

**FINANCIAL AID**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN MARCOS**

**Report Number 02-27**  
**November 21, 2002**

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## **ABBREVIATIONS**

CFR	Code of Federal Regulations
CSU	California State University
CSU San Marcos	California State University, San Marcos
EADA	Equity in Athletics Disclosure Act
FERPA	Family Educational Rights and Privacy Act of 1974
FY	Fiscal Year

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## INTRODUCTION

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### 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 interviewed personnel involved in financial aid; reviewed financial aid policies, procedures, and systems; and tested financial aid records on awards and disbursements.

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## 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.

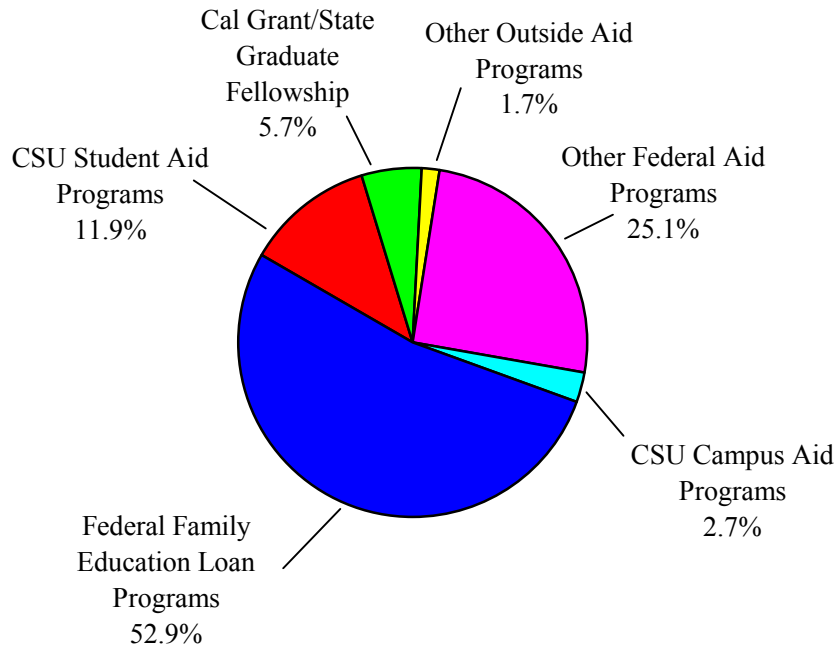
**Loans** are a form of “self-help” since they represent borrowed money that must be paid back over a period of time, typically after the student leaves school.

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 Peat Marwick 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
<b>TOTAL</b>	<b>\$ 898,165,483</b>

Nonfederal 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 nonresident 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 are implementing the PeopleSoft Student Administration module in 2002 and have been excluded for purposes of this audit because of the significant implementation workload.

At California State University, San Marcos (CSU San Marcos), the financial aid and scholarships office, which reports to the vice president, student affairs, determines and authorizes need-based financial aid. Financial aid is then disbursed by finance and administrative services. CSU San Marcos maintains financial aid records in Banner, a vendor product developed by Systems and Computer Technology Corporation.

## **OPINION**

We visited CSU San Marcos from June 18, 2002, through August 1, 2002, and audited the controls, procedures, and systems in effect at that time.

In our opinion, the financial aid program at CSU San Marcos is capably administered. However, certain areas can be improved. Specifically, we noted that certain consumer information is not disclosed in direct notices and that better oversight needs to be exercised over the course load of teacher credentialing students.

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## **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 [6]**

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

### **STUDENT ELIGIBILITY [7]**

Three of twenty-five students enrolled in graduate level teacher credential programs who received Pell Grants during the 2001/02 academic year also received support for nonqualifying course work. In two of these instances, the courses in question were post-requisite courses. Compliance with federal Pell Grant requirements reduces the risk of over-awards to some students and subsequent corrective steps that reduce the availability of student financial aid to other students with financial need.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **GENERAL/CONTROL ENVIRONMENT**

Certain consumer information was not disclosed in direct individual notices.

Direct individual notices to current students lacked adequate disclosure of completion, graduation and transfer rates. Notices to prospective students lacked disclosures regarding the annual campus security report and completion, graduation, and transfer rates.

The federal Higher Education Act, the federal Equity in Athletics Disclosure Act (EADA) and regulatory guidance provided in the Code of Federal Regulations (CFR) requires 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 of 1974 (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.

The director of the financial aid office stated that while various departments tracked the required information which was readily available to students upon request, no centralized effort was in place to ensure that distribution complied with financial aid requirements.

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

#### **Recommendation 1**

We recommend that the campus improve consumer information disclosures by direct individual notice.

#### **Campus Response**

We have begun the process to improve consumer information. The dean of students is currently working to develop a more comprehensive website that will be noted on the individual notices to students and that will address all the areas of required consumer information in a more easily read and

accessible manner. We will also be providing that website to the admissions and athletic departments to ensure that prospective students and athletes also have easy access to necessary consumer information.

We have begun implementation and the website data will be fully updated and operational by April 1, 2003.

## **STUDENT ELIGIBILITY**

Three of twenty-five students enrolled in graduate level teacher credential programs who received Pell Grants during the 2001/02 academic year also received support for nonqualifying course work. In two of these instances, the courses in question were post-requisite courses.

Higher Education Amendments of 1998 (P.L. 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.

The associate director of financial aid stated that they had relied on the nature of the cohort system to ensure that proper course loads were taken by credentialing students. Before the audit, they did not realize that students in the part-time cohorts could enroll in additional, nonqualifying courses.

Failure to comply with federal Pell Grant requirements can lead to over-awards to some students and subsequent corrective steps that reduce the availability of student financial aid to other students with financial need.

### **Recommendation 2**

We recommend that the campus coordinate with the chancellor's office on the definition of required courses for the teaching credential and monitor enrollments of Pell recipients accordingly.

### **Campus Response**

As noted in our original response to this audit, the chancellor's office cannot assist in the definition of required courses for the teaching credential. That information is the purview of the college of education on our campus. We currently work very closely with that office to identify and code students in their preliminary credential programs. However, defining the preliminary courses is not the issue. The difficulty our office faces in monitoring post baccalaureate Pell recipients is that the California State University, San Marcos (CSU San Marcos) college of education offers over 25 different credential programs each with differing program lengths, unit requirements and course listings making the monitoring of credential Pell recipients a very challenging and work intensive process. Effective with the fall 2002 semester, we now review the actual course registration of every post-baccalaureate student awarded a Pell Grant to confirm that the courses in which they are registered are in fact part of a preliminary program and make adjustments to the Pell Grant as needed.

This meets the requirement to award Pell Grant only for required preliminary courses, and though we would like to have a less work-intensive system, we have not been able to identify any other way to meet this federal stipulation.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
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



*Office of the Vice President, Finance and Administrative Services*

*Stephen G. Garcia  
Chief Financial Officer and Vice President*

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sggarcia@csusm.edu  
[www.csusm.edu](http://www.csusm.edu)*

**Date:** January 30, 2003

**To:** Larry Mandel  
University Auditor

**From:** Stephen Garcia  
Chief Financial Officer & Vice President  
Finance and Administrative Services  
Cal State San Marcos

**Subject:** **Campus Responses to Recommendations of Audit Report Number 02-27, Financial Aid, at California State University San Marcos**

Enclosed are responses to the recommendations of Financial Aid Audit Report 02-27 for California State University San Marcos. Please feel free to contact Dean Manship by email at [dmanship@csusm.edu](mailto:dmanship@csusm.edu) or by phone at (760) 750-4503 if we can be of any further assistance.

**FINANCIAL AID**

**CALIFORNIA STATE UNIVERSITY,  
SAN MARCOS**

**REPORT NO. 02-27**

**GENERAL/CONTROL ENVIRONMENT**

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THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

February 13, 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 02-27 on *Financial Aid*,  
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 13, 2003, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/bh

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Mr. Stephen G. Garcia, Vice President, Finance and Administrative Services  
Dr. Alexander Gonzalez, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS