

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

March 8, 2024

Dr. Berenecea Johnson Eanes, President  
California State University, Los Angeles  
5151 State University Drive  
Los Angeles, CA 90032

Dear Dr. Johnson Eanes:

**Subject: Audit Report 23-20, *Financial Aid*, California State University, Los Angeles**

We have completed an audit of *Financial Aid* as part of our 2023-2024 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: Mildred García, Chancellor  
Yammilette Rodriguez, Chair, Committee on Audit  
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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# **FINANCIAL AID**

**CALIFORNIA STATE UNIVERSITY,  
LOS ANGELES**

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**AUDIT REPORT 23-20  
MARCH 8, 2024**

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year (FY) 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed an audit of financial aid at California State University, Los Angeles (Cal State LA).

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.

Financial aid programs provide support for students to help meet the costs of obtaining a college education. In FY 2022/23, Cal State LA disbursed aid totaling approximately \$291 million to about 87% (22,550) of their students. Funding for financial aid programs at Cal State LA comes from a variety of public and private sources, the most significant of which are the federal government, the state government, and the California State University system. Most, but not all, financial aid programs are awarded on the basis of financial need, which is determined through an application process and in accordance with prescribed formulas.

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

- Grants are “gift aid” and generally do not include criteria other than financial need.
- Scholarships are “gift aid” that do not have to be repaid. Scholarships typically include criteria such as academic performance or special talents.
- Loans are a form of “self-help” because they represent borrowed money that must be paid back over a period of time, typically after the student leaves school.
- Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

### OVERALL CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for financial aid as of December 19, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

### AUDIT SCOPE AND RESULTS

In general, we found that financial aid operations were effective and services were provided in compliance with CSU policies and procedures. Although Cal State LA continues to suffer from staffing shortages and turnover, the financial aid office retains an experienced and knowledgeable team that provides timely and essential services to students.

However, our review did note areas for improvement related to reconciliation of aid programs and consumer disclosures to financial aid recipients. A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
<b>Control Environment</b>	Administration of financial aid, clear lines of authority, policies and procedures, consumer disclosures, and security and confidentiality of records	<i>Observation noted in consumer disclosures to financial aid recipients</i>
<b>Fiscal and Program Oversight</b>	Coordination of financial aid programs across the campus, communication of awards between departments, maintenance of all required records and information, and program reconciliations	<i>Observation noted in performance of program reconciliations</i>
<b>Student Eligibility</b>	Establishment of student budgets and cost of attendance, and student eligibility requirements for various aid programs	<i>Effective – no reportable observations noted</i>
<b>Disbursements</b>	Controls surrounding disbursement procedures, return of Title IV funds, professional judgment decisions, and campus verification processes	<i>Effective – no reportable observations noted</i>

The audit focused on procedures in effect from July 1, 2021, through December 19, 2023. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of financial aid were in place and did not examine all aspects of the program.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. RECONCILIATIONS

#### OBSERVATION

The financial aid office did not always perform required monthly reconciliations for the Federal Direct Loan program and did not document the preparer and reviewer for California Student Aid Commission (CSAC) reconciliations.

The *Federal Student Aid Handbook Volume 4* requires that at a minimum, a school should reconcile its federal student aid (FSA) financial records monthly. Reconciliation is the process by which a school reviews and compares the financial aid recorded in the grantors' systems with the information in the school's internal records to identify any discrepancies and resolve them in a timely manner.

We found that monthly Federal Direct Loan reconciliations with the Common Origination and Disbursement (COD) system had not been completed since March 2023. Per the financial aid office, this was due to a vacancy in the direct loan coordinator position between March 21, 2023, and August 14, 2023. Although a new coordinator was hired in August 2023, that individual is still undergoing training, and Federal Direct Loan reconciliations have not yet resumed.

In addition, we found that CSAC reconciliations for the Cal Grant and Middle-Class Scholarship programs were not signed and dated. Although the campus was able to provide these reconciliations, preparer and approver signatures and dates were not included.

Consistent and timely completion of reconciliations improves accountability and reduces the risk that errors and irregularities would not be detected in a timely manner.

#### RECOMMENDATION

We recommend that the campus:

- a. Resume completion of monthly Federal Direct Loan COD reconciliations and, to ensure continuity, identify and train a back-up individual who can complete reconciliations as needed.
- b. Document preparer and approver signatures and dates on CSAC reconciliations.

MANAGEMENT RESPONSE
<p>We concur. The campus will:</p> <ol style="list-style-type: none"><li>a. Resume completion of monthly Federal Direct Loan COD reconciliations and, to ensure continuity, identify and train a back-up individual who can complete reconciliations as needed.</li><li>b. Document preparer and approver signatures and dates on CSAC reconciliations.</li></ol> <p>Estimated completion date: July 31, 2024</p>

## 2. CONSUMER DISCLOSURES

### OBSERVATION

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

The federal Higher Education Act, the Higher Education Opportunity Act, regulatory guidance provided in the Code of Federal Regulations, and guidance provided in the 2022/23 *FSA Handbook* published by the U.S. Department of Education require a notice of general disclosures for enrolled or prospective students. Volume 2 of the *FSA Handbook* requires an Annual Individual Notice (AIN) be provided to students each year if the school uses an electronic process to provide notices, make disclosures, and direct students to secure websites. At a minimum, an AIN must:

- Identify the information required to be disclosed that year, including general disclosures, annual security and fire safety reports, and reports on athletic program participation rates and financial support data.
- Include the exact electronic website address where financial aid information can be found, if directing the student to information disclosed on a website.
- State that upon request, a person is entitled to a paper copy containing the required information.
- Inform students how to request a paper copy of the required informational disclosures.

We found that the campus provided AINs that included some but not all of the required information as described above during the academic years 2021/22 and 2022/23. The AINs distributed by the campus to enrolled students during this period included general disclosures, the annual security and fire safety reports, and student privacy rights notices.

After the end of fieldwork, the campus consolidated required consumer disclosure information into one webpage, sent out an AIN to students in January 2024, and established a process for sending out AINs moving forward.

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

### RECOMMENDATION

We recommend that the campus identify the responsible area for AIN distribution and establish a process to ensure that AINs are distributed to students and include all required information as noted above.

MANAGEMENT RESPONSE
<p>We concur. The campus implemented corrective action for this recommendation. We identified the area responsible for AIN distribution and established a process to ensure that AINs are distributed to students and include all required information, as noted above.</p> <p>Corrective action was completed on January 30, 2024.</p>

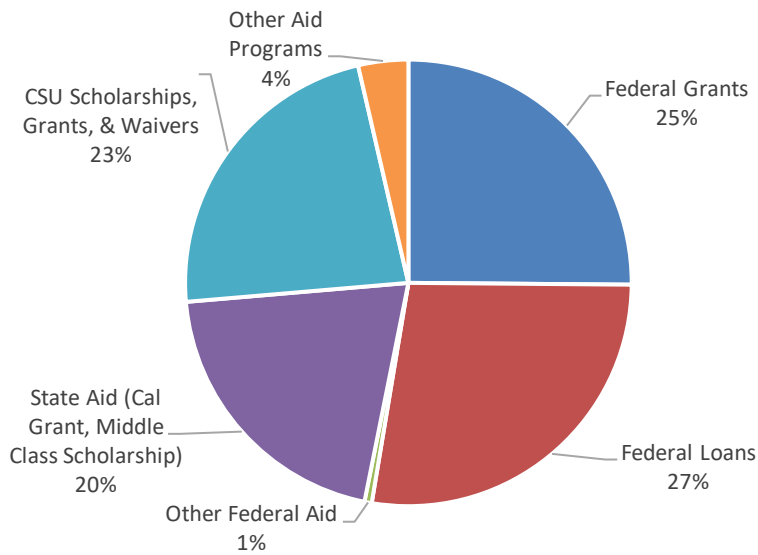


## GENERAL INFORMATION

### ADDITIONAL BACKGROUND

Federal financial aid programs provide 53% of the funding currently available for CSU student financial aid in the form of grants and loan programs.

Non-federal financial aid programs include mainly those funded by the state through the CSAC, 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 2021/22, financial aid funds by source are graphically represented as follows:



According to the 2021/22 financial aid report:

- Nearly 82% of all CSU students (383,000+) received over \$4.2 billion in financial assistance.
- Nearly 60% of all enrolled undergraduate students had the full cost of tuition covered by grants, scholarships, or waivers.
- More than half (56%) of CSU baccalaureate recipients graduated with zero education loan debt.
- Of the 44% who graduated with debt, the average loan debt of \$17,479 was well below the most recently available state average of \$21,125 (2019/20).

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.

Financial aid offices at the CSU have experienced staffing shortages over the past few years. Almost all

financial aid directors say their offices are inadequately staffed. With the upcoming changes to financial aid policy and regulations, there is a need to find funding and additional support to address the workload of these offices. Most financial aid offices need to add more positions to their staff, fill current vacancies, or both. In academic year 2022/23, more than 700,000 prospective students applied for financial aid, ranging from about 1,500 to more than 61,000 applications, depending on the campuses. All of these applications needed to be processed by financial aid offices.

At Cal State LA, the financial aid process is centralized within the financial aid office (FAO). The FAO has 34 positions, 11 of which were vacant at the time of the audit. The FAO 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 financial services department. Once financial aid disbursements have been calculated and approved by the FAO, student financial services processes payments for posting to student accounts.

## 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*
- 2022/23 *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
- Federal Student Aid Handbook 2022/23, Volumes 1-6
- Cal State LA *Internal Business Process Guides*

## AUDIT TEAM

Senior Audit Manager: Hannah Gardener

Senior Auditor: Matthew Shum