

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

January 31, 2022

Dr. Erika D. Beck, President
California State University, Northridge
18111 Nordhoff Street
Northridge, CA 91330

Dear Dr. Beck:

Subject: Audit Report 21-35, Financial Aid, California State University, Northridge

We have completed an audit of *Financial Aid* as part of our 2021-2022 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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FINANCIAL AID

**California State University,
Northridge**

Audit Report 21-35
January 31, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to financial aid and to ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for financial aid as of December 3, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the campus had an effective framework for financial aid administration. However, we identified an opportunity for improvement in disclosure of consumer information, which did not include all federally required elements.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CONSUMER INFORMATION

OBSERVATION

Required consumer information disclosures were not in accordance with federal requirements.

We found that although the disclosures were sent directly to students via email, they did not:

- State that, upon request, students are entitled to a paper copy.
- Inform students how to request a paper copy.

The federal Higher Education Act, the Higher Education Opportunity Act, regulatory guidance provided in the Code of Federal Regulations (CFR), and guidance provided in the 2020/21 Federal Student Aid Handbook require a notice of general disclosures for enrolled or prospective students. 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, students are entitled to a paper copy containing the required information.
- Inform students and others how to request a paper copy.

Proper consumer information disclosures reduce the risk of noncompliance with federal requirements and allow the campus to continue to participate in federal financial aid programs.

RECOMMENDATION

We recommend that the campus update consumer information disclosures to include the information noted above.

MANAGEMENT RESPONSE

We concur. The campus will revise the required consumer information disclosures provided to all registered students and applicants in the next application cycle.

Expected completion: April 1, 2022

GENERAL INFORMATION

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.

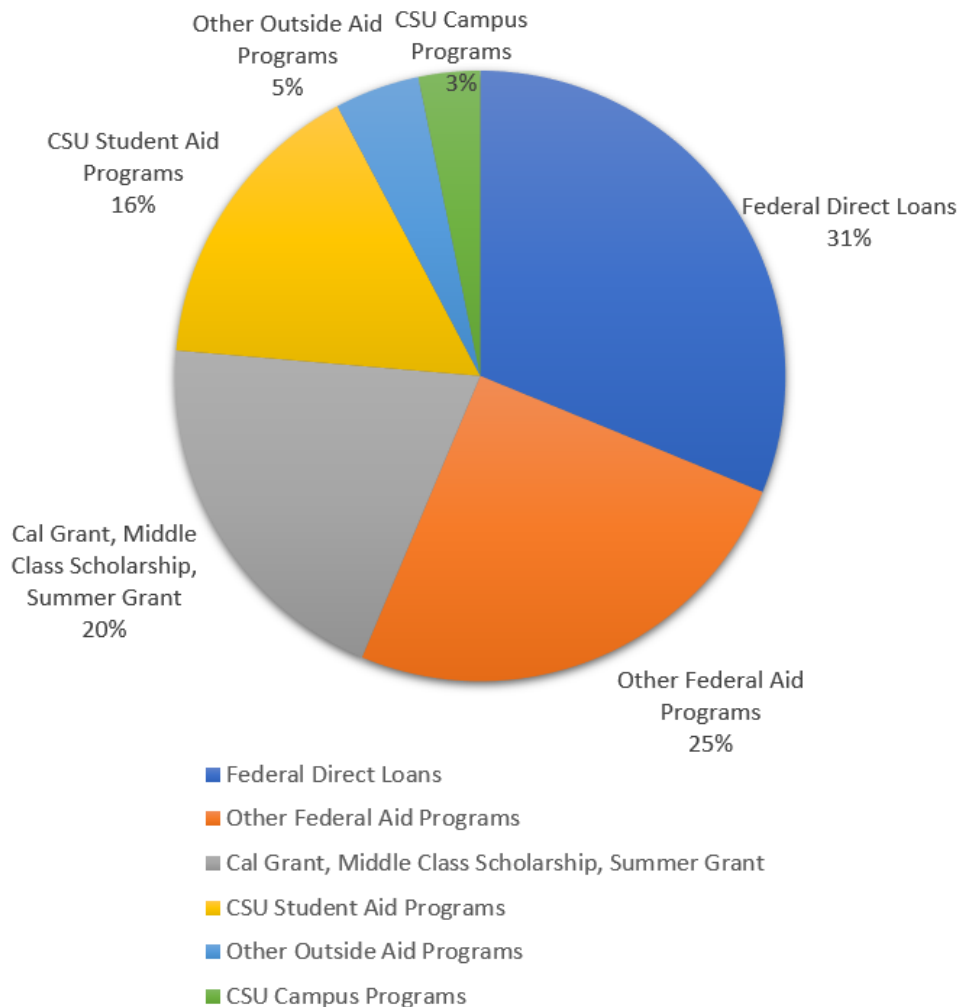
Financial aid is available in four basic types of programs, as follows:

- 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 57 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 CFR Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. As of June 30, 2020, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Educational Opportunity Grants	\$19,015,242.00
Federal Work Study	\$22,967,965.00
Federal Perkins Loan – Federal Capital Contributions	\$55,320,028.00
Federal Pell Grants	\$1,070,747,390.00
Federal (William Ford) Direct Loans	\$1,381,458,139.00
Teacher Education Assistance for College and Higher Education Grants (TEACH)	\$2,501,557.00
Postsecondary Education Scholarships for Veteran's Dependents (VETERANS)	\$11,620.00
Nursing Student Loans (NURSING LOANS)	\$2,923,345.00
TOTAL	\$2,554,945,286.00

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 annual institutional aid report for fiscal year 2019/20, financial aid funds by source are graphically represented as follows:



According to the 2019/20 financial aid report:

- 82 percent of all CSU students (391,000+) received a total of over \$4.5 billion in financial assistance.
- 73 percent of undergraduate financial aid recipients had the full cost of tuition covered by grants, scholarships, or waivers.
- More than half (54 percent) of CSU baccalaureate recipients graduated with zero education loan debt.

- Of the 46 percent who graduated with debt, the average loan debt of \$18,173 was well below the national average of \$28,950.

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 on information on the local or regional costs in the area served by the particular campus.

At California State University, Northridge (CSUN), the financial aid process is centralized within the financial aid and scholarships (FA&S) department. FA&S prepares the cost of attendance calculation, establishes campus financial aid eligibility requirements, prepares student aid packages, performs verification procedures, administers individual financial aid programs, and monitors student eligibility, including satisfactory academic progress. Financial aid funds are managed by the student accounting department. Once financial aid disbursements have been calculated and approved by FA&S, university cash services processes payments for posting to student accounts.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from October 11, 2021, through December 3, 2021. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2019, to December 3, 2021.

Specifically, we reviewed and tested:

- The financial aid organization.
- Physical and logical security for sensitive financial aid information.
- Safeguarding of 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.
- Establishment and calculation of student budgets and cost of attendance.
- Establishment of 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.

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.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the financial aid program. Our review was limited to gaining reasonable assurance that essential elements of the financial aid program were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- 20 U. S. Code 1232(g) *Family Educational and Privacy Rights*
- 2020/21 *FAFSA Application and Verification Guide*
- 34 CFR 99, *Family Educational and Privacy*
- 34 CFR 668, *Student Assistance General Provisions*
- 34 CFR 673, *General Provisions for the Federal Perkins Loan Program, Federal Work-Study Program, and Federal Supplemental Educational Opportunity Grant Program*
- 34 CFR 690, *Federal Pell Grant Program*
- California Education Code, Part 42, *Student Financial Aid Program*
- CSU Educational Opportunity Program Webpage
- CSU Financial Aid Webpage, State University Grant Program
- Department of Education COVID-19 Title IV Funds Frequently Asked Questions
- Federal Student Aid Handbook 2020/21, Volumes 1-6
- Gramm-Leach-Bliley Act (Public Law 106-102)
- Higher Education Opportunity Act, Title IV, *Student Assistance*
- CSUN *Financial Aid Policy Manual*

AUDIT TEAM

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