

**FINANCIAL AID**

**SAN FRANCISCO STATE UNIVERSITY**

**Report Number 02-29  
March 24, 2003**

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**Members, Committee on Audit**

Shailesh J. Mehta, Chair  
Kyriakos Tsakopoulos, Vice Chair  
William Hauck    Dee Dee Myers  
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**Staff**

University Auditor: Larry Mandel  
Audit Manager: Jim Usher  
Internal Auditor: Jim Pelletier

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**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

CFR	Code of Federal Regulations
CSU	California State University
EADA	Equity in Athletics Disclosure Act
FACS	Financial Aid Computing System
FERPA	Family Educational Rights and Privacy Act of 1974
FY	Fiscal Year
OSFA	Office of Student Financial Aid
SAM	State Administrative Manual

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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.

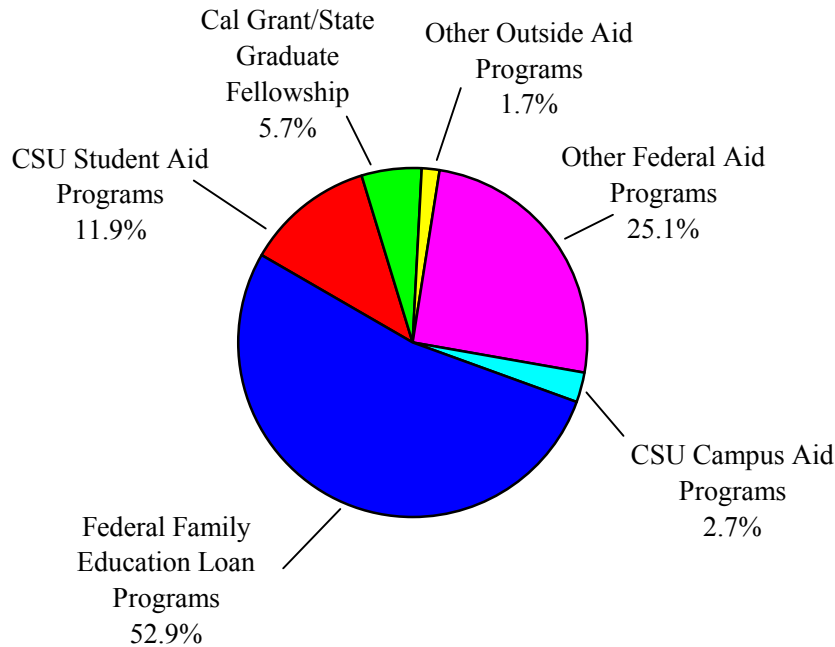
**Work-study** is a “self-help” program in the form of part-time employment during the student’s college career.

**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 San Francisco State University, the office of student financial aid (OSFA) determines and authorizes financial aid. The director of financial aid reports to the associate vice president of enrollment planning and management, who reports to the vice president for administration and finance. Financial aid is then disbursed by accounts payable and collections, which reports through fiscal affairs to the vice president for administration and finance. San Francisco State University maintains financial aid records in a locally developed database entitled Financial Aid Computing System.

## **OPINION**

We visited the San Francisco State University campus from October 14, 2002, through November 15, 2002, and audited the controls, procedures, and systems in effect at that time.

In our opinion, the financial aid program at San Francisco State University is capably administered. However, our review disclosed certain areas of the program that needed improvement. Specifically, we noted that certain consumer information was not disclosed in direct notices; the OSFA did not confirm students' housing status prior to budgeting for financial aid; the OSFA did not have a procedure in place to verify teaching credential candidates receiving Pell Grants were taking sufficient required courses; and the campus did not monitor access permissions to the OSFA database, nor did it provide Family Educational Rights and Privacy Act training to all users with access to protected data.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost effective; moreover, an audit may not always detect these limitations.

## **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 [7]**

#### **CONSUMER INFORMATION [7]**

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

#### **SYSTEM ACCESS [8]**

The campus had not been sufficiently monitoring and updating user access permissions to the Financial Aid Computing System (FACS). Monitoring user access meets the requirement to ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

#### **FERPA TRAINING [8]**

The campus did not have procedures in place to ensure that all staff with access to confidential student data understood Family Educational Rights and Privacy Act (FERPA) requirements. When processes ensure and document the training of campus staff regarding FERPA rights, the campus reduces the risk of privacy rights litigation losses and meets requirements for continuation of the institutional eligibility to participate in federal financial aid programs.

### **FISCAL AND PROGRAM COORDINATION/OVERSIGHT [9]**

The campus could not provide verification of living arrangements for four (of twelve reviewed) students whose financial aid packages were computed as though they were living on campus. Verifying student housing ensures that students receive the proper level of financial aid.

### **STUDENT ELIGIBILITY [10]**

Seven of twenty-five students tested, who were enrolled in graduate-level teaching credential programs, received 2001/02 Pell Grants for nonqualifying courses. Compliance with federal Pell Grant requirements meets requirements for continuation of the institutional eligibility of the campus to participate in federal financial aid programs.

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

## **GENERAL/CONTROL ENVIRONMENT**

### **CONSUMER INFORMATION**

Certain consumer information was not generally disclosed in direct individual notices to prospective or current students.

For disclosure purposes, the campus usually relied upon the availability of consumer information in the campus catalog and class schedule, at the one-stop student services center, and at various website addresses. Two exceptions to this methodology were the inclusion of a financial aid brochure in mailings to all applicants for admission and all continuing financial aid recipients and the distribution of crime statistics to current employees and students.

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; parents, coaches and counselors of prospective student athletes; and the general public. The disclosures are to include 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.

The associate vice president of enrollment planning and management indicated that the campus was unaware of the specific requirements to notify various groups on a direct individual notice.

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

### **Recommendation 1**

We recommend that the campus establish procedures to disclose consumer information by direct individual notice.

### **Campus Response**

We concur. The campus will establish procedures to disclose all required consumer information by direct individual notice. Expected completion date: August 2003.

## **SYSTEM ACCESS**

The campus had not been sufficiently monitoring and updating user access permissions to the Financial Aid Computing System (FACS).

State Administrative Manual (SAM) §4840 et seq. requires that state agencies ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

The associate vice president for enrollment planning and management stated that monitoring the user access permissions is a responsibility shared between the office of student financial aid (OSFA) and the division of information technology. Although screens are available to control user access permissions, no formal procedure was established in OFSA to monitor and update access on a regular basis. However, human resources does notify the division of information technology whenever an employee separates so that access to computer systems is terminated.

Failure to monitor system access privileges could result in unauthorized access to confidential student data.

### **Recommendation 2**

We recommend that the campus establish procedures to monitor FACS user access privileges.

### **Campus Response**

We concur. The office of student financial aid (OSFA) will work with the division of information technology to strengthen procedures to monitor FACS user access privileges. Expected completion date: August 2003.

## **FERPA TRAINING**

The campus did not have procedures in place to ensure that all staff with access to confidential student data understood Family Educational Rights and Privacy Act (FERPA) requirements.

SAM §20050 requires the establishment and maintenance of internal accounting and administrative controls. It references and defines an internal control as a process designed to provide an organization reasonable assurance regarding the achievement of primary objectives, including compliance with laws and regulations. FERPA related staff training and documented acknowledgement by staff of training are necessary to provide assurance that FERPA rights are being properly protected through staff awareness.

The associate vice president for enrollment planning and management stated that the campus has developed security guidelines for access to confidential student records, including an explanation of staff responsibilities under FERPA, that have been implemented for staff in enrollment planning and management, but have not yet been implemented in various other departments where staff have access to student records.

When processes are not in place to ensure that training of campus staff occurs regarding FERPA rights and to ensure the maintenance of related documentation of this training, the campus increases the risk of privacy rights litigation losses and jeopardizes its eligibility to participate in federal financial aid programs.

### **Recommendation 3**

We recommend that the campus establish procedures to ensure and document that pertinent campus staff have received information about and acknowledged understanding of FERPA rights and responsibilities.

### **Campus Response**

We concur. The campus will document established procedures to ensure that pertinent campus staff have received information about and acknowledged understanding of FERPA rights and responsibilities. Expected completion date: August 2003.

## **FISCAL AND PROGRAM COORDINATION/OVERSIGHT**

The campus could not provide verification of living arrangements for four (of twelve reviewed) students whose financial aid packages were computed as though they were living on campus.

In *Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions for Federally Funded Student Financial Aid Programs*, June 2001, published by the U.S. Department of Education, also known as the Blue Book, Chapter 2, *General Institutional Responsibilities*, it states, in part, that a campus president must ensure that a school has established clear lines of responsibility among the pertinent school offices and has good communication and cooperation among personnel in the pertinent school offices.

The director of the OSFA indicated that housing budgets for both on campus and off campus are the same and that students self-report their housing status both when applying for and accepting financial aid.

When housing status is not verified, financial aid awards (typically in the form of loans) to some students may be too high.

### **Recommendation 4**

We recommend that the campus establish procedures to verify each student's on-campus housing status.

### **Campus Response**

We concur. OSFA is working with the housing office and the Village at Centennial Square to establish procedures to verify on-campus housing status at the beginning of each semester. Expected completion date: August 2003.

## **STUDENT ELIGIBILITY**

Seven of twenty-five students tested, who were enrolled in graduate-level teaching credential programs, received 2001/02 Pell Grants for nonqualifying courses.

The Higher Education Amendments of 1998 (P.L. 105-244) state, in part, 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 defined program courses leading to the receipt of a teaching credential necessary for employment as a teacher in an elementary or secondary school.

The director of the OSFA stated that the campus does not currently have a procedure to verify that students are enrolled in specific eligible courses in order to receive Pell Grants and that Pell Grants were authorized based on participation in the teaching credential program rather than course work.

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 5**

We recommend that the campus establish procedures to verify that students receiving teaching credential Pell Grants are enrolled in a sufficient number of required courses.

### **Campus Response**

We concur. OSFA has established procedures to verify enrollment in required teaching credential courses prior to releasing a Federal Pell Grant to a student in the teaching credential program. This has been in effect since January 2003.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
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
Arlene Essex	Campus Programs, Grants and Contracts Administrator, Foundation
Michael Garrity	Analyst/Programmer, Student Systems Support and Development
Marlew Haskins	Associate Director, Office of Student Financial Aid
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
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
Jennie Quinn	Assistant Director, Office of Student Financial Aid
Vanessa Sheared	Associate Dean of Academic Affairs, College of Education
Rose Shew	Counselor, Office of Student Financial Aid
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



San Francisco  
State University

Office of the President

APPENDIX B - Page 1 of 3  
1600 Holloway Avenue  
San Francisco, California 94132

Tel: 415/338-1381

Fax: 415/338-6210

April 16, 2003

RECEIVED  
UNIVERSITY AUDITOR

APR 17 2003

THE CALIFORNIA STATE  
UNIVERSITY

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, California 90802-4210

Dear Mr. Mandel:

We have carefully reviewed the Office of the University Auditor Report #02-29 on Financial Aid at San Francisco State University. The report identified areas where additional efforts are needed, and we are taking actions to implement the recommendations.

Our responses to the recommendations are attached. Questions regarding the responses may be directed to Leroy Morishita, Vice President for Administration and Finance, at 415/338-2521 or Jim Van Ness, Internal Auditor, at 415/338-7183.

Sincerely,

Robert A. Corrigan  
President

JVN/id

Attachment

cc: Leroy M. Morishita, Vice President, Administration & Finance  
Jo Volkert, Associate Vice President, Enrollment Planning & Management  
Larry Ware, Associate Vice President/Controller, Fiscal Affairs  
Barbara Hubler, Director, Office of Student Financial Aid  
Jim Van Ness, Internal Auditor  
Franz Lozano, Associate Internal Auditor

**FINANCIAL AID**  
**SAN FRANCISCO STATE UNIVERSITY**  
**REPORT NO. 02-29**

**GENERAL/CONTROL ENVIRONMENT**

**CONSUMER INFORMATION**

**Recommendation 1**

We recommend that the campus establish procedures to disclose consumer information by direct individual notice.

**Campus Response**

We concur. The campus will establish procedures to disclose all required consumer information by direct individual notice. Expected completion date: August 2003.

**SYSTEM ACCESS**

**Recommendation 2**

We recommend that the campus establish procedures to monitor FACS user access privileges.

**Campus Response**

We concur. The Office of Student Financial Aid (OFSA) will work with the Division of Information Technology to strengthen procedures to monitor FACS user access privileges. Expected completion date: August 2003.

**FERPA TRAINING**

**Recommendation 3**

We recommend that the campus establish procedures to ensure and document that pertinent campus staff have received information about and acknowledged understanding of FERPA rights and responsibilities.

**Campus Response**

We concur. The campus will document established procedures to ensure that pertinent campus staff have received information about and acknowledged understanding of FERPA rights and responsibilities. Expected completion date: August 2003.

## FISCAL AND PROGRAM COORDINATION/OVERSIGHT

### **Recommendation 4**

We recommend that the campus establish procedures to verify each student's on-campus housing status.

### **Campus Response**

We concur. OSFA is working with the Housing Office and the Village at Centennial Square to establish procedures to verify on-campus housing status at the beginning of each semester. Expected completion date: August 2003.

## STUDENT ELIGIBILITY

### **Recommendation 5**

We recommend that the campus establish procedures to verify that students receiving teaching credential Pell Grants are enrolled in a sufficient number of required courses.

### **Campus Response**

We concur. OSFA has established procedures to verify enrollment in required teaching credential courses prior to releasing a Federal Pell Grant to a student in the teaching credential program. This has been in effect since January 2003.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

AKERSFIELD

April 24, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 02-29 on *Financial Aid*,  
San Francisco State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of April 24, 2003, I accept the response as submitted with the draft final report on *Financial Aid*, San Francisco State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Robert A. Corrigan, President  
Mr. Jim Van Ness, Internal Auditor

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS