

FINANCIAL AID
CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 10-43
November 17, 2010

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ABBREVIATIONS

CSU	California State University
CSUN	California State University, Northridge
FSA	Federal Student (Financial) Aid
OUA	Office of the University Auditor
SAM	State Administrative Manual

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2009, the Board of Trustees, at its January 2010 meeting, directed that *Financial Aid* be reviewed. *Financial Aid* was previously audited in 2002.

We visited the California State University, Northridge campus from May 24, 2010, through June 17, 2010, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on financial aid activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls for financial aid activities in effect as of June 17, 2010, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes 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.

The following summary provides management with an overview of conditions requiring 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 ENVIRONMENT [6]

Notification of required consumer information disclosures did not occur in accordance with disclosure requirements. Additionally, physical access controls over a file room containing some confidential student financial aid records were not adequate.

FISCAL AND PROGRAM OVERSIGHT AND COORDINATION [8]

FSA fund reconciliations were not prepared or reviewed in a timely manner.

AWARDING AND DISBURSING [9]

Professional judgment decisions were not always adequately documented. In addition, the department policy manual did not make clear who had the authority to approve exceptions to professional judgment documentation requirements.

INTRODUCTION

BACKGROUND

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 publicly 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” that 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.

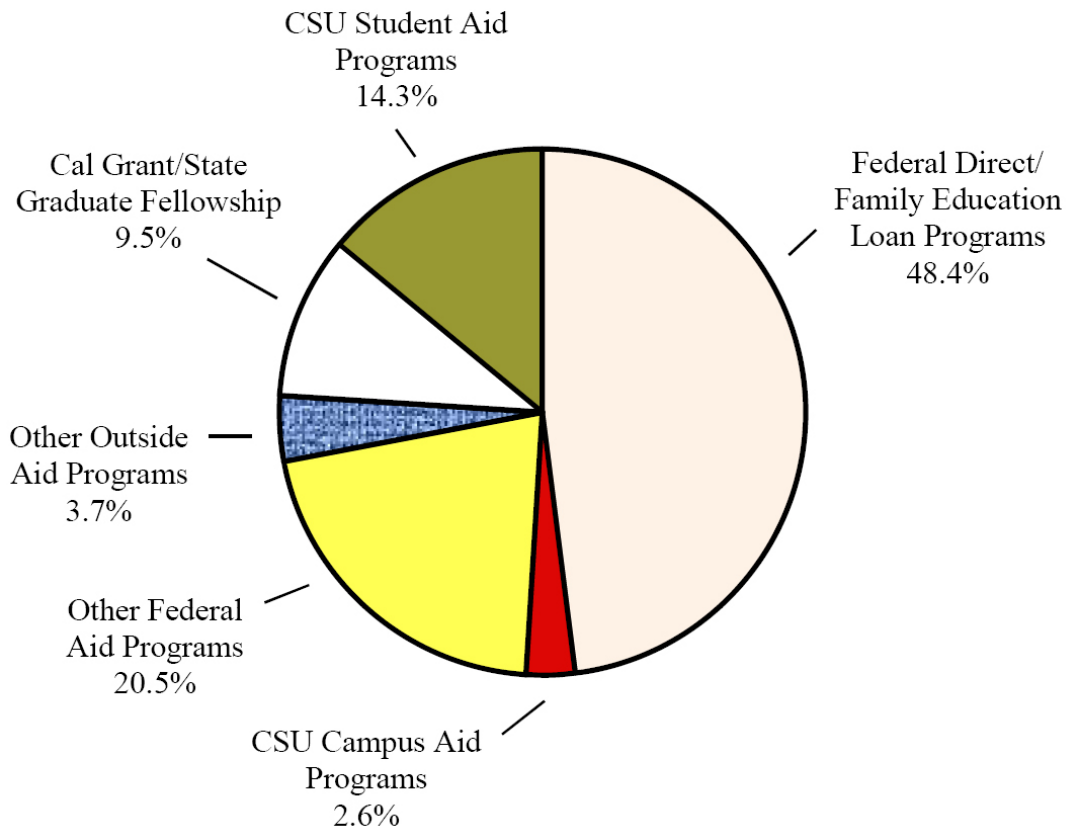
Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

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 almost 69 percent 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. As of June 30, 2009, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Educational Opportunity Grants	\$11,400,683
Federal Family Educational Loans	\$636,997,465
Federal Work Study	\$15,596,904
Federal Perkins Loan – Federal Capital Contributions	\$15,778,922
Federal Pell Grants	\$423,149,456
Federal (William Ford) Direct Loans	\$498,770,599
Academic Competitiveness Grants	\$12,410,868
National Science and Mathematics Grants	\$7,196,104
TEACH Grants, Nursing Loans, and Disadvantaged Student Loans	\$653,568
Total Student Financial Assistance	\$1,621,954,569

Non-federal financial aid programs include mainly 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, and the CSU provides need-based assistance through state university grants and educational opportunity program grants. Certain other funds, such as local scholarships, are available through the campuses. In the CSU Statistical Abstract for fiscal year 2007/08, 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 such as 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.

Beginning in calendar year 2010, the Office of the University Auditor (OUA) audit risk assessment methodology changed, based on a fiscal year 2009/10 systemwide risk assessment. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas in each campus. As a result of this change in risk assessment, financial aid was identified as an area for review.

PURPOSE

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

Within the audit objective, specific goals included determining whether:

- ▶ Campuses are administratively capable with regard to financial aid.
- ▶ Campuses have undertaken or completed initiatives to improve financial aid operations, maximize financial aid resources, and ensure compliance with federal regulatory requirements.
- ▶ Adequate consumer information on financial aid has been disclosed.
- ▶ Provisions have been made for securing financial aid data from inappropriate disclosures.
- ▶ Financial aid is supported by adequate automated recordkeeping systems.
- ▶ There is complete, correct, and consistent information circulated on financial aid.
- ▶ Other campus offices adequately coordinate with the financial aid office.
- ▶ Campuses avoid overcommitment or underutilization of financial aid resources.
- ▶ Financial aid operations are economical, efficient, and effective.
- ▶ Standard student budgets and cost of attendance are appropriately established.
- ▶ There is a process for validating the eligibility of financial aid applicants to receive assistance.
- ▶ The campus has complied with federal and state requirements and conditions stipulated by other financial aid resource providers.
- ▶ Financial aid is packaged in accordance with applicable policies and procedures.
- ▶ Financial aid decisions are made based on accurate verifications.
- ▶ Fee waivers have been factored into financial aid awards.
- ▶ Work-study program limits have not been exceeded.
- ▶ Separation of duties between awarding and disbursing is adequate.
- ▶ Disbursements are adequately controlled.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that financial aid includes the identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. This 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. The audit focused on procedures in effect from fiscal year 2008/09 through fiscal year 2009/10. In instances wherein it was necessary to review annualized data, calendar years 2008 and 2009 were the periods reviewed.

A preliminary risk assessment of campus financial aid operations was used to select for our audit testing those areas or activities with highest risk. This assessment was based upon a systematic process using prior audits, management's feedback, and professional judgments on probable adverse conditions and other pertinent information, including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ The financial aid organization.
- ▶ Physical and logical security for sensitive financial aid information.
- ▶ Safeguarding financial aid automated systems.
- ▶ Recordkeeping for financial aid.
- ▶ Coordination between the financial aid department and other campus departments.
- ▶ Procedures used to avoid overcommitment or underutilization of financial aid resources.
- ▶ Establishing and calculating student budgets and cost of attendance.
- ▶ Establishing student eligibility for financial aid.
- ▶ Campus policies and professional judgment used for awarding of financial aid.
- ▶ Information verification procedures for financial aid applications.
- ▶ Work-study program payment compliance with federal regulations and campus guidelines.
- ▶ Appropriate separation of duties for awarding and disbursing financial aid.
- ▶ Disbursement procedures for financial aid payments.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

CONSUMER INFORMATION

Notification of required consumer information disclosures did not occur in accordance with federal requirements.

We found that although notification was sent directly to students via e-mail, the notification did not:

- ▶ Provide a brief summary of the information required to be disclosed.
- ▶ State that, upon request, the individual is entitled to a paper copy.
- ▶ Inform the individual how to request a paper copy.

The federal Higher Education Act, the Higher Education Opportunity Act, the federal Equity in Athletics Disclosure Act, regulatory guidance provided in the Code of Federal Regulations, and the guidance provided in the 2009/10 Federal Student Aid Handbook 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, 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.

The interim director of admissions and records stated that this information was not included in the notification due to oversight.

Failure to properly notify consumers of required disclosure information potentially jeopardizes the institutional eligibility of the campus to participate in federal financial aid programs.

Recommendation 1

We recommend that the campus ensure that notification of required consumer information disclosures occurs in accordance with federal requirements and, at a minimum:

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

Campus Response

We concur. The campus will revise the required consumer information disclosures and mail them to all registered students and applicants in the next application cycle.

Expected completion date: January 21, 2011

PHYSICAL SECURITY

Physical access controls over a file room containing some confidential student financial aid records were not adequate, nor were policies and procedures developed to address the periodic review of access to such records and to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

We noted that blanket access codes to the financial aid file room were provided to various campus areas including the paint shop, the plumbing shop, and mechanical services.

Code of Federal Regulations, Title 34, *Family Educational Rights and Privacy*, §99.31(a)(1)(ii), states that an educational institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests. An educational institution that does not use physical or technological access controls must ensure that its administrative policy for controlling access to education records is effective and that it remains in compliance with legitimate educational interest requirements.

The director of financial aid and scholarships stated that procedures were in place to ensure proper access for departmental employees. She further stated that although she was aware that physical plant management and public safety had access to handle emergency and other limited situations, she was unaware that individuals approved for access were not vetted through her first.

Failure to adequately control physical access to confidential student financial aid records increases campus exposure to improper disclosure of private information or loss from inappropriate acts.

Recommendation 2

We recommend that the campus:

- a. Adequately restrict physical access to confidential student financial aid records to only those individuals who have appropriate authorization.
- b. Develop and implement policies and procedures to address the periodic review of access to student financial aid records and to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

Campus Response

We concur.

- a. The financial aid records maintained in the file room will be kept in locked filing cabinets.

Expected completion date: January 31, 2011.

- b. The financial aid director has updated the Financial Aid Director's Manual to clarify who approves Omni code access to the department offices and to specify an annual review of access.

FISCAL AND PROGRAM OVERSIGHT AND COORDINATION

Federal student (financial) aid (FSA) fund reconciliations were not prepared or reviewed in a timely manner.

We found that:

- ▶ FSA fund reconciliations for July 2009 and August 2009 were not prepared until October 2009, and the November 2009 reconciliations were not prepared until January 2010.
- ▶ FSA fund reconciliations for July 2009 and August 2009 were not reviewed until April 2010, and the reconciliations for September 2009 through March 2010 were not reviewed until May 2010.

The U.S. Department of Education, *Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions for Federally Funded Student Financial Aid Programs*, Chapter 12, dated July 2005, states that reconciliation in FSA programs is an internal control procedure that helps ensure that a school has met its fiduciary responsibility to use its FSA funds in the manner and purposes prescribed by the regulations.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

The assistant director of financial services and tax stated that preparation of reconciliations must sometimes be delayed due to staffing constraints and conflicting time-sensitive responsibilities such as year-end close, audits, and financial aid reporting. He further stated that because the individual responsible for financial aid accounting is a highly experienced employee who routinely monitors account activity, there are rarely any material reconciling items, thus allowing the review to be deferred in favor of more urgent departmental needs.

Failure to prepare and review FSA fund reconciliations in a timely manner compromises accountability and increases the risk that errors and irregularities would not be detected in a timely manner.

Recommendation 3

We recommend that the campus ensure that FSA fund reconciliations are prepared and reviewed within 30 days of the preceding month.

Campus Response

We concur. The campus will implement procedures to ensure that financial aid fund reconciliations are prepared and reviewed within 30 days of the preceding month.

Expected completion date: January 31, 2011

AWARDING AND DISBURSING

Documentation of professional judgment decisions and policies needed improvement.

We found that:

- ▶ Professional judgment decisions were not always adequately documented. We reviewed a sample of 20 student files that were subject to professional judgment decisions (10 income appeals and 10 dependency overrides). Of the 10 dependency overrides, two lacked corroborating letters from a third-party professional to corroborate the student's special circumstances. In both cases, the student's file lacked a reason and an approval for the exception to the documentation requirement.
- ▶ The California State University, Northridge (CSUN) *2008 Financial Aid and Scholarship Department Policy Manual*, Appendix L, did not make clear who had the authority to approve exceptions to professional judgment documentation requirements. Section II.D states that the assistant director of counseling may approve exceptions. Section II.F states that when the counselors elect to not require third-party documentation, reasons must be noted and the counselor's notes will act as the documentation required.

The CSUN *Dependency Status Appeal Form* states that for dependency overrides, a student must submit a letter from a "third party professional," for example, a teacher, counselor, clergy person, social worker, etc., who can corroborate the facts of the student's special situation.

The CSUN *2008 Financial Aid and Scholarship Department Policy Manual*, Appendix L, states that professional judgment cannot be made until all required documents are submitted.

Federal Student Aid Handbook, *Application and Verification Guide*, 2009-2010, states that an administrator may use professional judgment on a case-by-case basis only to alter the data used to

calculate the expected family contribution. The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate him/her, and not to conditions that exist for a whole class of students.

SAM §20050 states that there should be an established system of practices to be followed in the performance of duties and functions and that it represents a control weakness if policy and procedure manuals are either not up-to-date or do not exist.

Government Code §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls that includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

The director of financial aid and scholarships stated that the lack of documented reasons and approvals of the exceptions was an oversight. She further stated that counselors may approve exceptions to the documentation requirements for dependency overrides and agreed that the written policies should be clarified in this area.

Failure to maintain adequate documentation and to establish and follow clear policies for professional judgment decisions increases the risk of errors in FSA awards.

Recommendation 4

We recommend that the campus:

- a. Ensure that professional judgment decisions are always documented.
- b. Revise FSA policies and procedures to provide clarity as to who has the authority to approve exceptions to professional judgment documentation requirements.

Campus Response

We concur.

- a. Training has occurred that reiterates the requirement to document professional judgment for dependency override decisions.
- b. Financial aid policies and procedures will be updated to provide clarity as to who has the authority to approve exceptions to professional judgment documentation requirements.

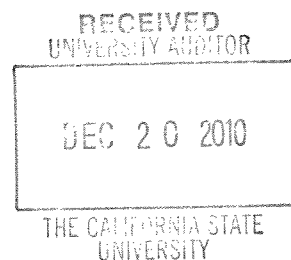
Expected completion date: January 31, 2011

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Jolene M. Koester	President
Suzy Babikan	Interim Director, Admissions and Records
Charleen Bell	Student Financial Services Accountant, Financial and Tax Services
Linda Brignoni	Senior Associate Director, Financial Aid and Scholarships
Josefina Carbajal	Federal Work Study Manager, Financial Aid and Scholarships
Mary Ann Cummins-Prager	Associate Vice President for Student Access and Support Services
John Darakjy	Assistant Director, Financial Services and Tax
Yvonne David	Assistant to the Director, Financial Aid and Scholarships
Sherry Drainer	Supervising Locksmith, Engineering Services
Chet Galland	Associate Director/Fleet Manager, Engineering Services
Denise Hansford	Compliance Officer, Financial Aid and Scholarships
Armenka Khashmanyman	Assistant Director of Counseling/Customer Service, Financial Aid and Scholarships
Mitchell Lieu	Information Technology Consultant, Financial Aid and Scholarships
May Ligh	Manager, Cash Management
Howard Lutwak	Director of Internal Audit, Office of the Internal Auditor
Thomas McCarron	Vice President, Administration and Finance and Chief Financial Officer
Wendy Ortega	Assistant Director of Operations/Loan Manager, Financial Aid and Scholarships
Lili Vidal	Director, Financial Aid and Scholarships

December 17, 2010

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802



Subject: Campus Response to Recommendations of Audit Report Number 10-43,
Financial Aid at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your email of December 2, 2010.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom McCarron".

Tom McCarron
Vice President Administration and Finance and CFO

TM:mh

Enclosures

CC: Jolene Koester, President
Howard Lutwak, Director, Internal Audit

FINANCIAL AID

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Audit Report 10-43

GENERAL ENVIRONMENT

CONSUMER INFORMATION

Recommendation 1

We recommend that the campus ensure that notification of required consumer information disclosures occurs in accordance with disclosure requirements and, at a minimum:

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

Campus Response

We concur. The campus will revise the required consumer information disclosures and mail them to all registered students and applicants in the next application cycle. Expected completion date: January 21, 2011.

PHYSICAL SECURITY

Recommendation 2

We recommend that the campus:

- a. Adequately restrict physical access to confidential student financial aid records to only those individuals who have appropriate authorization.
- b. Develop and implement policies and procedures to address the periodic review of access to student financial aid records and to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

Campus Response

We concur.

- a. The financial aid records maintained in the file room will be kept in locked filing cabinets. Expected completion date: January 31, 2011.

- b. The financial aid director has updated the Financial Aid Director's Manual to clarify who approves Omni code access to the department offices and to specify an annual review of access.

FISCAL AND PROGRAM OVERSIGHT AND COORDINATION

Recommendation 3

We recommend that the campus ensure that FSA fund reconciliations are prepared and reviewed within 30 days of the preceding month.

Campus Response

We concur. The campus will implement procedures to ensure that financial aid fund reconciliations are prepared and reviewed within 30 days of the preceding month. Expected completion date: January 31, 2011.

AWARDING AND DISBURSING

Recommendation 4

We recommend that the campus:

- a. Ensure that professional judgment decisions are always documented.
- b. Revise FSA policies and procedures to provide clarity as to who has the authority to approve exceptions to professional judgment documentation requirements.

Campus Response

We concur.

- a. Training has occurred that reiterates the requirement to document professional judgment for dependency override decisions.
- b. Financial Aid policies and procedures will be updated to provide clarity as to who has the authority to approve exceptions to professional judgment documentation requirements. Expected completion date: January 31, 2011.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

January 14, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

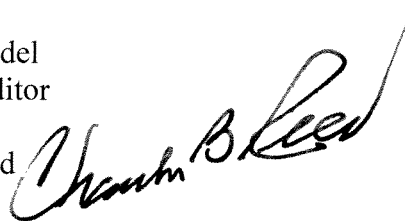
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-43 on *Financial Aid*,
California State University, Northridge

LONG BEACH

LOS ANGELES

In response to your memorandum of January 14, 2011, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Northridge.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS