

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

March 20, 2024

Dr. Vanya Quiñones, President
California State University, Monterey Bay
100 Campus Center, Administration Building
Seaside, CA 93955

Dear Dr. Quiñones:

Subject: Audit Report 23-35, *Financial Aid*, California State University, Monterey Bay

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

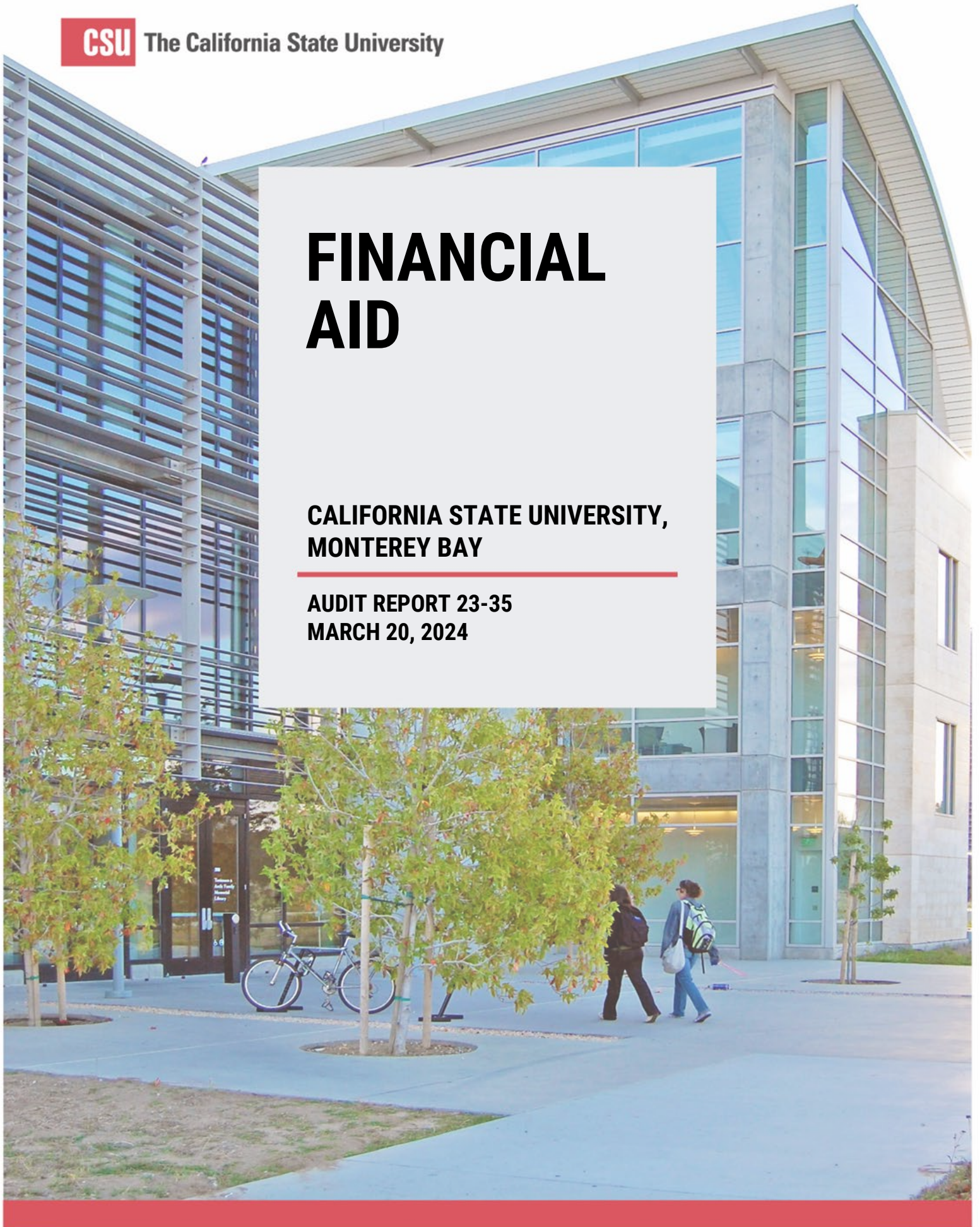
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FINANCIAL AID

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**AUDIT REPORT 23-35
MARCH 20, 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, Monterey Bay (CSUMB).

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, CSUMB disbursed aid totaling approximately \$76 million to about 74% (4,819) of their students. Funding for financial aid programs at CSUMB 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 on the basis of financial need, which is determined through the application process and in accordance with a prescribed 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.

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 8, 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 core services were provided in compliance with California State University (CSU) policies and procedures. Although CSUMB has experienced staff turnover, the financial aid administration office strives to maintain an experienced and knowledgeable team that aims to deliver timely and essential services to students.

However, our review did note areas for improvement related to Federal Student Aid (FSA) program reconciliations, separation of duties in awarding and disbursing financial aid, and policies and procedures. 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>Observations noted related to policies and procedures</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, and program reconciliations	<i>Observations noted related to program reconciliations</i>
Student Eligibility	Establishment of student budgets and cost of attendance, and 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 process	<i>Observation noted related to separation of duties in awarding and disbursing financial aid</i>

The audit focused on procedures in effect from July 1, 2021, through December 8, 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. PROGRAM RECONCILIATIONS

OBSERVATION

The campus did not have documented policies and procedures for financial aid reconciliations or the drawdown process, and FSA program reconciliations were not consistently and timely performed.

We found that the campus business office did not have documented policies and procedures for financial aid reconciliations, including processes for comparing financial aid disbursements to authorized award amounts, verifying reporting accuracy, and addressing discrepancies. In addition, there were no documented policies and procedures outlining when to initiate drawdowns and the appropriate amounts to be drawn down. Furthermore, the campus did not have a designated backup person responsible for reviewing and approving reconciliations conducted by the business office.

We also found that monthly reconciliations were not always consistently and timely performed and were sometimes inadequate. Specifically:

- The financial aid office did not always conduct monthly external reconciliations between the Common Origination and Disbursement system (COD) and PeopleSoft for federal financial aid. We requested reconciliations for July, August, and September 2023, and we found that the reconciliations for July and August 2023 were not completed and the reconciliation for September 2023 lacked documentation of those responsible for its preparation and review.
- The business office did not always conduct monthly external reconciliations between G5, the grant management system, and PeopleSoft for federal financial aid. We requested reconciliations for July, August, and September 2023, and we found that the July 2023 reconciliation was not completed, and the reconciliations for August and September 2023 did not include detailed documentation explaining the cause and resolution of variances between G5 and PeopleSoft.
- The financial aid and business offices did not consistently perform monthly internal reconciliations for federal financial aid programs. We requested reconciliations for July, August, and September 2023, and we found that the July 2023 reconciliation was not performed. Required by FSA, internal reconciliations compare business office records of funds requested, received, disbursed, and returned to financial aid office records of funds awarded to students.

Moreover, the campus did not always meet the established data submission deadline, as required by FSA. We noted that the year-end reconciliation for academic year 2021/22 for FSA programs, due September 30, 2022, was delayed; it occurred in February 2023. The year-end reconciliation for academic year 2022/23 for these programs also missed the deadline; due on September 29, 2023, it was completed on December 8, 2023. These delays in award close-out could be a result of the inconsistent monthly reconciliations mentioned above.

The *2022/23 FSA Handbook Volume 4* requires that at a minimum, a school participating in financial aid should reconcile its FSA financial records monthly. Reconciliation is the process by which a school reviews and compares Title IV aid (grants, loans, and campus-based aid) recorded on the COD and G5 systems with the information in the school's internal records. Through reconciliation, disbursements and cash discrepancies are timely identified and resolved to ensure that the school meets all regulatory requirements.

Establishing clear policies and procedures for financial aid reconciliation and draw downs and consistently and timely completing FSA fund reconciliations improves accountability and reduces the risk that errors and irregularities will go undetected.

RECOMMENDATION

We recommend that the campus:

- a. Establish procedures for the timely preparation and review of financial aid reconciliations and communicate the procedures to relevant personnel.
- b. Establish the criteria for determining when to initiate draw downs, along with guidelines specifying the appropriate withdrawal amounts, and communicate the criteria to relevant personnel.
- c. Designate a backup person for reviewing and approving financial aid reconciliations.
- d. Perform monthly and year-end financial aid reconciliations timely and maintain appropriate documentation.

MANAGEMENT RESPONSE
<p>The campus concurs. The following actions will be taken in response to the observations:</p> <ul style="list-style-type: none">a. The business office will create, communicate and implement procedures for financial aid reconciliations.b. The business office will review, update and communicate procedures to include timelines for drawdown, including guidelines for appropriate drawdown amounts.c. The financial aid and business offices will designate backup personnel for reviewing and approving financial aid reconciliations.d. The financial aid and business offices will perform monthly and year-end financial aid reconciliations and establish a procedure for maintaining documentation. <p>Expected completion date: August 15, 2024</p>

2. SEPARATION OF DUTIES

OBSERVATION

The campus did not maintain appropriate separation of duties for awarding and disbursing financial aid.

Federal regulations require a separation between the authorizing of payments and the disbursing or delivering of funds, so that no single office or individual handles both functions for students receiving FSA funds.

We found that the financial aid office manually authorized and disbursed financial aid for part-time students. In FY 2022/23, this process included 2,776 transactions totaling \$4,632,309.

We reviewed 10 manual disbursements, and we verified that one individual authorized financial aid and another disbursed the aid. Additionally, disbursement amounts appeared appropriate.

Adequate separation of duties for awarding and disbursing financial aid promotes internal control, accountability, and accuracy and decreases the risk of potential fraud and noncompliance with regulations.

RECOMMENDATION

We recommend that the campus separate duties for the awarding and disbursing of financial aid, ensuring that no single office handles both functions.

MANAGEMENT RESPONSE
We concur. The campus will implement procedures to separate the awarding and disbursing of financial aid between the financial aid and business offices for both full-time and part-time students. Expected completion date: August 15, 2024

3. POLICIES AND PROCEDURES

OBSERVATION

The campus did not have documented policies and procedures for student account late fees.

Based on discussions with management, we learned that the business office compiles a list of students facing class withdrawal due to unpaid tuition at the start of each semester, and biweekly thereafter. This list is then shared with the financial aid office, which investigates additional financial aid availability, extends bill payment deadlines, and adds an indicator to student accounts with pending aid to prevent late fees or class drops. However, the campus did not have documented policies and procedures outlining this process that identified how student account late fees are assessed and defined how often and how promptly the business office and financial aid office should communicate to identify which students are eligible for exemption from late fees. Identifying such students is important as it prevents them from facing restrictions on adding classes or registering for upcoming terms.

Establishing clear policies and procedures for student account late fees fosters consistency, transparency, and streamlined communication.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement written policies and procedures detailing the assessment of student account late fees, including defining how often and how promptly the business office and financial aid office should communicate to identify which students are eligible for exemption from late fees.
- b. Communicate the policies and procedures to relevant individuals.

MANAGEMENT RESPONSE

The campus concurs. The following actions will be taken in response to the observations:

- a. The business office will update the late fee policies and procedures to include timing of when late fees are posted.
- b. The business office will provide internal training to relevant personnel.

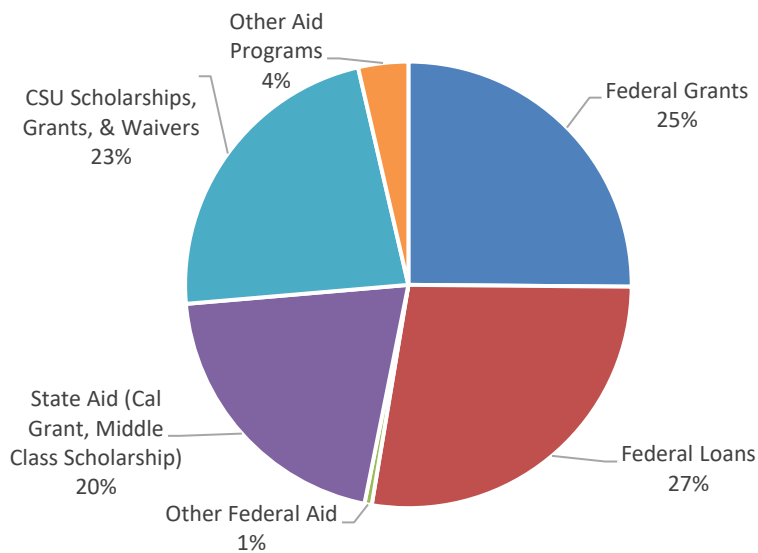
Expected completion date: August 15, 2024

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 more than \$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 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, depending on the campus. All of these applications needed to be processed by financial aid offices.

At CSUMB, the financial aid process is centralized within the financial aid office (FAO). The FAO holds 15 positions, including the director of financial aid services, associate director of financial aid services, six financial aid counselors, lead financial aid analyst, analyst, financial aid intake specialist, administrative support coordinator, and three student assistants. 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 accounting department. Once financial aid disbursements have been calculated and approved by the FAO, student accounting services processes payments for posting to full-time 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 Free Application for Student Aid (FAFSA) Application and Verification Guide
- 34 Code of Federal Regulation (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*
- Federal Student Aid Handbook 2022/23, Volumes 1-6
- California Education Code, Part 42, *Student Financial Aid Program*
- CSU Educational Opportunity Program Webpage
- CSU Financial Aid Webpage, State University Grant Program
- CSUMB *Financial Aid Office Policies & Procedures Manual*

AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditor: Laura Vazquez