

FINANCIAL AID

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**Audit Report 11-67
November 16, 2011**

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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
Student Eligibility	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
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, Monterey Bay campus from August 22, 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 September 23, 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.

STUDENT ELIGIBILITY [8]

Policies and procedures for determining student cost of attendance allowances needed improvement. For example, student cost of attendance allowances had not been formally assessed or updated in approximately four years.

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.

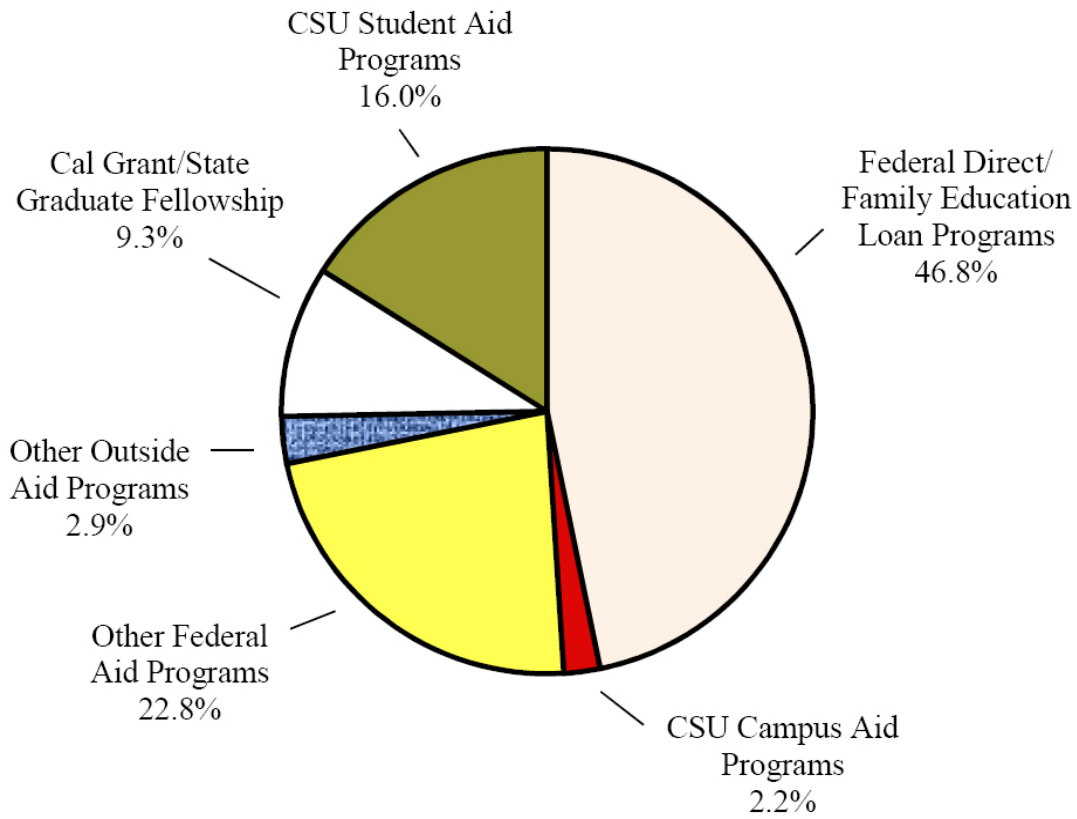
Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

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 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 director of financial aid stated that although various departments tracked the required information, which was readily available to students upon request, no centralized effort was in place to ensure that 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

The university concurs with the recommendation of campus disclosure of consumer information in direct individual notices. The notice will be provided to an individual on a one-to-one basis through an appropriate mailing or publication, which will include direct mailing through the U.S. Postal Service, campus mail, or electronic mail. We understand that posting on an Internet website or an Intranet website does not constitute a notice. We are currently working and collaborating with other departments on ensuring that the university has the following consumer information available on our website or document: general disclosures for enrolled or prospective students, annual security report and annual fire safety report, report on athletic program participation rates and financial support data (Equity in Athletics Data or EADA), and FERPA information (Family Educational Rights and Privacy Act of 1974).

Anticipated completion date: April 2012

PHYSICAL SECURITY

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

We found that:

- ▶ Some student financial aid records were stored in unlocked cabinets and shelves in the financial aid office.
- ▶ Access to the financial aid office was not restricted to financial aid employees.
- ▶ Doors to the financial aid office were not locked during non-business hours.

Code of Federal Regulations (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 that resources were not readily available to lock up all financial aid records during non-business hours, and she relied on procedures to restrict access to department employees to ensure the records were only accessed by those with a legitimate educational interest. She further stated that she was unaware of the number of non-financial aid employees who had access to the office during non-business hours. Finally, she stated that she relied on electronic door lock features to ensure that the financial aid office was secure during non-business hours, and that an individual with a master key, which overrides the electronic system, unlocked the door and neglected to subsequently lock it.

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

The university concurs with the recommendation and recognizes the importance of adequately restricting physical access to confidential student financial aid records. We have converted a physical room with a lock, and only three financial aid staff members (director, associate director, and administrative support) have a key to unlock the room. This room is unlocked every morning and remains open during business hours only. One of the three mentioned are responsible for ensuring that the door is closed and locked at 5 p.m. every evening. This file room stores information that has any type of student confidential information, binders with student information, and scanned documents. Any documents pending imaging are locked up in a cabinet at the front service desk area. Any offices that have a door are locked at the end of every business day. Cubicle areas have been secured and no confidential documents are left out in the open at the end of business hours.

Anticipated completion date: February 2012

STUDENT ELIGIBILITY

Policies and procedures for determining student cost of attendance allowances needed improvement.

We found that:

- ▶ With the exception of tuition and fees, student cost of attendance had not been formally assessed or updated in approximately four years, and the financial aid department did not have policies and procedures to address regular assessment of student cost of attendance.
- ▶ The financial aid office did not retain documentation regarding development and review of the student cost of attendance allowances.

Coded Memorandum Academic Affairs 2010-01, *Financial Aid, 2010-11 Cost of Attendance Allowances*, dated January 6, 2010, states that each campus is encouraged to conduct regular assessments of expenses reasonably incurred by students in its immediate geographic area, and further states that a copy of appropriate documentation regarding development of student cost of attendance allowances should be retained in files for potential review by auditors and program reviewers.

The director of financial aid stated that cost of attendance allowances were informally reviewed each year, but formalized policies and procedures to review, approve, and retain documentation for the development of these figures were not implemented due to conflicting priorities.

Failure to maintain current student cost of attendance documentation jeopardizes the institutional eligibility of the campus to participate in federal financial aid programs.

Recommendation 3

We recommend that the campus:

- a. Assess and update the current student cost of attendance, and develop and implement policies and procedures to address regular assessment of student cost of attendance.
- b. Document the development and review of student cost of attendance allowances.

Campus Response

The university concurs with the recommendation that the campus assess and update the current cost of attendance, develop and implement policies and procedures to address regular assessment of student cost of attendance, and document the development and review of student cost of attendance allowances. Currently the campus is in the primary stages of developing the 2012/13 cost of attendance in accordance with the recommendations noted in this review.

Anticipated completion date: March 2012

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Dianne F. Harrison	President
Erin Burns	CMS Systems Analyst, Financial Aid
John Fitzgibbon	Associate Vice President of Finance
Christine Frederick	Cashiering and Student Accounting Services Manager
Angeles Fuentes	Director of Financial Aid
Ronnie Higgs	Vice President of Student Affairs and Associate Vice President of Enrollment Services
Linda Lopez	Associate Director of Financial Aid
William Musselman	Director of Accounting
Kevin Saunders	Vice President, Administration and Finance



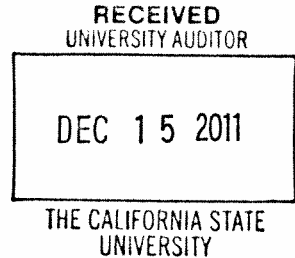
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Monterey Bay

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WWW.CSUMB.EDU

December 15, 2011

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



Subject: Campus Response, Audit Report 11-67 Financial Aid

Dear Larry:

Attached is our response to the Incomplete Draft Audit Report 11-67 dated November 16, 2011. A Word file of the response is attached in the email transmittal of this cover letter.

Please contact AVP John Fitzgibbon if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Saunders".

Kevin R. Saunders
Vice President

Attachment

cc: President Harrison
Senior Director Schlack
VP Higgs
Director Angeles Fuentes

FINANCIAL AID**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY****Audit Report 11-67****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

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Anticipated completion date: April 2012

PHYSICAL SECURITY**Recommendation 2**

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

Campus Response

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room with lock, which only 3 Financial Aid staff members (Director, Associate Director, and Administrative Support) have a key to unlock the room. This room is unlocked every morning and remains open during business hours only. One of the three mentioned are responsible for ensuring that the door is closed and locked at 5 p.m. every evening. This file room stores information that has any type of student confidential information, binders with student information, and scanned documents. Any documents pending imaging are locked up in a cabinet at the front service desk area. Any offices that have a door are locked at the end of every business day. Cubicle areas have been secured and no confidential documents are left out in the open at the end of business hours.

Anticipated completion date: February 2012

STUDENT ELIGIBILITY

Recommendation 3

We recommend that the campus:

- a. Assess and update the current student cost of attendance, and develop and implement policies and procedures to address regular assessment of student cost of attendance.
- b. Document the development and review of student cost of attendance allowances.

Campus Response

The University concurs with the recommendation that the campus assesses and updates the current cost of attendance, develop and implement policies and procedures to address regular assessment of student cost of attendance, and document the development and review of student cost of attendance allowances. Currently the campus is in the primary stages of developing the 2012-2013 cost of attendance in accordance with the recommendations noted in this review.

Anticipated completion date: March 2012

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

January 12, 2012

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 11-67 on *Financial Aid*,
California State University, Monterey Bay

LONG BEACH

LOS ANGELES

In response to your memorandum of January 12, 2012, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Monterey Bay.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS