FINANCIAL AID

CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD

Audit Report 11-69
February 2, 2012

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ABBREVIATIONS

CSU California State University
FASO Financial Aid and Scholarship Office
FSA Federal Student (Financial) Aid
FWS Federal Work-Study
OUA Office of the University Auditor
SAM State Administrative Manual
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, Bakersfield campus from October 10, 2011, through November 10, 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 10, 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 security badge and key access to the FASO.

FISCAL AND PROGRAM OVERSIGHT AND COORDINATION [7]

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 and performed in a timely manner. Specifically, reconciliations were not performed for academic year 2010/11.

AWARDING AND DISBURSING [8]

Federal work-study participants did not always limit their work hours to 20 per week when classes were in session.
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:

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

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

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.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

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 security badge and key access to the FASO.

We reviewed 39 individuals with security badge and/or key access to the FASO, and we found that:

- Key card access to the FASO was not removed for seven individuals who separated from the campus.
- The campus police department’s list of individuals with key access was inaccurate, as it did not include three-quarters of current financial aid employees with key access.
- Policies and procedures had not been developed to address the periodic review and monitoring of individuals with physical access to the FASO and other areas where student confidential records were stored.

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 the legitimate educational interest requirements.

The assistant vice president of fiscal services stated that although the clearance forms were completed in accordance with campus policy, the university was not always able to collect identification cards and keys from separating employees.

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 adequately restrict physical access to confidential FSA records and develop and implement policies and procedures to ensure the periodic review and monitoring of security badge and key access to the FASO.

Campus Response

We concur. The campus will restrict physical access to confidential FSA records and will implement policies and procedures to ensure that access to the FASO is reviewed and monitored.
Expected completion date: June 30, 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 and performed in a timely manner.

Specifically, we found that reconciliations were not performed for academic year 2010/11.

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.

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

SAM §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 manager of student financial services stated that an informal reconciliation was performed each month prior to distribution of financial aid and at the end of academic year 2010/11. She also stated that the department lost three key employees who were responsible for the formal reconciliations.

Failure to develop complete policies and procedures and perform financial aid fund reconciliations compromises accountability and increases the risk that errors and irregularities would not be detected in a timely manner.

Recommendation 2

We recommend that the campus:

a. Include specific guidelines for the timely preparation and review of financial aid reconciliations in campus policies and procedures.

b. Perform and document financial aid reconciliations in a timely manner.
**Campus Response**

We concur.

a. The campus will include specific guidelines in campus policies and procedures for the timely preparation and review of financial aid reconciliations.

b. The campus will perform and document a procedure that ensures financial aid reconciliations are performed in a timely manner.

Expected completion date: May 31, 2012

**AWARDING AND DISBURSING**

Federal work-study (FWS) participants did not always limit their work hours to 20 per week when classes were in session.

We found that 25 of 108 FWS participants worked in excess of 20 hours per week, on multiple occasions, in academic year 2010/11.

The CSU Bakersfield *Financial Aid Policy and Procedures Manual* states that eligible undergraduate and graduate students with Pell-eligible Expected Family Contributions can work part-time up to 20 hours per week during periods of enrollment, and up to 40 hours per week during periods of non-enrollment (i.e., breaks when school is not in session but the student must be preregistered for the upcoming term).

The director of financial aid and scholarships stated that the department did not have an effective way to monitor student work time prior to payroll processing.

Failure to limit FWS hours when classes are in session may adversely affect student academic progress.

** Recommendation 3**

We recommend that the campus ensure that FWS participants limit their work hours to 20 per week while classes are in session.

**Campus Response**

We concur. The campus will modify its policies and procedures to ensure that FWS participants are limited to 20 hours per week while classes are in session.

Expected completion date: June 30, 2012
APPENDIX A:  
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Horace Mitchell</td>
<td>President</td>
</tr>
<tr>
<td>Christina Alexander</td>
<td>Direct Loan Coordinator</td>
</tr>
<tr>
<td>Mary Barns</td>
<td>Administrative Support Assistant</td>
</tr>
<tr>
<td>Marge Becas</td>
<td>Student Finance Lead</td>
</tr>
<tr>
<td>Brian Chen</td>
<td>PeopleSoft Security</td>
</tr>
<tr>
<td>Rey Cuesta</td>
<td>Federal Work Study Coordinator</td>
</tr>
<tr>
<td>Rita Gustafson</td>
<td>Registrar</td>
</tr>
<tr>
<td>Tanae Hammond</td>
<td>Scholarship and Veteran Affairs Coordinator</td>
</tr>
<tr>
<td>Eva Hebebrand</td>
<td>Manager of Student Financial Services</td>
</tr>
<tr>
<td>Rocio Jones</td>
<td>Assistant Pell Grant Coordinator</td>
</tr>
<tr>
<td>Janis Lopez</td>
<td>Common Origination and Disbursement Data Coordinator</td>
</tr>
<tr>
<td>Christine Lopez</td>
<td>Pell Grant Coordinator</td>
</tr>
<tr>
<td>Kristie Luna</td>
<td>Athletic Grant in Aid Coordinator</td>
</tr>
<tr>
<td>Chad Morris</td>
<td>Associate Director, Financial Aid and Scholarships</td>
</tr>
<tr>
<td>Michael Neal</td>
<td>Vice President for Business and Administrative Services</td>
</tr>
<tr>
<td>Ben Perlado</td>
<td>Information Technology Consultant</td>
</tr>
<tr>
<td>Ron Radney</td>
<td>Director of Financial Aid and Scholarships</td>
</tr>
<tr>
<td>Jodi Sharp</td>
<td>California Student Aid Commission Program Coordinator</td>
</tr>
<tr>
<td>Cliff Smith</td>
<td>Financial Aid Systems Analyst Programmer</td>
</tr>
<tr>
<td>Tom Velasquez</td>
<td>Manager of Facilities Operations</td>
</tr>
<tr>
<td>Doug Wade</td>
<td>Assistant Vice President, Fiscal Services</td>
</tr>
<tr>
<td>Tina Williams</td>
<td>Benefits Officer</td>
</tr>
<tr>
<td>Henry Yniguez</td>
<td>Facilities Manager</td>
</tr>
</tbody>
</table>
March 20, 2012

Larry Mandel
University Auditor
Office of the Chancellor
California State University
401 Golden Shore 4th Floor
Long Beach CA 90802-4210

Re: University Response to Recommendations Contained in Report Number 11-69
CSU Bakersfield Financial Aid Audit

Dear Mr. Mandel:

Attached are the University’s responses to the recommendations contained in Report Number 11-69, Financial Aid Audit.

If you have any questions or concerns, please contact my office at 661-654-2287.

Sincerely,

Michael A Neal
Vice President
Business and Administrative Services

c: Horace Mitchell, President, CSUB
FINANCIAL AID
CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD
Audit Report 11-69

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus adequately restrict physical access to confidential Federal Student Aid (FSA) records and develop and implement policies and procedures to ensure the periodic review and monitoring of security badge and key access to the Financial Aid & Scholarship Office (FASO).

Campus Response

We concur. The campus will restrict physical access to confidential FSA records and will implement policies and procedures to ensure that access to the FASO is reviewed and monitored.

Expected completion date: June 30, 2012

FISCAL AND PROGRAM OVERSIGHT AND COORDINATION

Recommendation 2

We recommend that the campus:

a. Include specific guidelines for the timely preparation and review of financial aid reconciliations in campus policies and procedures.

b. Perform and document financial aid reconciliations in a timely manner.

Campus Response

a. We concur. The campus will include specific guidelines in campus policies and procedures for the timely preparation and review of financial aid reconciliations.

b. We concur. The campus will perform and document a procedure which ensures financial aid reconciliations are performed in a timely manner.

Expected completion date: May 31, 2012
AWARDING AND DISBURSING

Recommendation 3

We recommend that the campus ensure that FWS participants limit their work hours to 20 per week while classes are in session.

Campus Response

We concur. The campus will modify its policies and procedures to ensure that FWS participants are limited to 20 hours per week while classes are in session.

Expected completion date: June 30, 2012
March 27, 2012

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 11-69 on Financial Aid,
         California State University, Bakersfield

In response to your memorandum of March 27, 2012, I accept the response as submitted with the draft final report on Financial Aid, California State University, Bakersfield.

CBR/amd