

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

February 19, 2024

Dr. Jeffrey D. Armstrong, President
California Polytechnic State University, San Luis Obispo
1 Grand Avenue
San Luis Obispo, CA 93407

Dear Dr. Armstrong:

Subject: Audit Report 23-21, Financial Aid, California Polytechnic State University, San Luis Obispo

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

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus

FINANCIAL AID

**CALIFORNIA POLYTECHNIC
STATE UNIVERSITY,
SAN LUIS OBISPO**

**AUDIT REPORT 23-21
FEBRUARY 19, 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 Polytechnic State University, San Luis Obispo (Cal Poly San Luis Obispo).

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 Poly San Luis Obispo disbursed aid totaling approximately \$195 million to about 60% (13,000) of its students. Funding for financial aid programs at Cal Poly comes from a variety of public and private sources, the most significant of which are the federal government, state government, and California State University system. Most, but not all, financial aid programs are awarded based on 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” since 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 15, 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 administration was effective and services were provided in compliance with CSU policies and procedures. The Cal Poly San Luis Obispo financial aid office has an experienced and knowledgeable team that delivers timely and essential services to the students.

However, our review did note areas for improvement related to the return of Title IV funds for retroactive withdrawals 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
Control Environment	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>
Fiscal and Program Oversight	Coordination of financial aid programs across the campus, communication of awards between departments, maintenance of all required records and information, program reconciliations	<i>Effective – no reportable observations noted</i>
Student Eligibility	Establishment of student budgets and cost of attendance, student eligibility requirements for various aid programs	<i>Effective – no reportable observations noted</i>
Disbursements	Controls surrounding disbursement procedures, return of Title IV funds, professional judgment decisions, and campus verification processes	<i>Observation noted in return of Title IV funds for retroactive withdrawals</i>

The audit focused on procedures in effect from July 1, 2021, through December 15, 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. RETURN OF TITLE IV FUNDS

OBSERVATION

The financial aid office did not perform the required calculation for the return of Title IV funds for students with retroactive withdrawal dates.

If the recipient of a Title IV grant or loan withdraws from a school after attending for a period of time, the school must determine the amount of Title IV aid earned by the student and whether any unearned aid needs to be returned. The campus must calculate the percentage of the payment period or period of enrollment that the student completed by obtaining the student's last day of attendance. If the student completes less than 60 percent of the period, some funds would be considered unearned, and the school must determine the amount required to be returned.

The campus has an established process to perform this calculation for students who withdraw during each term. However, the campus also allows retroactive withdrawals for students with extenuating circumstances, which can occur a year or more after the end of a term. We reviewed 14 students with retroactive withdrawals approved after July 2021, and we found that:

- For three students, the campus could not determine whether Title IV funds needed to be returned. For normal withdrawals, the financial aid office reaches out to faculty to obtain the last date of attendance to complete the required calculation. However, in these instances, the financial aid office was not notified by the registrar's office of the approval of these students' retroactive withdrawals. Therefore, the last date of attendance was not collected, and the financial aid office could not calculate the percentage of the period completed to determine whether any funds should be returned.
- For 11 students, the campus determined during fieldwork that no Title IV funds needed to be returned as the students did not receive Title IV funds or had earned all of the financial aid by completing 60 percent or more of the term. However, this determination was not made in a timely manner, as the financial aid office was not notified of these retroactive withdrawals when they occurred.

Performing required calculations for the return of Title IV funds for all students who withdraw helps to ensure that any unearned funds are identified and returned as required.

RECOMMENDATION

We recommend that the campus:

- a. Establish a process to ensure that the financial aid office is timely notified of retroactive withdrawals and that required calculations for the return of Title IV funds are performed.
- b. Communicate and distribute the updated process to appropriate personnel.

MANAGEMENT RESPONSE

We concur. The registrar's office will establish a process to ensure that the financial aid office is timely notified of retroactive withdrawals and that required calculations for the return of Title IV funds are performed. The updated process will be communicated and distributed to the appropriate personnel.

Anticipated Implementation Date: July 26, 2024

2. CONSUMER DISCLOSURES

OBSERVATION

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

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 2022/23 Federal Student Aid Handbook require a notice of general disclosures for enrolled or prospective students. We found that although consumer disclosure information was available on various pages of the campus financial aid website and notices were sent to students, the notices did not:

- Provide the exact website addresses where disclosures could be found.
- State that, upon request, students are entitled to a paper copy.
- Inform students how to request a paper copy.

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 update consumer information disclosures to include the information noted above.

MANAGEMENT RESPONSE

We concur. The campus will update consumer information disclosures to include the information noted above.

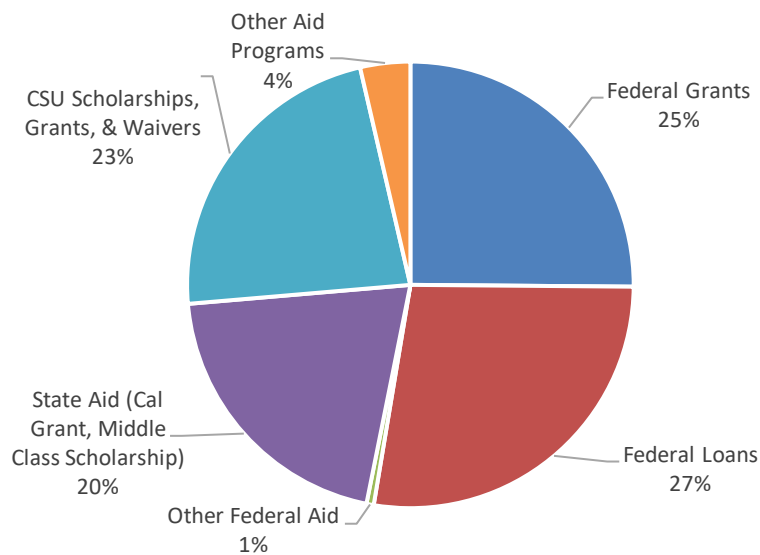
Anticipated Implementation Date: July 26, 2024

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 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 FY 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 (2019-2020).

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 not adequately 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 more positions added to their staff, need to fill current vacancies, or both. In 2022/23, more than 700,000 prospective students applied for financial aid, ranging from about 1,500 to over 61,000 applications at individual campuses, all of which had to be processed by financial aid offices.

At Cal Poly San Luis Obispo, the financial aid process is centralized within the financial aid and scholarships (FA&S) office. The FA&S office consists of 22 positions, three of which were vacant at the time of the audit. 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 financial services department. Once financial aid disbursements have been calculated and approved by FA&S, 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 Rights 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 Poly San Luis Obispo *Financial Aid Policy Manual*

AUDIT TEAM

Senior Audit Manager: Hannah Gardener

Senior Auditor: Alexandra Gonzalez