

**FINANCIAL AID**  
**CALIFORNIA STATE UNIVERSITY,**  
**STANISLAUS**

**Report Number 02-28**  
**January 10, 2003**

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## **ABBREVIATIONS**

CFR	Code of Federal Regulations
CPS	Central Processing System
CSU	California State University
CSU Stanislaus	California State University, Stanislaus
EADA	Equity in Athletics Disclosure Act
FERPA	Family Educational Rights and Privacy Act of 1974
FY	Fiscal Year
ISIR	Institutional Student Information Report
SAR	Student Aid Report
SCT	Systems & Computer Technology Corporation
SFA	Student Financial Aid

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## INTRODUCTION

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### PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the student financial aid program and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Initiatives have recently been undertaken or completed to improve the effectiveness, efficiency, and economy of financial aid operations and maximize financial aid resources.
- ▶ Adequate consumer information on financial aid has been disclosed.
- ▶ Financial aid is supported by adequate automated record-keeping systems.
- ▶ Provisions have been made for safeguarding financial aid data and automated systems from inappropriate disclosure and loss.
- ▶ Complete, correct, and consistent information is circulated on financial aid.
- ▶ Other campus offices adequately coordinate with the financial aid office.
- ▶ The campus protects against overcommitment or underutilization of financial aid resources.
- ▶ Standard student budgets and cost of attendance are appropriately established.
- ▶ Financial aid recipients were eligible to receive assistance.
- ▶ The campus has complied with federal and state requirements and conditions stipulated by financial aid resource providers.
- ▶ Financial aid is packaged in accordance with applicable policies and procedures.
- ▶ Fee waivers have been factored into financial aid awards.
- ▶ Work-study limits have not been exceeded.
- ▶ Separation of duties is adequate between awarding and disbursing.

## SCOPE AND METHODOLOGY

The management 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. Fiscal year (FY) 2001/02 and the financial aid cycles for fall 2001 and spring 2002 were the primary periods reviewed. In certain instances, we were concerned with representations of annualized data, and it was necessary to look at the last full fiscal year completed prior to the start of the audit (FY 2000/01).

Our primary focus involved the internal administrative, compliance, and operational controls over the management of the student financial aid program. Specifically, we reviewed and tested policies, procedures, and processes for:

- ▶ Identifying financial aid resources.
- ▶ Distributing information to potential applicants.
- ▶ Calculating student budgets.
- ▶ Establishing student eligibility.
- ▶ Packaging financial aid awards.
- ▶ Managing financial aid funds.
- ▶ Securing financial aid applicant and recipient information.
- ▶ Safeguarding financial aid automated systems.

During the audit, we interviewed personnel involved in financial aid; reviewed financial aid policies, procedures, and systems; and tested financial aid records on awards and disbursements.

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## BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor in the last quarter of 1999, the Board of Trustees, at its January 2002 meeting, directed that *Financial Aid* be reviewed in 2002. The Office of the University Auditor last reviewed *Financial Aid* in 1994 on six campuses.

The proposed scope of the audit as presented in Attachment B, Audit Item 2 of the January 29-30, 2002, meeting of the Committee on Audit stated that the review would include identifying financial aid resources, establishing student budgets, packaging financial aid awards, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

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 public-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” which 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.

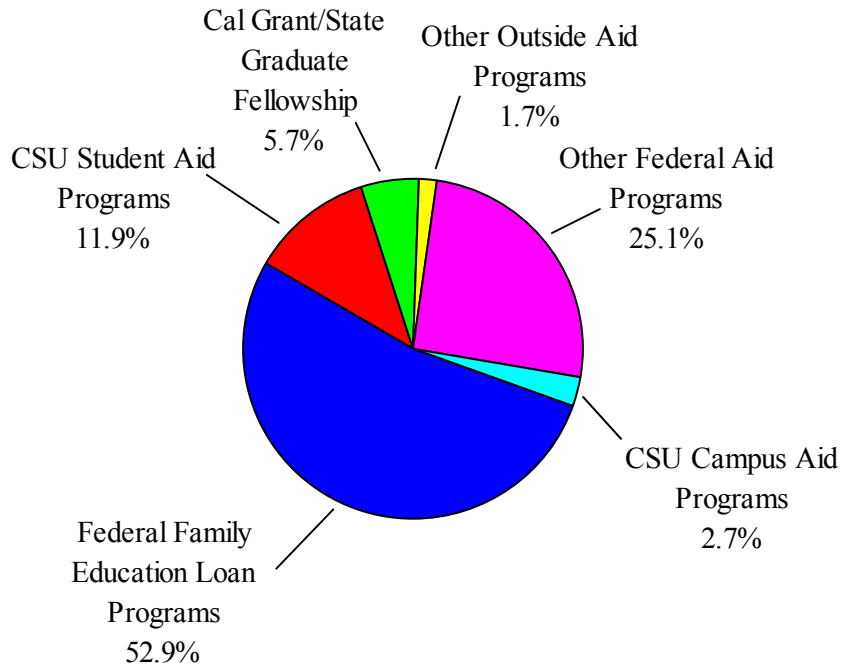
**Work-study** is a “self-help” program in the form of part-time employment during the student’s college career.

**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 over 70% 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. At June 30, 2001, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Opportunity Grants	\$12,636,585
Federal Family Educational Loan	\$325,886,005
Federal Work Study	\$16,358,009
Federal Perkins Loan – Federal Capital Contributions	\$17,060,565
Federal Pell Grant	\$246,059,734
Federal (William Ford) Direct Loan	\$280,164,585
TOTAL	\$898,165,483

Nonfederal financial aid programs include 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. The CSU provides need-based assistance through state university grants and educational opportunity program grants. Certain other funds are available through the campuses such as local scholarships. In the CSU Statistical Abstract for FY 2000/01, 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 (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 nonresident 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.

At the beginning of 2002, CSU campuses managed financial aid through a variety of record-keeping and automated database systems, which will be replaced by PeopleSoft as part of the CSU's Common Management System. Six CSU campuses are implementing the PeopleSoft Student Administration module in 2002 and have been excluded for purposes of this audit because of the significant implementation workload.

At California State University, Stanislaus (CSU Stanislaus), the financial aid office, which reports through enrollment management to academic affairs, determines and authorizes need-based financial aid. Financial aid is then disbursed by the accounting office, which reports through the university controller to the vice president for business and finance. CSU Stanislaus maintains financial aid records in Banner, a vendor product developed by Systems & Computer Technology (SCT) Corporation. The director of

financial aid and scholarships reports through the assistant vice president for enrollment management to the provost/vice president for academic affairs.

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## **OPINION**

We visited CSU Stanislaus from July 9, 2002, through August 23, 2002, and audited the controls, procedures, and systems in effect at that time.

In our opinion, the financial aid program at CSU Stanislaus was capably administered and in compliance with applicable regulations. However, certain areas needed improvement. Specifically, we noted that consumer information was not disclosed in direct notices, electronic files from the Central Processing System (CPS) were not retained long enough, Pell Grants were paid to some teaching credential students for nonrequired courses, and changes were needed to more closely integrate housing information with financial aid.

## **EXECUTIVE SUMMARY**

The purpose of this section is to provide management with an overview of conditions requiring their 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/CONTROL ENVIRONMENT [7]**

#### **CONSUMER INFORMATION [7]**

Certain consumer information was not disclosed in direct individual notices. Disclosure of consumer information meets requirements for continuation of institutional eligibility to participate in federal financial aid programs.

#### **RECORD RETENTION [8]**

Electronic files received from the Student Financial Aid (SFA) Central Processing System (CPS) older than six months were discarded. Adequate record retention meets requirements for continuation of institutional eligibility to participate in federal financial aid programs.

### **FISCAL AND PROGRAM OVERSIGHT/COORDINATION [9]**

Confirmation of student living arrangements had not been coordinated with housing and residential life. Coordination with the housing office reduces the risk that errors and irregularities will go undetected and increases the likelihood of an equitable distribution of financial aid based on financial need.

### **STUDENT ELIGIBILITY [10]**

Fourteen of twenty-five students tested, who were enrolled in graduate-level teacher credential programs, received Pell Grants for work completed in nonqualifying courses. Compliance with federal Pell Grant requirements helps ensure the equitable distribution of financial aid to students with financial need.

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

### **GENERAL/CONTROL ENVIRONMENT**

#### **CONSUMER INFORMATION**

Certain consumer information was not disclosed in direct individual notices.

For disclosure purposes, the campus usually relied upon the availability of consumer information in the campus catalog and at various website addresses. Two exceptions to this methodology were the inclusion of a packet of information mailed to new students and broad distribution of crime statistics through a postcard mailing.

The federal Higher Education Act, the federal Equity in Athletics Disclosure Act (EADA), and regulatory guidance provided in the Code of Federal Regulations (CFR) 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, student completion/graduation/transfer rates, Family Educational Rights and Privacy Act of 1974 (FERPA) privacy/security rights, financial aid program information, and gender-specific information on athletic participation and financial support.

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 paper copy.

Regulatory guidance repeatedly states that web presentation by itself is not an acceptable disclosure.

The director of financial aid/scholarships indicated that her office distributed financial aid information but relied upon other offices, including admission and records, for other distributions.

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 establish procedures to disclose consumer information by direct individual notice.

### **Campus Response**

We concur. A comprehensive summary of the required information will be developed for both hardcopy and website availability. Individual notices will be provided to new, continuing, and prospective students, as well as parents, counselors, coaches, and other interested parties through the combined efforts of the offices of admissions, outreach, financial aid, retention services and athletics.

The notice will identify the required disclosures, will provide an exact website address where the information is located, will confirm that the party is entitled to paper copy of the information, and will inform the party how to request a paper copy. This will all be completed no later than June 30, 2003.

### **RECORD RETENTION**

Electronic files received from the Student Financial Aid (SFA) Central Processing System (CPS) older than six months were discarded.

Volume 4, Chapter 1 of the 2001/02 SFA Handbook from the U.S. Department of Education states that:

- ▶ A school must keep records relating to administration of campus-based grants or Pell Grants for three years after the end of an award year for which the aid was awarded and disbursed.
- ▶ A student's Student Aid Report (SAR) or Institutional Student Information Report (ISIR) used to determine eligibility for SFA program funds must be kept in the format in which the school received it, except that the SAR may be kept in an imaged media format.

The director of financial aid/scholarships concurred with the systems processor that CPS electronic files had not been retained because of limited storage capacity and a belief that the files would be readily available through backup tapes in the central campus computer center.

Inadequate record retention jeopardizes the institutional eligibility of the campus to participate in federal financial aid programs.

### **Recommendation 2**

We recommend that the campus retain CPS files for the required retention period.

### **Campus Response**

We concur. A revised procedure was implemented in September 2002 to retain electronic files received from the Student Financial Aid Central Processing System. The files are recorded on two backup tapes on a weekly basis. The tape record will be retained for three years after the end of the award year for which aid was disbursed.

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

Confirmation of student living arrangements had not been coordinated with housing and residential life.

We found that:

- ▶ The financial aid/scholarship office did not confirm on-campus student living arrangements with housing and residential life.
- ▶ Two of five students reviewed, who were budgeted as living on-campus, did not live in the residential life village dormitory. One of these students was a recent graduate from a local high school.
- ▶ In order to support full occupancy of the residential life village dormitory, the campus had established the same financial aid budgets for living on-campus and off-campus. However, budgets for students living at home with their parents were significantly lower.

Chapter 2 of the U.S. Department of Education's Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions for Federally Funded Student Financial Aid Programs (Blue Book), June 2001, *General Institutional Responsibilities*, states that the institution has the responsibility to maintain accurate information about student applicants for Title IV aid and to resolve any discrepancies or inconsistencies.

The director and assistant director of financial aid/scholarships indicated that confirmation of living arrangements with the housing office was less important at this campus because the student financial aid budgets were the same for living on-campus and off-campus.

The risk of errors and irregularities increases when on-campus housing occupancies are not coordinated with the financial aid/scholarship office, which may result in excess financial aid awards to some students, limiting the availability of award monies to other students with financial need.

### **Recommendation 3**

We recommend that the campus coordinate information on student living arrangements between the financial aid/scholarship office and the housing and residential life office to ensure that financial aid recipients budgeted as living on-campus actually establish occupancy in the residential life village.

### **Campus Response**

We concur. A new procedure has been established effective fall semester 2002 by which students budgeted as living on-campus will be reviewed after census date each semester to verify occupancy in the residential life village.

A report is produced listing all awarded and enrolled students budgeted as living on-campus. The housing and residential life village is asked to verify the occupancy of each student on the report. Those whose occupancy cannot be verified are reviewed individually to determine whether students without a spouse or children have reported temporary mailing address.

If not, each student will be notified and required to verify her/his current housing status. Holds will be placed pending receipt of the required verification. Appropriate budget and award revisions will be made for all students not living on-campus.

## **STUDENT ELIGIBILITY**

Fourteen of twenty-five students tested, who were enrolled in graduate-level teacher credential programs, received Pell Grants for work completed in nonqualifying courses.

Higher Education Amendments of 1998 (P.L. 105-244) state that the federal government allows students who are enrolled in postbaccalaureate teacher certification programs to receive a Pell Grant, but stipulates that they be enrolled in courses required to receive a teaching credential necessary for employment as a teacher in an elementary or secondary school.

The assistant director of financial aid/scholarships stated that their traditional focus had been in monitoring the number of enrolled units and not specific course enrollments.

Failure to comply with federal Pell Grant requirements can lead to overawards to some students and increases the risk of inequitable distribution of financial aid.

### **Recommendation 4**

We recommend that the campus implement procedures to verify that students who are enrolled in postbaccalaureate teacher certification programs, and receive a Pell Grant, are enrolled in courses required for a teaching credential.

### **Campus Response**

We concur. A revised procedure for verifying enrollment in required course-work was established for fall semester 2002. Pell Grant awards to students in post-baccalaureate teacher certification programs are made only on a term-by-term basis after census date each term. The department of teacher education sends a list of students to the financial aid office identifying students who have been accepted into programs of study to earn a first credential, as well as a list of required courses. The financial aid office then reviews the enrollment of each student for that term and awards Pell Grant funds based on the student's enrollment level (fulltime, halftime, etc.) in required courses only.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
Marvalene Hughes	President
Cathy Bellani	Financial Aid Specialist and Work Study Coordinator, Financial Aid/Scholarship Office
Julie Benevedes	General Accounting Team Lead, Financial Services
Lisa Bernardo	Director, Admissions and Records
Alice Fuentes	Interim Director, Credential Processing Center
Diana Garz	Scholarship Coordinator/Data Technician, Financial Aid/Scholarship Office
David Gomes	Associate Director, Financial Aid/Scholarships
Delfin Guillory	Accounts Receivable Lead, Financial Services
Bob Harris	Assistant Athletics Director
Joan Hillery	Director, Financial Aid/Scholarships
Sylvia Kisling	Assistant Director/Counselor, Financial Aid/Scholarship Office
Donna Moore	Accountant, Financial Services
Ron Noble	Director, Educational Opportunity Program/Senior Director, Retention Services
Becka Paulsen	University Controller
Jim Phillips	Assistant Controller
Roger Pugh	Assistant Vice President for Enrollment Management
Carrie Retemeyer	Database Administrator
Sherri Rivera	Payroll Accounting Technician
Terri Sanders	Director, Advancement Services
Wilma Seltzer	System Processor, Financial Aid/Scholarship Office
Mary Stephens	Vice President, Business and Finance
Mary Vieira	Student Accounts Coordinator, Housing and Residential Life
Alison Wolz	Accounting and Finance Manager, Auxiliary and Business Services



## CALIFORNIA STATE UNIVERSITY, STANISLAUS

801 West Monte Vista Avenue • Turlock, California 95382  
(209) 667-3077 • FAX (209) 667-3350

Vice President for Business and Finance

RECEIVED  
UNIVERSITY AUDITOR

MAR - 5 2003

THE CALIFORNIA STATE  
UNIVERSITY

March 5, 2003

Larry Mandel, University Auditor  
Office of the Chancellor  
401 Golden Shore  
Long Beach, CA 90802-4210

Dear Larry:

The campus response to the recent financial aid audit is attached. We appreciate the effort made to help financial aid improve their business practices and assure you that the findings will be fully addressed over the next few months.

Any questions concerning the response should be directed to David Gomes, Interim Director, Financial Aid, at (209) 664-6585 or via email at [Dgomes@csustan.edu](mailto:Dgomes@csustan.edu).

Sincerely,

A handwritten signature in black ink, appearing to read 'Mary Stephens', written over the typed name.

Mary Stephens, Vice President  
Business and Finance

cc: President Marvalene Hughes  
Vice President/Provost David Dauwalder  
Assistant Vice President Becka Paulsen  
Assistant Vice President Roger Pugh  
Interim Director of Financial Aid, David Gomes

THE CALIFORNIA STATE UNIVERSITY

**California State University, Stanislaus  
Campus Responses to FISMA Audit Findings  
Report Number 02-28  
January 2003**

**Recommendation 1**

We recommend that the campus establish procedures to disclose consumer information by direct individual notice.

**Campus Response**

We concur. A comprehensive summary of the required information will be developed for both hardcopy and website availability. Individual notices will be provided to new, continuing and prospective students, as well as parents, counselors, coaches and other interested parties through the combined efforts of the offices of Admissions, Outreach, Financial Aid, Retention Services and Athletics.

The notice will identify the required disclosures, will provide an exact website address where the information is located, will confirm that the party is entitled to paper copy of the information, and will inform the party how to request a paper copy. This will all be completed no later than June 30, 2003.

**Recommendation 2**

We recommend that the campus retain CPS files for the required retention period.

**Campus Response**

We concur. A revised procedure was implemented in September 2002 to retain electronic files received from the Student Financial Aid Central Processing System. The files are recorded on two backup tapes on a weekly basis. The tape record will be retained for three years after the end of the award year for which aid was disbursed.

**Recommendation 3**

We recommend that the campus coordinate information on living arrangements between the financial aid / scholarship office and the housing and residential life office to ensure that financial aid recipients budgeted as living on-campus actually establish occupancy in the residential life village.

**Campus Response**

We concur. A new procedure has been established effective Fall Semester 2002 by which students budgeted as living on-campus will be reviewed after census date each semester to verify occupancy in the residential life village.

A report is produced listing all awarded and enrolled students budgeted as living on-campus. The housing and residential life village is asked to verify the occupancy of each student on the report. Those whose occupancy cannot be verified are reviewed individually to determine whether students without a spouse or children have reported temporary mailing address.

If not, each student will be notified and required to verify her/his current housing status. Holds will be placed pending receipt of the required verification. Appropriate budget and award revisions will be made for all students not living on-campus

**Recommendation 4**

We recommend that the campus implement procedures to verify that students who are enrolled in post-baccalaureate teacher certification programs, and receive a Pell Grant, are enrolled in courses required for a teaching credential.

**Campus Response**

We concur. A revised procedure for verifying enrollment in required course-work was established for Fall Semester 2002. Pell Grant awards to students in post-baccalaureate teacher certification programs are made only on a term-by-term basis after census date each term. The Department of Teacher Education sends a list of students to the Financial Aid Office identifying students who have been accepted into programs of study to earn a first credential, as well as a list of required courses. The Financial Aid Office then reviews the enrollment of each student for that term and awards Pell Grant funds based on the student's enrollment level (fulltime, halftime, etc.) in required courses only.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 7, 2003

CHANNEL ISLANDS

FRESNO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report Number 02-28 on *Financial Aid*,  
California State University, Stanislaus

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 7, 2003, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Stanislaus.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Dr. Marvalene Hughes, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS