

FINANCIAL AID
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Report Number 02-30
April 1, 2003

Members, Committee on Audit

Shailesh J. Mehta, Chair
Kyriakos Tsakopoulos, Vice Chair
William Hauck Dee Dee Myers
Erene S. Thomas Anthony M. Vitti

Staff

University Auditor: Larry Mandel
Audit Manager: Jim Usher
Internal Auditors: Tammy Solis and Jim Pelletier

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology	2
Background.....	2
Opinion	5
Executive Summary	6

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

General/Control Environment.....	7
Fiscal and Program Coordination/Oversight.....	8
Student Eligibility	8
Awarding/Disbursing.....	9
Budget Adjustments	9
Fee Waivers.....	10

APPENDICES

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

ABBREVIATIONS

CSU	California State University
CSUMB	California State University, Monterey Bay
EFC	Expected Family Contribution
FY	Fiscal Year
SAR	Student Aid Report
SCT	Systems & Computer Technology
SFA	Student Financial Assistance

INTRODUCTION

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.

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.

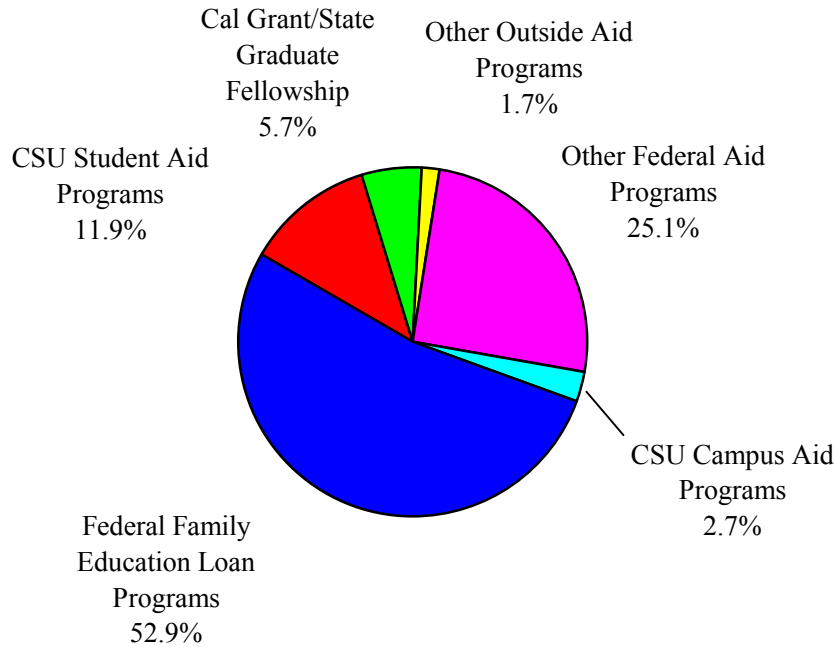
Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

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, Monterey Bay (CSUMB), the financial aid office, which reports to student affairs, determines and authorizes need-based financial aid. Financial aid is then disbursed by accounting services, which reports through the director of accounting to the vice president for administration and finance. CSUMB maintains financial aid records in Banner – a vendor product developed by Systems &

Computer Technology (SCT) Corporation. The director of financial aid reports to the associate vice president for student affairs.

OPINION

We visited the CSUMB campus from August 19, 2002, through September 26, 2002, and audited the controls, procedures, and systems in effect at that time.

In our opinion, the financial aid program at CSUMB is capably administered. The campus has made a substantial investment in automation within the financial aid office including accessibility through SCT Banner. However, certain areas can be improved. Specifically, we noted that certain consumer information was not disclosed in direct notices; some housing allowances/arrangements were questionably factored into financial aid calculations; financial aid increased for rental or purchase of computers was not documented by receipts; and some fee waivers were not properly reflected in 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]

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.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT [8]

The campus could not provide verification of living arrangements for eight (of sixty reviewed) students whose financial aid packages were computed as though they were living on campus. Verifying student housing ensures that students receive the proper level of financial aid.

STUDENT ELIGIBILITY [8]

Current campus policies improperly allow for an extra family housing allowance, in addition to the one already included in the expected family contribution, to be added to budgets if a student is married or has dependents. An accurate number of housing allowances ensures that students receive the proper level of financial aid.

AWARDING/DISBURSING [9]

BUDGET ADJUSTMENTS [9]

Receipts from the student for the rental or purchase of a computer were not obtained when adding a computer allowance to the budget for calculating financial aid benefits. Maintaining documentation for cost of attendance adjustments meets requirements for continuation of institutional eligibility to participate in federal financial aid programs.

FEE WAIVERS [10]

Fee waivers were not properly reflected in financial aid calculations for eight of ninety-six students. Including all fee waiver data in student award calculations ensures that students receive the proper level of financial aid.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL/CONTROL ENVIRONMENT

Certain consumer information was not disclosed in direct individual notices.

The campus relied upon the availability of consumer information in the campus catalog and at various website addresses for disclosure purposes.

The federal Higher Education Act, the federal Equity in Athletics Disclosure Act and regulatory guidance provided in the Code of Federal Regulations requires 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 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 indicated that they were unaware of the requirement to notify various groups on a direct individual basis.

The lack of individual, one-on-one distributions 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. Direct individual notices have been provided in 2002-2003. The campus will develop a schedule for disclosures to ensure compliance in the future. The schedule of disclosures will be completed by August 1, 2003. A plan of action with required disclosures will be completed by October 1, 2003.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT

The campus could not provide verification of living arrangements for eight (of sixty reviewed) students whose financial aid packages were computed as though they were living on campus.

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 of financial aid indicated that they were not receiving timely and accurate information from the property management company that manages the on-campus apartments.

Lack of communication can lead to overawards to some students and subsequent corrective steps that reduce the availability of student financial aid to other students with financial need.

Recommendation 2

We recommend that the campus verify on-campus living arrangements and adjust student aid packages as necessary.

Campus Response

We concur. Beginning November 1, 2002, all students not listed with the housing office for the 2002-2003 academic year were required to bring in documentation of on-campus living arrangements. If they could not provide documentation, their financial aid was adjusted to reflect an at-home budget.

STUDENT ELIGIBILITY

Current campus policies improperly allow for an extra family housing allowance, in addition to the one already included in the expected family contribution, to be added to budgets if a student is married or has dependents.

The Student Financial Aid Handbook indicates, in part, "if a student has special circumstances not taken into account by the Expected Family Contribution (EFC) formula, the financial aid administrator may use professional judgment to adjust – on a case-by-case basis – the values of specific data reported on a student's Student Aid Report (SAR). Special circumstances are conditions that differentiate an individual student, not conditions that exist for a whole class of students." It goes on to say that "the EFC formula also takes into account the family's expense relative to the number of persons in the household..." Additionally, an income protection allowance is calculated in the EFC, and for independent students with dependents other than a spouse, 22% of the allowance is for housing.

The director of financial aid indicated that a single student on campus is expected to share an apartment and the intention of the department was to give students with a family the actual cost of unshared rent on campus.

An additional housing allowance can lead to over-awards to some students and subsequent corrective steps that reduce the availability of student financial aid to other students with financial need.

Recommendation 3

We recommend that the campus revise cost of attendance policies and procedures to prevent the double counting of a family housing allowance.

Campus Response

We concur. Cost of attendance policies were changed for 2003-2004. No family adjustments have been made to the housing allowance. Housing costs reflect only the student's portion.

AWARDING/DISBURSING

BUDGET ADJUSTMENTS

Receipts from the student for the rental or purchase of a computer were not obtained when adding a computer allowance to the budget for calculating financial aid benefits.

Volume 1, Chapter 7 of the U.S. Department of Education's 2001/02 Student Financial Aid Handbook, *Financial Need and Packaging*, under the discussion of the components of a student's cost of attendance, indicates that "A reasonable allowance (as determined by the school) for the documented rental or purchase of a personal computer can be included."

The director of financial aid indicated that the department interpreted the regulations as only requiring the school to document a reasonable allowance for a personal computer. She further stated her belief that this regulation did not require proof of a rental or purchase. This interpretation is inconsistent with the recommendation recently made by a team of financial aid professionals in a peer review at another CSU campus.

Failure to maintain documentation can jeopardize the institutional eligibility of the campus to participate in federal financial aid programs.

Recommendation 4

We recommend that the campus obtain approval from the chancellor's office to continue the current practice of adding an allowance to a student's budget for the purchase or rental of a computer without requiring receipts.

Campus Response

We concur. While we appreciate the auditor's observations, we did seek guidance from the Department of Education regarding this issue. Their written advice states that documenting a reasonable cost for a computer is acceptable documentation and does not violate federal regulations. We will obtain approval from the chancellor's office prior to continuing our current practice for the 2003-2004 academic year.

FEE WAIVERS

Fee waivers were not properly reflected in financial aid calculations for eight of ninety-six students.

Volume 1, Chapter 7 of the U.S. Department of Education's 2001/02 Student Financial Aid Handbook, *Financial Need and Packaging*, states, in part, "when awarding aid from the SFA programs, you must take into account other sources of aid."

The director of financial aid indicated that this information was not always forwarded to the financial aid office.

Lack of communication can lead to overawards to some students and subsequent corrective steps that reduce the availability of student financial aid to other students with financial need.

Recommendation 5

We recommend that the campus implement procedures to provide information to the financial aid office on the number of fee waivers awarded.

Campus Response

We concur. In November of 2002, a new edit report listing all fee waivers posted to student accounts has been developed. The financial aid office runs this report monthly and reviews and adjusts financial aid packages if needed for all students receiving aid in the 2002-2003 academic year.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Peter P. Smith	President
Bonnie Brown	Director, Financial Aid
Steve Brown	Director of Academic Enhancement Services
Valarie Brown	Director of Admissions and Records
Beverly Carter	Interim Director of Teacher Education
Christine Fredrick	Student Accounts Supervisor
Andy Klingelhoefner	Director of Residential Life
Lou Rinehart	Financial Aid Coordinator
Paul Rodriguez	Educational Opportunity Program Coordinator
Holly Roller	Auxiliaries Accountant, California State University, Monterey Bay Foundation
Wes Scheibly	Payroll Manager
Ruth Stipp	Director of Accounting
Bill Trumbo	Director of Athletics, Sports, Recreation, Health
Carol Zabala	Administrative Analyst, Athletics, Sports, Recreation, Health



CALIFORNIA STATE UNIVERSITY
Monterey Bay
OFFICE OF THE VICE PRESIDENT FOR STUDENT AFFAIRS

APPENDIX B - Page 1 of 3
100 CAMPUS CENTER, BUILDING 47
SEASIDE, CA 93955-8001
831-582-3615
FAX 831-582-3355
SAFFAIRS@CSUMB.EDU
WWW.CSUMB.EDU

RECEIVED
UNIVERSITY AUDITOR

MAY 27 2003

THE CALIFORNIA STATE
UNIVERSITY

May 16, 2003

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

Dear Mr. Mandel:

Enclosed please find the campus response to our recent financial aid audit. We are committed to addressing the finding included in the audit. Any questions you may have regarding this response should be directed to Bonnie Brown, Director of Financial Aid, at (831) 582-3554 or at bonnie_brown@csumb.edu.

Sincerely,

Karen L. Mendonca, Ph.D.
Vice President for Student Affairs

FINANCIAL AID
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

REPORT NO. 02-30

GENERAL/CONTROL ENVIRONMENT

Recommendation 1

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

Campus Response

We concur. Direct individual notices have been provided in 2002-2003. The campus will develop a schedule for disclosures to ensure compliance in the future. The schedule of disclosures will be completed by August 1, 2003. A plan of action with required disclosures will be completed by October 1, 2003.

FISCAL AND PROGRAM COORDINATION/OVERSIGHT

Recommendation 2

We recommend that the campus verify on-campus living arrangements and adjust student aid packages as necessary.

Campus Response

We concur. Beginning November 1, 2002, all students not listed with the Housing Office for the 2002-2003 academic year were required to bring in documentation of on-campus living arrangements. If they could not provide documentation, their financial aid was adjusted to reflect an at-home budget.

STUDENT ELIGIBILITY

Recommendation 3

We recommend that the campus revise cost of attendance policies and procedures to prevent the double counting of a family housing allowance.

Campus Response

We concur. Cost of Attendance policies were changed for 2003-2004. No family adjustments have been made to the housing allowance. Housing costs reflect only the student's portion.

AWARDING/DISBURSING

BUDGET ADJUSTMENTS

Recommendation 4

We recommend that the campus obtain approval from the Chancellor's Office to continue the current practice of adding an allowance to a student's budget for the purchase or rental of a computer without requiring receipts.

Campus Response

We concur. While we appreciate the auditor's observations, we did seek guidance from the Department of Education regarding this issue. Their written advice states that documenting a reasonable cost for a computer is acceptable documentation and does not violate federal regulations. We will obtain approval from the Chancellor's Office prior to continuing our current practice for the 2003-2004 academic year.

FEE WAIVERS

Recommendation 5

We recommend that the campus implement procedures to provide information to the Financial Aid Office on the number of fee waivers awarded.

Campus Response

We concur. In November of 2002 a new edit report listing all fee waivers posted to student accounts has been developed. The financial aid office runs this report monthly and reviews and adjusts financial aid packages if needed for all students receiving aid in the 2002-2003 academic year.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 23, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-30 on *Financial Aid*,
California State University, Monterey Bay

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 23, 2003, I accept the response as submitted with the draft final report on *Financial Aid*, California State University, Monterey Bay.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Dr. Peter P. Smith, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS