging financial aid awards.
- ▶ Managing financial aid funds.
- ▶ Securing financial aid applicant and recipient information.
- ▶ Safeguarding financial aid automated systems.

During the audit, we visited ten campuses: Chico, Dominguez Hills, Hayward, Los Angeles, Monterey Bay, Pomona, San Diego, San Francisco, San Marcos, and Stanislaus. We interviewed personnel involved in financial aid; reviewed financial aid policies, procedures, and systems; and tested financial aid records on awards and disbursements.

BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor in the last quarter of 1999, the Board of Trustees, at its January 2002 meeting, directed that *Financial Aid* be reviewed in 2002. The Office of the University Auditor last reviewed *Financial Aid* in 1994 on six campuses.

The proposed scope of the audit as presented in Attachment B, Audit Item 2 of the January 29-30, 2002, meeting of the Committee on Audit stated that the review would include identifying financial aid resources, establishing student budgets, packaging financial aid awards, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Financial aid programs provide support for students to help meet the costs of obtaining a college education. The federal government, state governments, colleges and schools, and a variety of other public and private sources provide funding for financial aid programs. There are two main categories of financial aid, differentiated primarily by the basis upon which they are awarded, as follows:

Achievement-based aid is awarded to students who have a special characteristic, skill, talent, or ability. Typically, achievement-based aid is in the form of scholarships.

Need-based aid is provided to students who demonstrate financial need. Most financial aid, particularly public-funded aid, is awarded on the basis of financial need determined through the application process and in accordance with a prescribed federal formula.

Financial aid is available in four basic types of programs as follows:

Scholarships are “gift aid” which do not have to be repaid. Scholarships typically include criteria such as academic performance or special talents.

Grants are “gift aid” and generally do not include criteria other than financial need.

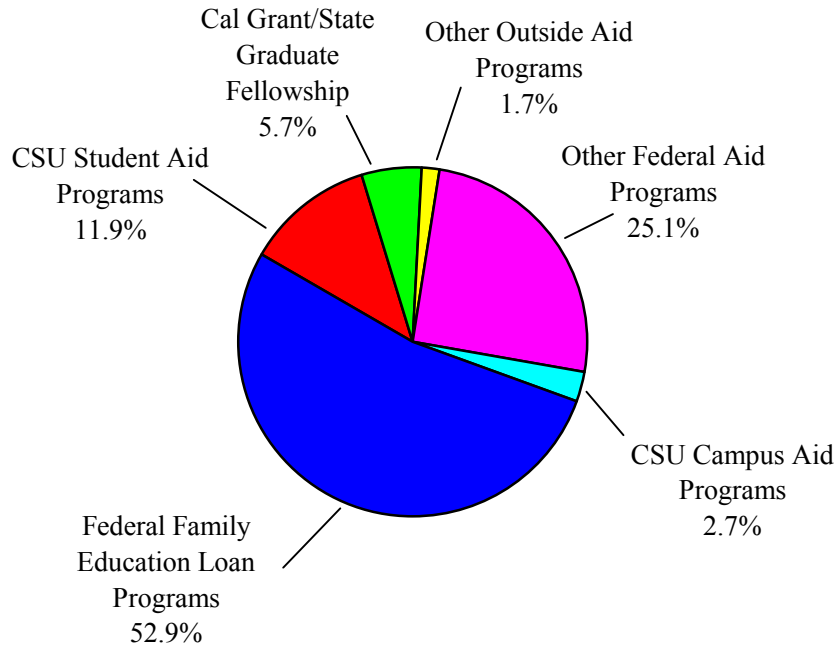
Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

Loans are a form of “self-help” since they represent borrowed money that must be paid back over a period of time, typically after the student leaves school.

Federal financial aid programs provide over 70% of the funding currently available for student financial aid. On an annual basis, federal financial aid programs are audited as part of the California State University (CSU) Single Audit as required by the Office of Management and Budget Circular A-133. At June 30, 2001, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Opportunity Grants	\$12,636,585
Federal Family Educational Loan	\$325,886,005
Federal Work Study	\$16,358,009
Federal Perkins Loan – Federal Capital Contributions	\$17,060,565
Federal Pell Grant	\$246,059,734
Federal (William Ford) Direct Loan	\$280,164,585
TOTAL	\$898,165,483

Non-federal financial aid programs include those funded by the state through the California Student Aid Commission, programs administered by the CSU, and campus-administered funds. The state administers Cal Grants and certain loan assumption programs. The CSU provides need-based assistance through state university grants and educational opportunity program grants. Certain other funds are available through the campuses such as local scholarships. In the CSU Statistical Abstract for FY 2000/01, financial aid funds by source are graphically represented as follows:



For financial aid purposes, campuses establish standard student budgets or cost of attendance allowances that vary depending on where a student lives during the academic year (e.g., at home with parents or relatives, in university or campus housing (residence halls), or off-campus in an apartment or other housing). Costs include fees and tuition, books and supplies, meals and housing, transportation, and other miscellaneous personal expenses. Students who are not classified as residents of the state of California must also pay non-resident tuition. Allowances for expenses, other than tuition and fees, are based largely on statewide survey data about the average expenses of students in California and information on the local or regional costs in the area served by particular campuses.

At the beginning of 2002, CSU campuses managed financial aid through a variety of record-keeping and automated database systems, which will be replaced by PeopleSoft as part of the CSU's Common Management System. Six CSU campuses were implementing the PeopleSoft Student Administration module in 2002 and have been excluded for purposes of this audit because of the significant implementation workload.

At seven of the ten campuses visited, the financial aid offices reported to the vice presidents for student affairs. The three exceptions were Hayward and Stanislaus that reported to vice presidents for academic affairs and San Francisco that reported to the vice president for administration and finance. Financial aid records were maintained in various automated systems as follows:

CAMPUS	FINANCIAL AID DATABASE
Chico	Financial Aid Records Management System (FARMS)
Dominguez Hills	Banner
Hayward	Student Information System Plus
Los Angeles	Student Information System Plus
Monterey Bay	Banner
Pomona	Banner
San Diego	RIX
San Francisco	Financial Aid Computing System (FACS)
San Marcos	Banner
Stanislaus	Banner

OPINION

We visited ten campuses from February 25, 2002, through December 13, 2002, and audited the controls, procedures, and systems in effect at that time. Campus specific findings and recommendations have been discussed and reported individually.

In our opinion, except for the non-disclosure of certain consumer information and the awarding of grants to teacher credential candidates for non-qualifying course work, the financial aid programs at the ten campuses visited were capably administered and generally in compliance with applicable regulations. All campuses had automated the financial aid office, including some with document imaging, which had added to effective program management. Our review also disclosed certain areas of the program that needed improvement. These areas included comparison with industry staffing standards, coordination of information needed from other campus departments, clarification of financial aid benefits available to resident assistants, and documentation that students actually acquired computers when allowances had been included in their cost of attendance. These and other areas in need of improvement are referenced in the executive summary.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

GENERAL/CONTROL ENVIRONMENT [8]

CONSUMER INFORMATION [8]

Certain consumer information was not disclosed in direct individual notices at all campuses visited. Disclosure of consumer information meets requirements for continuation of institutional eligibility to participate in federal financial aid programs.

ERRONEOUS REPORTING [9]

Erroneous financial aid data was reported by two campuses, both with locally developed financial aid information systems. Adequate control over changes to information systems reduces the risk of inaccurate data, while accurate reporting facilitates systemwide comparisons and meaningful program evaluations, and ensures the proper allocation and retention of funds.

INDUSTRY COMPARISONS [10]

The National Association of Student Financial Aid Administrators (NASFAA) staffing evaluation model was not extensively used within the California State University (CSU). Periodic industry comparisons assist in validating and maximizing the efficiency and economy of operations.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT [11]

Interaction between financial aid offices and other campus departments warranted improvement at seven of the ten campuses visited. Coordination with other campus offices reduces the risk that errors and irregularities will go undetected and increases the likelihood of an equitable distribution of financial aid based on financial need.

STUDENT ELIGIBILITY [13]

POST-BACCALAUREATE PELL GRANTS [13]

Some students who were enrolled in graduate-level teacher credential programs received Pell Grants for work completed in non-qualifying courses at seven of the ten campuses visited. Adequate monitoring of qualifying coursework reduces the risk that financial aid will be awarded to ineligible students and preserves the CSU's institutional eligibility to participate in federal financial aid programs.

BENEFITS FOR RESIDENT ASSISTANTS [14]

Guidelines for payments to resident assistants (RAs), and the manner in which the payments were factored into financial aid benefit calculations, were widely interpreted. Matching of financial aid benefits with current attendance costs reduces the risk of financial aid overpayments and provides a more equitable distribution of funds.

AWARDING/DISBURSING [15]

Financial aid disbursement documentation required improvement at three of the ten campuses visited. Maintaining adequate documentation meets requirements for continuation of institutional eligibility to participate in federal financial aid programs and assures equitable distribution of funds.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

GENERAL/CONTROL ENVIRONMENT

CONSUMER INFORMATION

Certain consumer information was not disclosed in direct individual notices at all campuses visited.

The breadth of information needed for consumer disclosure purposes typically required the involvement of a number of different campus departments other than the financial aid office. These other areas included public safety, intercollegiate athletics, admissions and records, and institutional research. We noted that the campus financial aid offices generally assumed that the required disclosures were occurring. The most common practice was for the campuses to rely upon the availability of information in the campus catalog or schedule of classes and at various website addresses. Two exceptions noted on the majority of campuses were the inclusion of financial aid information in the mailing of admission acceptance letters to prospective students and the distribution of crime statistics to current employees.

The federal Higher Education Act, the federal Equity in Athletics Disclosure Act (EADA), and regulatory guidance provided in the Code of Federal Regulations (CFR) require direct individual notices of prescribed information to certain target audiences including: prospective students; currently enrolled students; current employees; parents, coaches, and counselors of prospective student athletes; and the general public. The disclosures are to include general school information, crime/security statistics, student completion/graduation/transfer rates, Family Educational Rights and Privacy Act (FERPA) privacy/security rights, financial aid program information, and gender-specific information on athletic participation and financial support.

At a minimum, direct individual notices must:

- ▶ Identify the required information disclosures.
- ▶ Provide the exact electronic website address where the information can be found.
- ▶ State that, upon request, a person is entitled to a paper copy containing the required information.
- ▶ Inform students and others how to request a paper copy.

Regulatory guidance repeatedly states that web presentation by itself is not an acceptable disclosure.

Campus management cited various reasons for the lack of individual direct notices including misunderstanding the requirement, misconceptions that web availability met the requirements, and reliance on other departments.

The lack of individual direct notice of prescribed financial aid information jeopardizes the institutional eligibility of the campuses to participate in federal financial aid programs.

Recommendation 1

We recommend that the chancellor's office define, document, and transmit to campuses responsibilities for the disclosure of consumer information by direct individual notice.

Management's Response

We concur with this recommendation. The chancellor's office will provide campuses with additional guidance on satisfying responsibilities for the disclosure of consumer information by direct individual notice that complies with existing statutes and regulations. This guidance will be distributed to campus presidents by November 15, 2003.

ERRONEOUS REPORTING

Erroneous financial aid data was reported by two campuses, both with locally developed financial aid information systems.

We noted that:

- ▶ The San Diego campus overstated certain data on the federal Fiscal Operations Report and Application to Participate (FISAP). The process for generating the annual FISAP reports was automated through the campus-developed information system called RIX, and the campus determined that the system contained some faulty programming code changes, which erroneously counted financial aid applicants that did not enroll. As a result, the campus will likely have to repay certain amounts or forfeit future federal allocations.
- ▶ Financial aid reported by the Chico campus to the chancellor's office was understated by \$4.5 million. A major contributing factor was the underreporting of \$4.9 million in Unsubsidized Stafford Loans, due to a flaw in the Financial Aid Records Management System (FARMS) program that omitted these loans for students if no other type of financial aid was received.

In *Control Objectives for Information and related Technology* (CobiT), the Information Systems Audit and Control Foundation prescribes a framework of good practices for the effective management of information and related technology. For managing changes, CobiT states that management should ensure that all requests for changes and system maintenance are standardized and subject to formal change management procedures.

State Administrative Manual (SAM) §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include an effective system of internal review. Further, internal accounting controls comprise the methods and procedures directly associated with assuring the reliability of accounting data.

Inadequate control over program changes increases the risk that systems will neither support business objectives nor produce correct results, while inaccurate reporting undermines the validity of statistics accumulated systemwide and may affect campus allocations and program evaluations based on total financial aid administered.

Recommendation 2

We recommend that the chancellor's office strengthen its review of financial aid data generated by the campuses running locally developed information systems.

Management's Response

We concur with this recommendation. The chancellor's office will revise the edit and review process for campus-submitted financial aid database reports in an effort to further increase assurances that the data are consistent with other reports of financial aid activity at the campuses. The revised edit and review process will be implemented by December 1, 2003.

INDUSTRY COMPARISONS

The National Association of Student Financial Aid Administrators (NASFAA) staffing evaluation model was not extensively used within the California State University (CSU).

During our review, we found that only two of the ten campuses visited (Chico and Monterey Bay) had used the NASFAA staffing model (neither had retained the comparison results). At our request, the chancellor's office conducted a brief survey of the other campuses. Only three of the six campuses that responded indicated that they had done the survey. Two of these campuses reported that their staffing was adequate, and the other reported that it was understaffed.

Volume 2, Chapter 3 of the 2001/02 Student Financial Aid Handbook from the U.S. Department of Education indicates that financial aid must be supported by an adequate number of professional, paraprofessional, and clerical personnel.

Campus management cited several reasons for not using the NASFAA model including their belief that the model was not necessarily the best measure and that its use would not make a difference in staffing regardless of the results.

Not utilizing the NASFAA tool increases the risk that benefits in automating the financial aid process may not be fully realized in terms of improved efficiency and economy of operations.

Recommendation 3

We recommend that the chancellor's office encourage periodic comparisons against industry standards for financial aid, and the sharing of the results among all campuses.

Management's Response

We concur with this recommendation. The chancellor's office will encourage campuses to participate in the survey that is currently being conducted by the National Association of Student Financial Aid Administrators (NASFAA) in order to update its staffing and salary model. Additionally, we will encourage each campus to perform the NASFAA staffing and salary analyses as of June 30, 2003, as a baseline measure, and to share the results with the chancellor's office. We will also encourage campuses to complete the staffing analyses again as of June 30, 2005, or once the staffing model has been updated by NASFAA. This information will be conveyed to campuses in a systemwide memorandum by October 31, 2003.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT

Interaction between financial aid offices and other campus departments warranted improvement at seven of the ten campuses visited.

Financial aid benefits were driven, in part, on information provided by departments outside of the financial aid office. For example, a student's financial aid budget was based on living costs. The three typical budgets were living with relatives, living on-campus, and living off-campus, and these budgets varied among the campuses based on local costs. For 2001/02, the full-time undergraduate budgets were as follows:

CAMPUS	LIVING WITH PARENTS	LIVING ON CAMPUS	LIVING OFF CAMPUS
Bakersfield	\$7,282	\$10,173	\$10,054
Chico	\$7,300	\$12,400	\$12,400
Dominguez Hills	\$7,742	\$10,827	\$13,196
Fresno	\$7,500	\$10,944	\$10,944
Fullerton	\$7,754	\$11,289	\$13,201
Hayward	\$7,611	\$11,058	\$12,921
Humboldt	\$7,750	\$11,100	\$11,100
Long Beach	\$7,648	\$10,334	\$13,246
Los Angeles	\$7,686	\$11,170	\$11,296
Maritime Academy	\$7,856	\$11,770	\$12,608
Monterey Bay	\$7,759	\$11,441	\$13,357
Northridge	\$7,602	\$12,010	\$12,010
Pomona	\$7,423	\$11,223	\$12,523
Sacramento	\$7,732	\$11,224	\$12,970
San Bernardino	\$7,599	\$12,075	\$12,075
San Diego	\$7,992	\$12,852	\$13,248
San Francisco	\$8,024	\$14,972	\$14,972
San Jose	\$7,800	\$12,800	\$12,800
San Luis Obispo	\$8,174	\$12,170	\$12,170

San Marcos	\$7,610	\$13,370	\$13,370
Sonoma	\$7,936	\$12,103	\$13,534
Stanislaus	\$7,725	\$11,775	\$11,775

Students self-declared on their financial aid application (Free Application for Federal Student Aid – FAFSA) where they anticipated living in the forthcoming year. The bulk of these applications were filed by April 1st, approximately five months prior to the start of the fall term. Although many of the campuses visited requested that students reaffirm their living arrangement as part of the financial aid award and acceptance process, we found that six of the campuses visited did not crosscheck students paid benefits as living on-campus with the campus housing office to verify that these students established occupancy.

We also noted that:

- ▶ One campus was discarding files older than six months because it was assumed that backup files were kept by the computer center. However, the computer center had been purging these records unbeknownst to the financial aid office.
- ▶ One campus did not have on-campus scholarships evaluated independently of the awarding department.
- ▶ Fee waivers or third party payment of fees was not factored into financial aid calculations at two campuses.

Chapter 2 of the U.S. Department of Education’s Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions for Federally Funded Student Financial Aid Programs (Blue Book), June 2001, *General Institutional Responsibilities*, states that the institution has the responsibility to maintain accurate information about student applicants for Title IV aid and to resolve any discrepancies or inconsistencies.

In most instances, campus management in the financial aid offices indicated that the necessary information might not have been provided to them or that they did not receive it from other departments in a timely manner. Additionally, the systems for alerting the financial aid offices that information was missing did not work properly. For housing purposes, the financial aid directors on several campuses indicated that the coordination was less important when the budgets were the same for living off-campus and on-campus.

The risk of errors and irregularities increases when on-campus housing occupancies and other information is not coordinated with the financial aid office, which may result in excess financial aid awards to some students, limiting the availability of award monies to other students with financial need.

Recommendation 4

We recommend that the chancellor's office remind the campus financial aid officers that information dependent on other campus departments needs to be adequately coordinated.

Management's Response

We concur with this recommendation. Working in consultation with campus financial aid personnel, the chancellor's office will compile an inventory of the interdependencies for campuswide data related to financial aid eligibility and award coordination. A summary of the information will be shared with all campuses by March 30, 2004, with a request that they review current systems and procedures to ensure that information is being adequately coordinated.

STUDENT ELIGIBILITY

POST-BACCALAUREATE PELL GRANTS

Some students who were enrolled in graduate-level teacher credential programs received Pell Grants for work completed in non-qualifying courses at seven of the ten campuses visited.

Higher Education Amendments of 1998 (Public Law 105-244) states that the federal government allows students who are enrolled in post-baccalaureate teacher certification programs to receive a Pell Grant, but stipulates that they be enrolled in courses required to receive a teaching credential necessary for employment as a teacher in an elementary or secondary school.

Campus management indicated their belief that monitoring specific course enrollments was not their specific responsibility, and that this process was significantly different than what has been expected for satisfactory academic progress for other financial aid recipients.

Failure to comply with federal Pell Grant requirements can lead to overawards to some students, increases the risk of inequitable distribution of financial aid, and jeopardizes the institution's eligibility to participate in federal financial aid programs.

Recommendation 5

We recommend that the chancellor's office require each of the campuses to establish and implement procedures for post-baccalaureate Pell Grant recipients to ensure that Pell Grants are only awarded for qualifying courses.

Management's Response

We concur with this recommendation. The chancellor's office will work with campus financial aid personnel in consultation with the U.S. Department of Education officials to ensure that appropriate procedures are identified and implemented to ensure that post-baccalaureate students enrolled in teaching credential programs do not receive federal Pell Grants in excess of their eligibility. The

chancellor's office will advise campuses by December 31, 2003 of any modifications that must be implemented to ensure compliance with acceptable practices.

BENEFITS FOR RESIDENT ASSISTANTS

Guidelines for payments to resident assistants (RAs), and the manner in which the payments were factored into financial aid benefit calculations, were widely interpreted.

For example, all RAs at the Chico campus received full room and board. After one semester of service, tuition and other fees were also paid. The fee payment was \$2,070 for full-time undergraduates in 2001/02. The value of room and board ranged from \$4,064 to \$6,870 depending upon the facility, bringing the total package to approximately \$5,467 (based on the fees plus the midpoint of the room and board range).

In addition to the payments described above, seven RAs also received financial aid exceeding \$10,000 in 2001/02, bringing their combined payments and benefits to more than \$15,000. The full-time undergraduate budget for a student living on-campus at Chico was \$12,400 in 2001/02 broken down as follows:

Fees/Tuition	\$2,070
Books/Supplies	846
Room & Board	7,500
Transportation	584
Miscellaneous/Personal	1,400
TOTAL	\$12,400

Financial aid benefits and payments exceeded budgets for the RAs at the Chico campus, in part, because room and board were considered earnings as opposed to untaxed income and were not considered a factor for calculation of financial aid benefits in the year in which the student served as an RA. Students were advised that the RA payments may affect future financial aid awards.

Some of the basic principles governing financial aid benefits in Volume 1, Chapter 7 of the 2001/02 Student Financial Aid Handbook from the U.S. Department of Education indicate that:

- ▶ A student must have financial need to receive aid except for certain unsubsidized loan programs.
- ▶ Financial need is the difference between the student's cost of attendance and the family's ability to pay these costs.
- ▶ The total aid that the student may receive from federal funds and other sources when added to the student's expected contribution cannot exceed the student's cost.

This same chapter notes that the value of room and board provided to an employee should be reported as untaxed income under housing, food, and other allowances, but it is not explicit on the year affected – the year in which the student serves as an RA or in some subsequent year.

The CSU State University Grant (SUG) program policy guidelines indicate that a student must have paid the State University Fee (SUF) in order to be eligible for a SUG. Some of these same RAs received SUGs when their SUF was paid directly to the campus by the housing program.

The above method of handling RA benefits made it difficult to track payments because they were not being reported by the campus as taxable income. Campuses were informally advised by the chancellor's office human resources department that these payments are exempt from tax reporting because they meet the Internal Revenue Service criteria of being on the business premises, for the convenience of the employer, and as a condition of employment.

The financial aid director at Chico indicated that there was less than unanimity within the CSU as to how to treat RA payments in financial aid benefit calculations.

Calculating financial aid benefits without considering housing and fees already paid by the university overestimates RA financial needs.

Recommendation 6

We recommend that the chancellor's office establish the basis for treatment of RA room and board in the calculation of financial aid benefits to ensure uniformity throughout the CSU.

Management's Response

We concur with this recommendation. The chancellor's office will request that each campus provide information on current provisions for compensation or other remuneration of students in resident assistant (advisor) or similar positions. The chancellor's office will then provide campuses with additional advice on the appropriate treatment of benefits or other remuneration, consistent with federal statutes, regulations, and guidance in a systemwide memorandum that will be issued by January 30, 2004.

AWARDING/DISBURSING

Financial aid disbursement documentation required improvement at three of the ten campuses visited.

We found that:

- ▶ One campus added an extra family housing allowance in addition to the one already included in the expected family contribution.
- ▶ This same campus did not require receipts to document that computers added to financial aid recipient budgets through allowances had actually been acquired, and another campus did not always maintain documentation for adjustments made to student cost of attendance calculations.
- ▶ Two other campuses did not document periodic reviews of professional judgment exercised by financial aid counselors.

Requiring receipts for allowances added to the student cost of attendance for personal computers was a particularly gray area in the federal regulations and lacked CSU systemwide definition. Variations in practice included:

- ▶ Requiring receipts as proof that costs were incurred.
- ▶ Discussing anticipated costs but not collecting receipts afterwards.
- ▶ Adamant opposition to collecting receipts because it would constitute excessive workload.

The U.S. Department of Education's 2001/02 Student Financial Aid Handbook, *Application and Verification Guide*, indicates, in part, that "if a student has special circumstances not taken into account by the expected family contribution formula, the financial aid administrator may use professional judgment to adjust – on a case-by-case basis – the values of specific data reported on a student's Student Aid Report. Special circumstances are conditions that differentiate an individual student, not conditions that exist for a whole class of students." Such adjustments must be documented in the student's file.

Volume 1, Chapter 7 of the U.S. Department of Education's 2001/02 Student Financial Aid Handbook, *Financial Need and Packaging*, under the discussion of the components of a student's cost of attendance, indicates that "a reasonable allowance (as determined by the school) for the documented rental or purchase of a personal computer can be included."

Campus management indicated their belief that the need for this documentation was subject to their interpretation of the regulations. Campus management further indicated that these issues may have been best business practices but not necessarily compliance requirements.

Failure to maintain adequate documentation jeopardizes the institutional eligibility to participate in federal financial aid programs and may result in an inequitable distribution of funds.

Recommendation 7

We recommend 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.

Management's Response

We concur with this recommendation. The chancellor's office, in consultation with campus financial aid personnel, will compile a summary of current policies and procedures relative to allowable budget adjustments and professional judgment modifications. This summary will be discussed with financial aid personnel in an effort to agree upon best practices. After review and discussion with the campus aid personnel, the summary of best practices will be distributed by systemwide memorandum and will be subject to review and modification on at least a biennial basis or when federal regulations or pertinent federal or state policy guidance dictates. The initial systemwide memorandum on this topic will be issued by March 30, 2004.

Recommendation 8

We recommend that 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.

Management's Response

We concur with the recommendation. Staff in the chancellor's office will work collaboratively with a group of CSU campus financial aid administrators to review current CSU 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 major universities participating in federal Title IV programs. The conclusions and recommendations from this effort will be presented to the CSU Financial Aid Advisory Council for consideration and recommendation to the chancellor for any appropriate systemwide policy guidance.

It is anticipated that any policy recommendations from the Advisory Council will be forwarded to the chancellor by January 31, 2004, so that appropriate notification can be provided to campuses in order to implement any required changes in policies and procedures for the 2004-05 award year.

APPENDIX A: PERSONNEL CONTACTED

Chancellor's Office

Allison Jones	Assistant Vice Chancellor, Student Academic Support
Judy Osman	Associate Director, Student Academic Support
Mary Robinson	Associate Director for Financial Aid, Student Academic Support
John Sanders	Quality Improvement Manager, Business Planning and Information Management
David Spence	Executive Vice Chancellor and Chief Academic Officer

California State University, Chico

Manuel Esteban	President
Anita Barker	Athletic Director
Mark Carlsten	Programmer/Analyst, Financial Aid
Kelly Clark	Lieutenant, Public Safety
Jim Cragle	Programmer/Analyst, Financial Aid
Kentiner David	Assistant Director, Financial Aid
Adam Fernandez	Financial Operations Analyst, University Housing and Food Services
Dennis Graham	Vice President for Business and Finance
Darlene Gross	Associate Director for Financial Operations and Personnel Management, University Housing and Food Services
Jean Irving	Compliance Coordinator, Student Records and Registration
Steve Irving	Coordinator, Student Employment Office
Pam Johnstone-Lindemann	Assistant Registrar
Bill Jones	Internal Auditor
Barbara Joronon	Account Analyst, Risk Management and Business Services
Chris Malone	Associate Director, Educational Opportunity Program/Educational Support Programs
Debbie McElroberts	Director, Computing Services
Jim Moon	Associate Vice President for University Advancement and Student Affairs
Paul Moore	Vice President for University Advancement and Student Affairs
Terryl Murphy	Scholarship Coordinator, Financial Aid
Linda Nelson	Program Specialist, Financial Aid
Stephanie Neuhart	Payroll Technician
Rez O'Sullivan	Program Leader, Financial Aid
Dan Reed	Associate Director, Financial Aid
Bruce Rowen	Registrar
John Swiney	Director, Admissions
Annette Tickner-Edwards	Director, Financial Aid
George Wellman	Associate Vice President, Financial Services
Chuck Worth	Director, Institutional Research
Stephanie Yule	Director, Risk Management and Business Services

APPENDIX A

California State University, Dominguez Hills

James E. Lyons, Sr.	President
Boice Bowman	Vice President, Student Affairs
Constance Chambers	Assistant Director, Financial Aid
Lisa Chavez	Associate Director, Accounting
Brian Dahm	Director, Accounting Services
Kathleen Hughes	Director, Business Process Management
Delores Lee	Director, Financial Aid
Al Rodriguez	Associate Vice President, Student Affairs
James Woods	Director, Admissions and Records

California State University, Hayward

Norma S. Rees	President
John Abbey	Assistant Controller
Jack Azevedo	Student Financial Services Officer
Yvonne Brandenburg	Accounts Receivable Manager
Frank Correia	Server and Network Operations Director
Maria De Anda-Ramos	Director of Enrollment Services, Admissions and Recruitment
Debby DeAngelis	Director of Athletics
Jan Giovannini-Hill	Work-Study Coordinator
Elizabeth Graw	Director of Advancement Services, CSU Hayward Educational Foundation
Betty Harris	Executive Director of Enrollment Services and Financial Aid
Neal Hoss	Controller; Associate Vice President, Business and Financial Services
Mary Hubins	Director of Enrollment Services, Registration and Records
Amy Huie	Financial Aid Systems Coordinator
Rhonda Johnson	Associate Director of Enrollment Services
Robert Mahoney	Interim Executive Director, Student Academic Services
Regina Metoyer	Director Housing and Residential Life
Richard Metz	Vice President of Administration and Business Affairs
Joyce Montgomery	Executive Director, University Union and Associated Students/ Interim Executive Director, CSU Hayward Foundation
Monica Pacheco	Special Projects Coordinator, CSU Hayward Auxiliaries
Leone Rodriguez	Assistant Vice President, Institutional Research and Analysis
Marilyn Stager	Controller, CSU Hayward Foundation
Sandy Willett	Accounting Technician, Financial Aid Accounting

California State University, Los Angeles

James M. Rosser	President
Kathy Anderson	Systems Coordinator, Registrar's Office
Christopher Bass	Director of Housing Services
Cynthia Burks	Supervisor, General Accounting
Kyle C. Button	Vice President - Institutional Advancement; Foundation Vice President
Jamie Dote-Kwan	Associate Dean for Student Services, Charter College of Education
Lee de Leon	Assistant Intercollegiate Athletics Director, Finance
Carol Dun	Intercollegiate Athletics Director
Ed Feighery	Director of Student Financial Services - Cashier's Office
Lindy Fong	Director, Center for Student Financial Aid
Patricia Frith-Smith	Data Processing Analyst

APPENDIX A

Steven Garcia	Vice President Administration and Finance
Becky Hopkins	Associate Director - Educational Opportunity Program
James Howard	Scholarship/Work Study Coordinator
Mary Kulick	Assistant Registrar/Records
Cindy Leiby-Smith	Admissions Officer
Lorraine Molena	Federal Work Study Assistant
Anthony Ross	Vice President Student Affairs
David Sandoval	Director – Educational Opportunity Program
Mae Santos	Budget Manager
Linda Shaffer	University Internal Auditor
John Tcheng	Assistant Budget Analyst
Paula Tcheng	Supervisor, Auxiliary Accounting and Reporting
Biljana Vuletic	Financial Aid Advisor
Sandy Wong	Disbursement Office Manager
Joan Woosley	Director of Admissions and University Registrar

California State University, Monterey Bay

Peter P. Smith	President
Bonnie Brown	Director, Financial Aid
Steve Brown	Director of Academic Enhancement Services
Valarie Brown	Director of Admissions and Records
Beverly Carter	Interim Director of Teacher Education
Christine Fredrick	Student Accounts Supervisor
Any Klingelhofer	Director of Residential Life
Lou Rinehart	Financial Aid Coordinator
Paul Rodriguez	Educational Opportunity Program Coordinator
Holly Roller	Auxiliaries Accountant, CSUMB Foundation
Wes Scheibly	Payroll Manager
Ruth Stipp	Director of Accounting
Bill Trumbo	Director of Athletics, Sports, Recreation, Health
Carol Zabala	Administrative Analyst, Athletics, Sports, Recreation, Health

California State Polytechnic University, Pomona

Bob Suzuki	President
Minerva Camacho	Credential Analyst, College of Education and Integrative Studies
Patricia L. Farris	Vice President, Administrative Affairs
Douglas Freer	Director, University Housing
Terri Gallegos	Financial Aid Counselor
Leticia Guzman	Assistant Director, Educational Equity Services
Bob Hughes	Associate Systems Analyst
Rose Kukla	Registrar
Darwin Labordo	Associate Vice President, Finance and Administrative Services
David Le Claire	Assistant Director, Financial Aid
Haleh Minakary	General Business Manager, Cal Poly Pomona Foundation
Diana Minor	Associate Director, Financial Aid
Ray Murillo	Student Services Coordinator, College of Education and Integrative Studies
Mohammad Rehman	Associate Systems Analyst
Melanie Saracco	Director, Financial Aid

APPENDIX A

Albert Sim Manager, Student Aid Accounting
Kathy Street Associate Vice President, Enrollment Services
Kristen Surber COPSMORE Project Coordinator
Chris Ward Business Manager, Athletics

San Diego State University

Stephen Weber President
Alan Bailey Chief Financial and Information Officer, University Advancement
Reba Bailey Supervisor, Registrar's Public Information Area
Cyndee Batzler Accounting Technician, University Cashiers
Bill Boyd Associate Vice President, Enrollment Support
Kevin Carter Director, Information Systems Management (Student Affairs)
Valerie Carter Tax and Audit Coordinator, Business Information Management
Gus Chavez Director, Educational Opportunity/Ethnic Affairs
Chris Collins Assistant Director, Financial Aid
Sandra Cook Executive Director, Enrollment Services
Kathleen Deaver Director of Admissions
Helen Duffy Director, Credential Office
Chrys Dutton Director, Financial Aid
Julie Fitzgerald Student-Athlete Coordinator, Intercollegiate Athletics
Ellene Gibbs Director, Business Information Management
Merle Harmon Interim Registrar
Sandy Kahn Programmer/Analyst, College of Education
Cathy Mills Contracts Manager, Housing and Residential Life
Margo Olander Team Leader - Student Service Analyst Evaluations, Financial Aid Office
Chip Pierce Administrative Analyst, Financial Aid
Debbie Quiett Manager, Student Financial Services
Kathie Ross Scholarship Director
Sally Roush Vice President for Business and Financial Affairs
Deborah Sandy Business Analyst, Business Information Management
Ethan Singer Associate Vice President for Academic Affairs
Lisa Winters Payroll Technician

San Francisco State University

Robert A. Corrigan President
Jan Andreasen Executive Director, Housing and Residential Services
Lorena Casetta Counselor, Office of Student Financial Aid
Lori Chan Coordinator, MAP and Probation/Remediation, Registrar
Mabel Chan Counselor, Office of Student Financial Aid
Tracy Cummings Assistant Director of Compliance, Athletics
Suzanne Dmytrenko Registrar
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Barbara Hubler Director, Office of Student Financial Aid
Wanda Humphrey Payroll Manager
Lori Johnson Counselor, Office of Student Financial Aid
Wayne Kuhaupt Manager, Account Payable and Collections

APPENDIX A

Franz Lozano	Associate Internal Auditor
Leroy Morishita	Vice President, Administration and Finance
Tom O'Toole	Operating Systems Analyst, Division of Information Technology
Linda Petsche	Coordinator of Credential Services and Data Management, College of Education
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Michael Simpson	Director, Athletics
Andrew Stockton	Technology Officer, Housing and Residential Services
Terry Tagaloa	Assistant Director, Office of Student Financial Aid
Jerry Trobaugh	Lieutenant, Department of Public Safety
Jim Van Ness	Internal Auditor
Jo Volkert	Associate Vice President, Enrollment Planning and Management
Larry Ware	Associate Vice President/Controller, Fiscal Affairs
Kim Wible	Chief/Director, Department of Public Safety
Cynthia Williams	Counselor, Office of Student Financial Aid
Burkland Wong	Associate Controller, Fiscal Affairs
Cora Wong	Director, Student Financial Operation and Business Systems
Rita Xiong	Student Systems Coordinator, Division of Information Technology
Ginger Yamamoto	Senior Coordinator for Retention, Educational Opportunity Program

California State University, San Marcos

Alexander Gonzalez	President
Lois Adams	Administrative Support, University Police
Debbie Dale	Athletic Coordinator, External Affairs
Stephen Garcia	Vice President, Finance and Administrative Services
Suzanne Green	Associate Vice President, Finance and Administrative Services
Gerrie Hatten	Associate Director of Financial Aid and Scholarships
Linda Hawk	Director of Financial Services
Bettina Huber	Director, Office of the Provost
Francine Martinez	Vice President for Student Affairs
Syed Rizvi	Director of Financial Aid and Scholarships

California State University, Stanislaus

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Lisa Bernardo	Director, Admissions and Records
Alice Fuentes	Interim Director, Credential Processing Center
Diana Garz	Scholarship Coordinator/Data Technician, Financial Aid/Scholarship Office
David Gomes	Associate Director, Financial Aid/Scholarships
Delfin Guillory	Accounts Receivable Lead, Financial Services
Bob Harris	Assistant Athletics Director
Joan Hillery	Director, Financial Aid/Scholarships
Sylvia Kisling	Assistant Director/Counselor, Financial Aid/Scholarship Office
Donna Moore	Accountant, Financial Services

APPENDIX A

Ron Noble	Director, Educational Opportunity Program/Senior Director, Retention Services
Becka Paulsen	University Controller
Jim Phillips	Assistant Controller
Roger Pugh	Assistant Vice President for Enrollment Management
Carrie Retemeyer	Database Administrator
Sherri Rivera	Payroll Accounting Technician
Terri Sanders	Director, Advancement Services
Wilma Seltzer	System Processor, Financial Aid/Scholarship Office
Mary Stephens	Vice President, Business and Finance
Mary Vieira	Student Accounts Coordinator, Housing and Residential Life
Alison Wolz	Accounting and Finance Manager, Auxiliary and Business Services



THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT
 LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY • NORTHRIDGE • POMONA • SACRAMENTO
 SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

DAVID S. SPENCE
 EXECUTIVE VICE CHANCELLOR
 CHIEF ACADEMIC OFFICER

August 21, 2003

RECEIVED
 UNIVERSITY AUDITOR

AUG 21 2003

THE CALIFORNIA STATE
 UNIVERSITY

To: Mr. Larry Mandel
From: David S. Spence *David S.*
Subject: **Management Response to Recommendations of Audit Report Number 02-22, *Financial Aid, Systemwide***

Thank you for your July 23, 2003 memorandum transmitting the draft audit report Number 02-22, *Financial Aid, Systemwide*. In accordance with the *Policies and Procedures for the Office of the University Auditor*, we have inserted our response and corrective action plan to each of the eight recommendations on the enclosed diskette/file that you provided with the audit recommendations. A printed copy of the recommendations with our management response is also enclosed.

We appreciate both the work and the recommendations of the Office of the University Auditor. The recommendations and our corrective action plan should strengthen the administration of financial aid programs.

DSS:mlr

Enclosures

cc: Dr. Charles B. Reed (without diskette)
 Mr. Richard P. West (without diskette)
 Dr. Gary A. Hammerstrom (without diskette)
 Mr. Allison G. Jones (without diskette)
 Ms. Mary L. Robinson (without diskette)

FINANCIAL AID
SYSTEMWIDE
REPORT NO. 02-22

GENERAL/CONTROL ENVIRONMENT

CONSUMER INFORMATION

Recommendation 1

We recommend that the chancellor's office define, document, and transmit to campuses responsibilities for the disclosure of consumer information by direct individual notice.

Management's Response

We concur with this recommendation. The Chancellor's Office will provide campuses with additional guidance on satisfying responsibilities for the disclosure of consumer information by direct individual notice that complies with existing statutes and regulations. This guidance will be distributed to campus Presidents by November 15, 2003.

ERRONEOUS REPORTING

Recommendation 2

We recommend that the chancellor's office strengthen its review of financial aid data generated by the campuses running locally developed information systems.

Management's Response

We concur with this recommendation. The Chancellor's Office will revise the edit and review process for campus-submitted financial aid database reports in an effort to further increase assurances that the data are consistent with other reports of financial aid activity at the campuses. The revised edits and review process will be implemented by December 1, 2003.

INDUSTRY COMPARISONS

Recommendation 3

We recommend that the chancellor's office encourage periodic comparisons against industry standards for financial aid, and the sharing of the results among all campuses.

Management's Response

We concur with this recommendation. The Chancellor's Office will encourage campuses to participate in the survey that is currently being conducted by the National Association of Student Financial Aid Administrators (NASFAA) in order to update its staffing and salary model. Additionally, we will encourage each campus to perform the NASFAA staffing and salary analyses as of June 30, 2003, as a baseline measure, and to share the results with the Chancellor's Office. We will also encourage campuses to complete the staffing analyses again as of June 30, 2005 or once the staffing model has been updated by NASFAA. This information will be conveyed to campuses in a systemwide memorandum by October 31, 2003.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT**Recommendation 4**

We recommend that the chancellor's office remind the campus financial aid officers that information dependent on other campus departments needs to be adequately coordinated.

Management's Response

We concur with this recommendation. Working in consultation with campus financial aid personnel, the Chancellor's Office will compile an inventory of the interdependencies for campuswide data related to financial aid eligibility and award coordination. A summary of the information will be shared with all campuses by March 30, 2004 with a request that they review current systems and procedures to ensure that information is being adequately coordinated.

STUDENT ELIGIBILITY**POSTBACCALAUREATE PELL GRANTS****Recommendation 5**

We recommend that the chancellor's office require each of the campuses to establish and implement procedures for postbaccalaureate Pell Grant recipients to ensure that Pell Grants are only awarded for qualifying courses.

Management's Response

We concur with this recommendation. The Chancellor's Office will work with campus financial aid personnel in consultation with the U.S. Department of Education officials to ensure that appropriate procedures are identified and implemented to ensure that postbaccalaureate students enrolled in teaching credential programs do not receive Federal Pell Grants in excess of their eligibility. The Chancellor's Office will advise campuses by December 31, 2003 of any modifications that must be implemented to ensure compliance with acceptable practices.

BENEFITS FOR RESIDENT ASSISTANTS

Recommendation 6

We recommend that the chancellor's office establish the basis for treatment of RA room and board in the calculation of financial aid benefits to ensure uniformity throughout the CSU.

Management's Response

We concur with this recommendation. The Chancellor's Office will request that each campus provide information on current provisions for compensation or other remuneration of students in Resident Assistant (Advisor) or similar positions. The Chancellor's Office will then provide campuses with additional advice on the appropriate treatment of benefits or other remuneration, consistent with federal statutes, regulations, and guidance, in a systemwide memorandum that will be issued by January 30, 2004.

AWARDING/DISBURSING

Recommendation 7

We recommend 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.

Management's Response

We concur with this recommendation. The Chancellor's Office, in consultation with campus financial aid personnel, will compile a summary of current policies and procedures relative to allowable budget adjustments and professional judgment modifications. This summary will be discussed with financial aid personnel in an effort to agree upon best practices. After review and discussion with the campus aid personnel, the summary of best practices will be distributed by systemwide memorandum and will be subject to review and modification on at least a biennial basis or when federal regulations or pertinent federal or state policy guidance dictates. The initial systemwide memorandum on this topic will be issued by March 30, 2004.

Recommendation 8

We recommend that 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.

Management's Response

We concur with the recommendation. Staff in the chancellor's office will work collaboratively with a group of CSU campus financial aid administrators to review current CSU 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 major universities participating in federal Title IV programs. The conclusions and recommendations from this effort will be presented to the CSU Financial Aid Advisory Council for consideration and recommendation to the Chancellor for any appropriate systemwide policy guidance.

It is anticipated that any policy recommendations from the Advisory Council will be forwarded to the Chancellor by January 31, 2004 so that appropriate notification can be provided to campuses in order to implement any required changes in policies and procedures for the 2004-05 award year.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 8, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-22 on *Financial Aid*, Systemwide

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 8, 2003, I accept the response as submitted with the draft final report on *Financial Aid*, Systemwide.

MONTEREY BAY

NORTHRIDGE

CBR/ac

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

cc: Dr. David S. Spence, Executive Vice Chancellor and Chief Academic Officer
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS