

**FINANCIAL AID**  
**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 11-64**  
**October 12, 2011**

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**Members, Committee on Audit**

Henry Mendoza, Chair  
Raymond W. Holdsworth, Vice Chair  
Nicole M. Anderson Margaret Fortune  
George G. Gowgani Melinda Guzman  
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Internal Auditor: Jennifer Leake

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**BOARD OF TRUSTEES**  
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## **ABBREVIATIONS**

CSU	California State University
OUA	Office of the University Auditor
SFA	Student Financial Aid
TEACH	Teacher Education Assistance for College and Higher Education

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## **EXECUTIVE SUMMARY**

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last two quarters of 2010, the Board of Trustees, at its January 2011 meeting, directed that *Financial Aid* continue to be reviewed. *Financial Aid* was previously audited in 2010.

We visited the San Francisco State University campus from July 5, 2011, through August 5, 2011, 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 August 5, 2011, 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]**

Physical access to confidential student financial aid records was not adequately restricted.

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## 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.

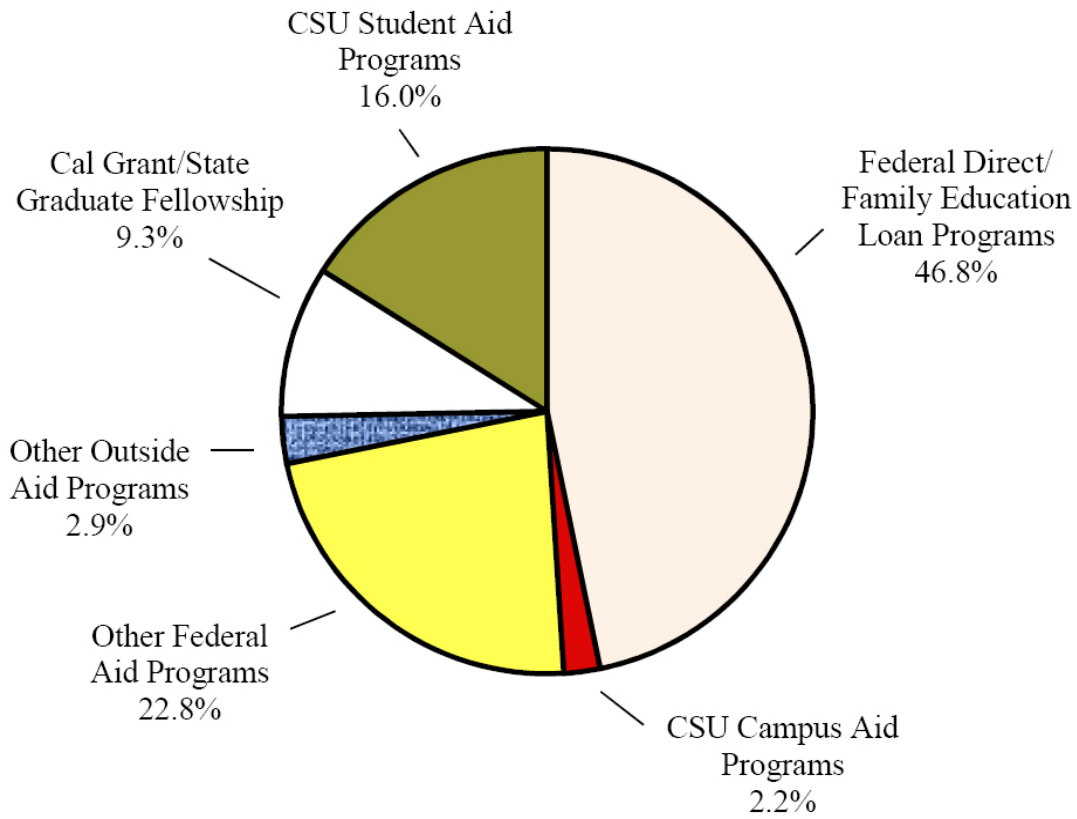
**Work-study** is a “self-help” program in the form of part-time employment during the student’s college career.

**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 70 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, 2010, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Educational Opportunity Grants	\$11,960,306
Federal Family Educational Loans	\$369,172,396
Federal Work Study	\$18,128,106
Federal Perkins Loans	\$9,546,123
Federal Pell Grants	\$583,902,990
Federal (William Ford) Direct Loans	\$932,126,076
Academic Competitiveness Grants	\$18,139,206
National Science and Mathematics Grants	\$14,736,509
TEACH Grants, Nursing Loans, and Disadvantaged Student Loans	\$1,515,389
Total Student Financial Assistance	\$1,959,227,101

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 2009/10, 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 (OAU) audit risk assessment methodology changed, based on a fiscal year 2009/10 systemwide risk assessment. Using the new procedure, the OAU 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 25 and 26, 2011, 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 2009/10 through fiscal year 2010/11. In instances wherein it was necessary to review annualized data, fiscal years 2009/10 and 2010/11 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 the 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.

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

### **GENERAL ENVIRONMENT**

Physical access to confidential student financial aid records was not adequately restricted.

We noted that:

- ▶ The existence of several master keys, as well as the physical layout of the financial aid office and adjoining offices, allowed some non-financial aid employees access to the area where student financial aid records were stored.
- ▶ Some student financial aid records were stored in unlocked file cabinets and an unlocked shred bin in the financial aid office.

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 student financial aid stated that restricting access to the financial aid office via the addition of additional lockable doors had been considered in the past, but it was not implemented due to safety-related concerns. She further stated that access to the financial aid office where sensitive documents were stored was limited during non-business hours to university staff responsible for public safety and facilities maintenance.

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 1**

We recommend that the campus adequately restrict physical access to confidential student financial aid records.

#### **Campus Response**

Financial aid management has installed locks on cabinets in the financial aid office to restrict access to confidential financial aid records. Additionally, we have obtained a list of existing master keys to the financial aid office and have considered the appropriateness of each individual with access.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert A. Corrigan	President
Debra Chaw	Chief of Operations, University Advancement
Richard Chen	Associate Controller, Trust and Project Accounting
Taver Chong	Associate Internal Auditor
Diana Chow	Supervisor, Loans and Fiscal Services
Suzanne Dmytrenko	University Registrar
Anna Fung	Financial Aid Specialist, Bursar's Office/Cashier
Nancy Hayes	Interim Vice President and Chief Financial Officer, Administration and Finance
Evelyn Hooker	Executive Assistant to the Vice President of Student Affairs/ Special Assistant to the Dean of Students
Barbara Hubler	Director, Student Financial Aid (SFA)
Donald Martin	Counselor, SFA
Marc Martin	Counselor and Satisfactory Academic Progress Coordinator, SFA
Loan Nguyen	Counselor, SFA
Vicky Nguyen	Senior Accountant, Financial Aid Accounting
Heather Boshears Robbins	Internal Auditor
Mike Simpson	Director, Athletics
Jo Volkert	Senior Associate Vice President, Enrollment Management
Jimmie Wilder	Associate Director, SFA
Corazon Wong	Director, Student Financial Operation and Business Systems/Bursar
Agnes Wong-Nickerson	Associate Vice President, Fiscal Affairs



OFFICE OF THE PRESIDENT

1600 Holloway Avenue  
 San Francisco, CA 94132  
 Tel: 415/338-1381  
 Fax: 415/338-6210

October 21, 2011

Mr. Larry Mandel  
 University Auditor  
 The California State University  
 401 Golden Shore  
 Long Beach, California 90802-4275

RECEIVED  
 UNIVERSITY AUDITOR

OCT 26 2011

THE CALIFORNIA STATE  
 UNIVERSITY

Dear Mr. Mandel:

We have reviewed the Office of the University Auditor Report #11-64, Financial Aid at San Francisco State University. Our response to the recommendation is being provided to your office electronically. Documentation demonstrating implementation of the recommendation has been sent to you separately.

Questions regarding the response may be directed to Nancy K. Hayes, Interim Vice President for Administration & Finance at 415/338-2521 or to Heather Boshears Robbins, Internal Auditor, at 415/405-4343.

Sincerely,

*Robert A. Corrigan*  
 Robert A. Corrigan  
 President

HBR/id

Attachment

cc: Nancy K. Hayes, Interim Vice President, Administration & Finance, SFSU  
 Jo Volkert, Associate Vice President, Enrollment Management, SFSU  
 Barbara Hubler, Director, Student Financial Aid, SFSU  
 Heather Boshears Robbins, Internal Auditor, SFSU

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**GENERAL ENVIRONMENT**

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THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 14, 2011

CHICO

**MEMORANDUM**

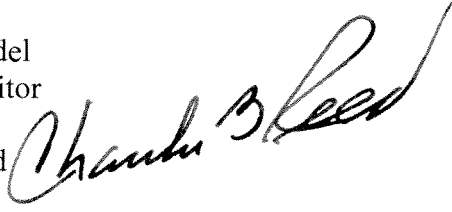
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed   
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 11-64 on *Financial Aid*,  
San Francisco State University

LONG BEACH

LOS ANGELES

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

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS