

**FINANCIAL AID**  
**CALIFORNIA STATE UNIVERSITY,**  
**SACRAMENTO**

**Audit Report 11-65**  
**January 19, 2012**

---

**Members, Committee on Audit**

Henry Mendoza, Chair  
Melinda Guzman, Vice Chair  
Margaret Fortune Steven M. Glazer  
William Hauck Hsing Kung Linda Lang

---

**Staff**

University Auditor: Larry Mandel  
Senior Director: Michelle Schlack  
Audit Manager: Michael Zachary  
Senior Auditor: Jennifer Leake

---

**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

---

## **CONTENTS**

Executive Summary .....	1
Introduction.....	2
Background .....	2
Purpose.....	4
Scope and Methodology.....	5

---

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

General Environment .....	6
Consumer Information .....	6
Physical Security.....	7
Awarding and Disbursing .....	8

## **APPENDICES**

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

---

## **ABBREVIATIONS**

CFR	Code of Federal Regulations
CSU	California State University
CSUS	California State University, Sacramento
FAO	Financial Aid Office
FERPA	Family Educational Rights and Privacy Act
FWS	Federal Work-Study
OUA	Office of the University Auditor
TEACH	Teacher Education Assistance for College and Higher Education

---

## **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* be reviewed. *Financial Aid* was previously audited in 2010.

We visited the California State University, Sacramento campus from October 3, 2011, through November 4, 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 November 4, 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]**

Certain consumer information was not disclosed in direct individual notices. Additionally, physical access to confidential student financial aid records was not adequately restricted.

### **AWARDING AND DISBURSING [8]**

The campus did not document required approvals of federal work-study awards that exceeded standard campus limits.

---

## 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.

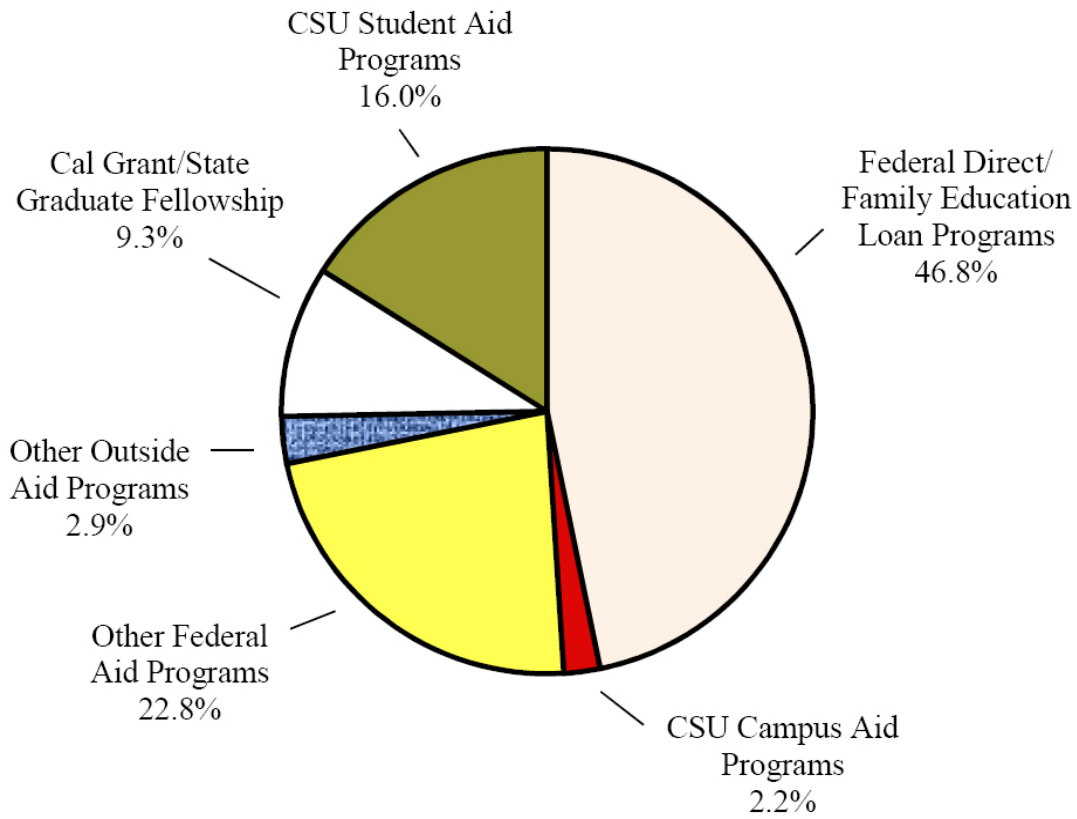
**Work-study** is a “self-help” program in the form of part-time employment during the student’s college career.

**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 26 and 27, 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 during fiscal year 2010/11. In instances wherein it was necessary to review annualized data, fiscal year 2010/11 was the period 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.

---

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

## **GENERAL ENVIRONMENT**

### **CONSUMER INFORMATION**

Certain consumer information was not disclosed in direct individual notices.

We found that the campus relied substantially upon the availability of consumer information in the campus catalog and at various website addresses for disclosure purposes, which constitutes mass notification rather than individual disclosures.

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 (CFR), and the guidance provided in the 2010/11 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, gender-specific information on athletic participation and financial support, and Family Educational Rights and Privacy Act (FERPA) information. 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 copy.

The associate vice president for student affairs, enrollment, and student support stated that although various departments tracked the information required to make necessary disclosures, no centralized effort was in place to ensure that individual 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 disclose consumer information in direct individual notices 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. By March 30, 2012, the campus will implement new procedures, which will centralize the direct individual disclosure notification process to ensure notifications are sent using a standard calendar. The disclosure information will include, at a minimum, the following:

- a. Identification of the required information disclosures.
- b. Electronic website address where the information can be found.
- c. An individual is entitled to a paper copy containing the required information, upon their request.
- d. Instructions for students and others to follow when requesting a paper copy.

### **PHYSICAL SECURITY**

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

We found that:

- ▶ Some student financial aid records within the financial aid office (FAO) were not properly secured and were accessible to non-financial aid employees, including facilities staff with master keys.
- ▶ Access to the FAO was not restricted to financial aid employees. Non-financial aid employees with keys to the office included former campus employees and current campus employees who had transferred out of the FAO.

CFR, 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 stated his belief that financial aid records were secure within the FAO because access to the area was adequately restricted. He further stated that he was unaware of the number of non-financial aid employees who had access to the office because there was no procedure in place to periodically review key access lists, nor was there a policy in place that required his approval of access for non-financial aid employees.

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 adequately restrict physical access to confidential student financial aid records.

### **Campus Response**

We concur. The campus will restrict physical access to confidential records. To ensure this, the campus will develop procedures to periodically review and monitor individuals with physical access to the FAO. The procedures will define which individuals, based on position, will be granted access, as well as the process to remove access if employees transfer to another department or upon separation from the university. The new procedures will be documented and implemented by April 30, 2012.

## **AWARDING AND DISBURSING**

The campus did not document required approvals of federal work-study (FWS) awards that exceeded standard campus limits.

We reviewed 15 FWS award recipients and found that FAO approval for awards that exceeded the California State University, Sacramento (CSUS) limit of \$3,000 had not been documented.

CSUS *Federal Work Study* policy states that the minimum FWS awarded is \$2,000, and the maximum is \$3,000, and that award amounts outside of this range need to be referred to the FWS coordinator, to be approved by the director of financial aid.

The director of financial aid stated that office procedures allowing verbal approvals had been deemed sufficient, and therefore there were no procedures in place requiring approvals to be documented.

Failure to document approval of FWS awards that exceed campus limits increases the risk of inappropriately high award amounts and may result in inefficient use of limited FWS funds.

### **Recommendation 3**

We recommend that the campus document required approvals of FWS awards that exceed standard campus limits.

### **Campus Response**

We concur. The campus will implement new procedures to ensure that any FWS awards that exceed the maximum limit must be reviewed and approved by the financial aid director, in accordance with the existing *Federal Work Study* policy. The new procedures will be documented and implemented by March 30, 2012.

---

## APPENDIX A: PERSONNEL CONTACTED

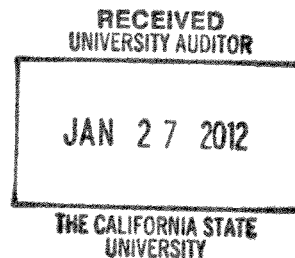
<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
LaVerne Barnett	Director, Accounting Services
Kendal Chaney-Buttleman	University Controller, Accounting Services
Yavette Hayward	Senior Management Auditor, Auditing Services
Ming-Tung "Mike" Lee	Interim Vice President and Chief Financial Officer, Administration and Business Affairs
Tomoko Matsuda	Associate Director, Financial Aid Office (FAO)
Lynn Maynard	Assistant Director of Systems Operations, FAO
Nancy McCarty	Student Aid Accountant, Accounting Services
Kathi McCoy	Director, Auditing Services
Edward Mills	Associate Vice President of Student Affairs, Enrollment and Student Support
Jasmine Murphy	Scholarship and Customer Service Coordinator, FAO
Andrea Roush	Interim Business Analyst, FAO
Kristine Trigales	Associate Registrar, Office of the University Registrar
Craig Yamamoto	Director of Financial Aid, FAO



California State University, Sacramento  
Office of the Vice President & Chief Financial Officer  
6000 J Street • Sacramento Hall 272 • Sacramento, CA 95819-6038  
T (916) 278-6312 • F (916) 278-5783 • www.csus.edu/aba

January 27, 2012

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



SUBJECT: Campus Response to Recommendations  
Financial Aid Audit: Report #11-65

Dear Mr. Mandel: *Larry*

Please find attached California State University, Sacramento's response to the recommendation of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Ming-Tung "Mike" Lee, Ph.D.  
Vice President & Chief Financial Officer (Interim)

MTL:kd

Attachment

- cc: Alexander Gonzalez, President
- Lori Varlotta, Vice President, Student Affairs
- Ed Mills, Associate Vice President of Student Affairs, Enrollment & Student Support
- Anita Kermes, Interim Director of Financial Aid
- Kathi McCoy, Director, Auditing Services

**FINANCIAL AID****CALIFORNIA STATE UNIVERSITY,  
SACRAMENTO****Audit Report 11-65****GENERAL ENVIRONMENT****CONSUMER INFORMATION****Recommendation 1**

We recommend that the campus disclose consumer information in direct individual notices 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. By March 30, 2012, the campus will implement new procedures, which will centralize the direct individual disclosure notification process to ensure notifications are sent using a standard calendar. The disclosure information will include, at a minimum, the following:

- a. Identification of the required information disclosures.
- b. Electronic website address where the information can be found.
- c. An individual is entitled to a paper copy containing the required information, upon their request.
- d. Instructions for students and others to follow when requesting a paper copy.

**PHYSICAL SECURITY****Recommendation 2**

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

**Campus Response**

We concur. The campus will restrict physical access to confidential records. To ensure this, the campus will develop procedures to periodically review and monitor individuals with physical access to the Financial Aid Office. The procedures will define which individuals, based on position, will be granted access, as well as the process to remove access if employees transfer to another department or upon separation from the University. The new procedures will be documented and implemented by April 30, 2012.

## AWARDING AND DISBURSING

### Recommendation 3

We recommend that the campus document required approvals of FWS awards that exceed standard campus limits.

### Campus Response

We concur. The campus will implement new procedures to ensure that any FWS awards that exceed the maximum limit must be reviewed and approved by the financial aid director, in accordance with the existing *Federal Work Study* policy. The new procedures will be documented and implemented by March 30, 2012.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

February 6, 2012

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

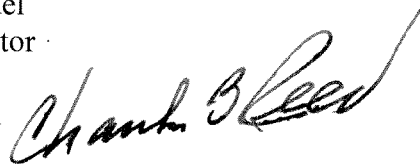
EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 11-65 on *Financial Aid*,  
California State University, Sacramento

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 6, 2012, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Sacramento.

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS