

**FINANCIAL AID**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHICO**

**Audit Report 11-66**  
**November 14, 2011**

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**Members, Committee on Audit**

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Margaret Fortune Steven M. Glazer  
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Audit Manager: Michael Zachary  
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## **ABBREVIATIONS**

CSU	California State University
FASO	Financial Aid and Scholarship Office
FSA	Federal Student (Financial) Aid
OUA	Office of the University Auditor
SAM	State Administrative Manual
SFIN	Student Financial Services

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

We visited the California State University, Chico campus from August 29, 2011, through September 23, 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 29, 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]**

The financial aid and scholarship office (FASO) did not adequately restrict access to confidential federal student (financial) aid records, and policies and procedures had not been developed to address the periodic review and monitoring of individuals with physical access to the FASO. Also, administration of PeopleSoft system access for student employees needed improvement. For example, policies and procedures had not been formally established to ensure that system access for FASO student employees was removed immediately upon separation from employment.

### **FISCAL AND PROGRAM OVERSIGHT AND COORDINATION [8]**

Campus policies and procedures did not include specific guidelines for documenting the timely preparation and review of financial aid fund reconciliations, and review of the reconciliations was not always documented.

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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.

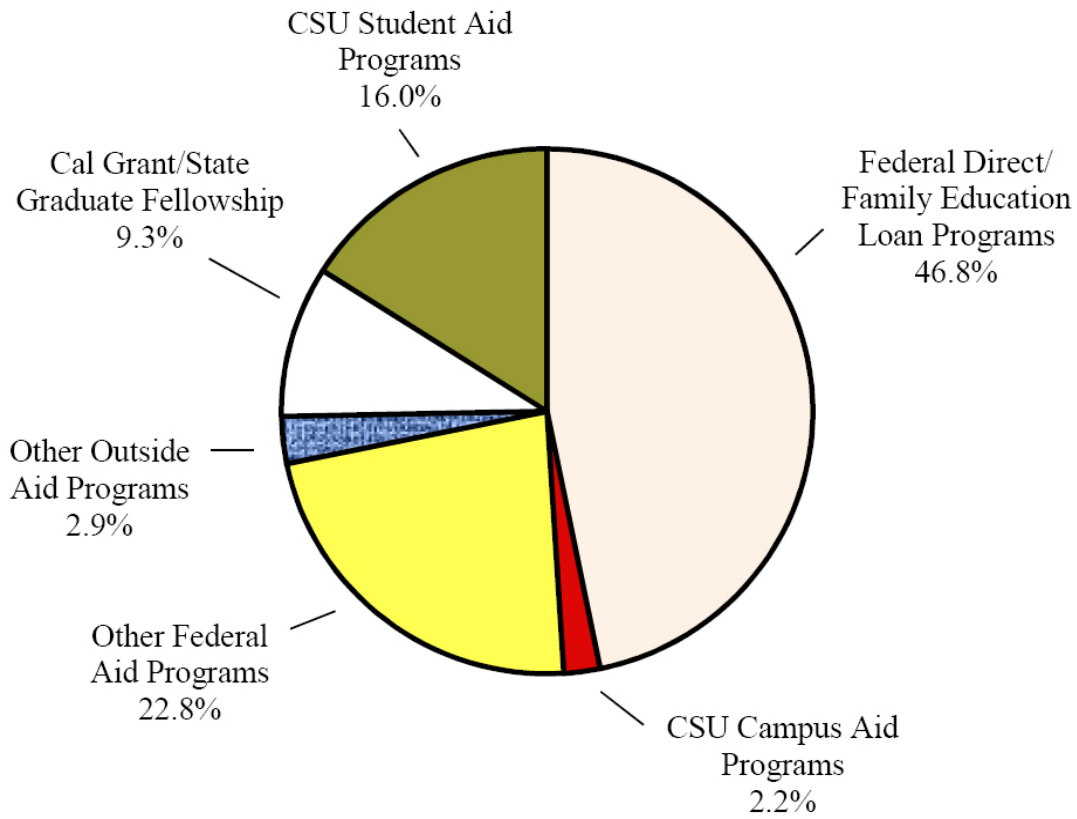
**Work-study** is a “self-help” program in the form of part-time employment during the student’s college career.

**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 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 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 SECURITY**

The financial aid and scholarship office (FASO) did not adequately restrict access to confidential federal student (financial) aid (FSA) records, and policies and procedures had not been developed to address the periodic review and monitoring of individuals with physical access to the FASO.

We reviewed approximately 300 individuals with security badge and/or key access to the FASO, and we found that:

- ▶ For approximately two-thirds of the individuals, there was no documentation explaining why they had access to the offices.
- ▶ Forty-four individuals (21 with security badge access, 20 with key access, and three with both) continued to have access to the office after separation from employment.

Code of Federal Regulations, Title 34, Part 99, *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 FASO director stated that he knew which individuals he had given security badge and key access to the FASO; however, he was not notified of individuals that had been granted blanket access to campus facilities by other departments. He also stated that developing formal policies and procedures to address the periodic review and monitoring of individuals with physical access to the FASO had not been a priority.

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

#### **Recommendation 1**

We recommend that the campus:

- a. Adequately restrict physical access to confidential FSA records.
- b. Develop and implement policies and procedures to address the periodic review and monitoring of individuals with physical access to the FASO.

### **Campus Response**

We concur. The campus will restrict physical access to confidential FSA records. The campus will develop procedures to periodically review and monitor individuals with physical access to the FASO. The procedures will define which individuals, based on position, will be granted access, as well as the process to remove access upon separation from employment.

Completion date: February 1, 2012

### **ADMINISTRATION OF PEOPLESOFT FINANCIAL AID SYSTEM ACCESS**

Administration of PeopleSoft system access for student employees needed improvement.

We found that:

- ▶ Policies and procedures had not been formally established to ensure that system access for FASO student employees was removed immediately upon separation from employment.
- ▶ Three temporary student employees continued to have access to the PeopleSoft financial aid module for 37, 177, and 311 days, respectively, after separation from employment. Two of the former student employees continued to have read access, and one continued to have write access.

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.

SAM §4842.2 states that appropriate risk management procedures should be implemented to provide termination practices that ensure information assets are not accessible to former employees. Effective termination practices include removal of system access upon employee termination or transfer.

The California State University *Information Security Policy*, dated April 19, 2010, states that campuses must implement procedures to revoke access upon termination, or when job duties no longer require a legitimate business reason for access, except where specifically permitted by university policy and by the data owner. Unless otherwise authorized, when an employee voluntarily or involuntarily separates from the university, information system privileges, including all internal, physical, and remote access, must be promptly disabled or removed.

The FASO director stated that failure to remove system access for the FASO student employees immediately upon separation from employment was due to insufficient policies and procedures specific to the separation of student employees, and that the lack of sufficient policies and procedures was due to reliance on an informal process.

Inadequate user account deletion could lead to unauthorized personnel having access to sensitive data, and failure to periodically perform and document a review of user access to systems containing confidential and protected data increases the risk of inappropriate access.

## **Recommendation 2**

We recommend that the campus:

- a. Develop and implement policies and procedures to ensure that system access for FASO student employees is removed immediately upon separation from employment.
- b. Remove PeopleSoft access from student employees who are no longer employed by California State University.

## **Campus Response**

We concur. The campus will develop procedures to ensure that system access for FASO student employees is removed immediately upon separation from employment. The campus has removed PeopleSoft access from student employees no longer employed by the campus.

Completion date: February 1, 2012

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

Campus policies and procedures did not include specific guidelines for documenting the timely preparation and review of financial aid fund reconciliations, and review of the reconciliations was not always documented.

We reviewed federal and state financial aid fund reconciliations for four separate funds during academic year 2010/11 and found that accounting operations review of the reconciliations had not been documented.

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. The person performing reconciliations should receive bank statements and Direct Loan reconciliation reports directly from the respective, appropriate sources. Supervisory approval of the completed reconciliations should also be obtained and documented on the forms.

California Student Aid Commission *Cal Grant Program Institutional Participation Agreement for 2008-09*, Article IV, requires institutions to maintain an accounting system which conforms to generally accepted accounting principles and practices that includes such items as cash receipts and disbursement journals, bank account reconciliation, evidence of receipt of Cal Grant funds, disbursement of Cal Grant funds to recipients, and all other accounting records necessary to account for all transactions. Institutions shall also establish a written reconciliation policy that details the procedures for reconciling Cal Grant funds received and disbursed by the Institution for each award year.

SAM §7908 states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

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 student financial services stated that the failure to specify the need for timely completion and documentation of reviewer approval and sign-off on reconciliations in policies and procedures was due to oversight. She also stated that accounting operations was emailed a completed financial aid fund reconciliation each week; however, documentation of accounting's approval was not always considered necessary.

Failure to maintain policies and procedures for the timely preparation and review of reconciliations and document financial aid fund reconciliation reviews 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:

- a. Revise policies and procedures to include specific guidelines for documenting the timely preparation and review of financial aid fund reconciliations.
- b. Document financial aid fund reconciliation reviews.

### **Campus Response**

We concur. The campus will develop procedures for preparing financial aid fund reconciliations, including documentation of the reconciliation review.

Completion date: February 1, 2012

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Paul J. Zingg	President
Danielle Anderson	Advisor, Financial Aid and Scholarship Office (FASO)
Anita Barker	Athletic Director, Intercollegiate Athletics
Jan Burnham	Director, Student Financial Services (SFIN) and Special Assistant to the Vice President for Business and Finance
Rebecca Cagle	Manager of Payroll and Human Resources Information Systems, Human Resources Service Center
Jamie Damon	Business Process Analyst, FASO
Casey Disnmore	Advisor, FASO
Lorraine Hoffman	Vice President, Business and Finance
David Houchin	Associate Director, University Housing and Food Services
Steven Irving	Coordinator, Student Employment Office
Jean Irving	University Registrar, Office of the Registrar
David Ketiner	Associate Director, FASO
Jeni Kitchell	Manager of Internal Audits, Vice President for Business and Finance
Anna Magana	Assistant Director, SFIN
Christopher Malone	Associate Director, Educational Opportunity Program
Steven McKenzie	Supervisor of Building and Mechanical Trades, Facilities Management and Services
Terryl Murphy	Advisor, FASO
Linda Nelson	Process Manager, FASO
Rez O'Sullivan	Assistant Director, FASO
Tawnie Peterson	Administrative Assistant, Research and University Foundation
Dan Reed	Director, FASO
Kelly Sena	Administrative Analyst/Specialist, Enrollment Management
Michele Vanderjack	Assistant Director, FASO
Crystal Williams	Office Manager, FASO
Fred Woodmansee	Financial Director, Research Foundation
Jessica Young	Administrative Support Assistant, University Police Department

California State University, Chico  
Chico, California 95929-0025  
Office of the Vice President for Business and Finance  
Office: 530-898-6231 Fax: 530-898-4513



November 29, 2011

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



Dear Mr. Mandel,

We have reviewed the Office of the University Auditor Report 11-66, Financial Aid at California State University, Chico. Please find enclosed our response to the audit recommendations. Upon acceptance of our response, the campus will submit documentation evidencing implementation of the recommendations.

If you have any questions or require additional information, please contact Jeni Kitchell, Manager of Internal Audits, at 530-898-5910. Thank you.

Sincerely,

Lorraine B. Hoffman  
Vice President for Business and Finance

cc: Paul Zingg, President  
Jeni Kitchell, Manager of Internal Audits  
Anna Magana, Assistant Director SFIN  
Dan Reed, Director FASO

**FINANCIAL AID****CALIFORNIA STATE UNIVERSITY,  
CHICO****Audit Report 11-66****GENERAL ENVIRONMENT****PHYSICAL SECURITY****Recommendation 1**

We recommend that the campus:

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- b. Develop and implement policies and procedures to address the periodic review and monitoring of individuals with physical access to the FASO.

**Campus Response**

We concur. The campus will restrict physical access to confidential FSA records. The campus will develop procedures to periodically review and monitor individuals with physical access to the FASO. The procedures will define which individuals, based on position, will be granted access as well as the process to remove access upon separation from employment.

Completion Date: February 1, 2012

**ADMINISTRATION OF PEOPLESOFT FINANCIAL AID SYSTEM ACCESS****Recommendation 2**

We recommend that the campus:

- a. Develop and implement policies and procedures to ensure that system access for FASO student employees is removed immediately upon separation from employment.
- b. Remove PeopleSoft access from student employees who are no longer employed by California State University.

**Campus Response**

We concur. The campus will develop procedures to ensure that system access for FASO student employees is removed immediately upon separation from employment. The campus has removed PeopleSoft access from student employees no longer employed by the campus.

Completion Date: February 1, 2012

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

### **Recommendation 3**

We recommend that the campus:

- a. Revise policies and procedures to include specific guidelines for documenting the timely preparation and review of financial aid fund reconciliations.
- b. Document financial aid fund reconciliation reviews.

### **Campus Response**

We concur. The campus will develop procedures for preparing financial aid fund reconciliations including documentation of the reconciliation review.

Completion Date: February 1, 2012

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

December 8, 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 11-66 on *Financial Aid*,  
California State University, Chico

LONG BEACH

LOS ANGELES

In response to your memorandum of December 8, 2011, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Chico.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHBRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS