

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

March 4, 2024

Vice Admiral Michael J. Dumont, President
California State University Maritime Academy
200 Maritime Academy Drive
Vallejo, CA 94590

Dear Vice Admiral Dumont:

Subject: Audit Report 23-36, *Financial Aid*, California State University Maritime Academy

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

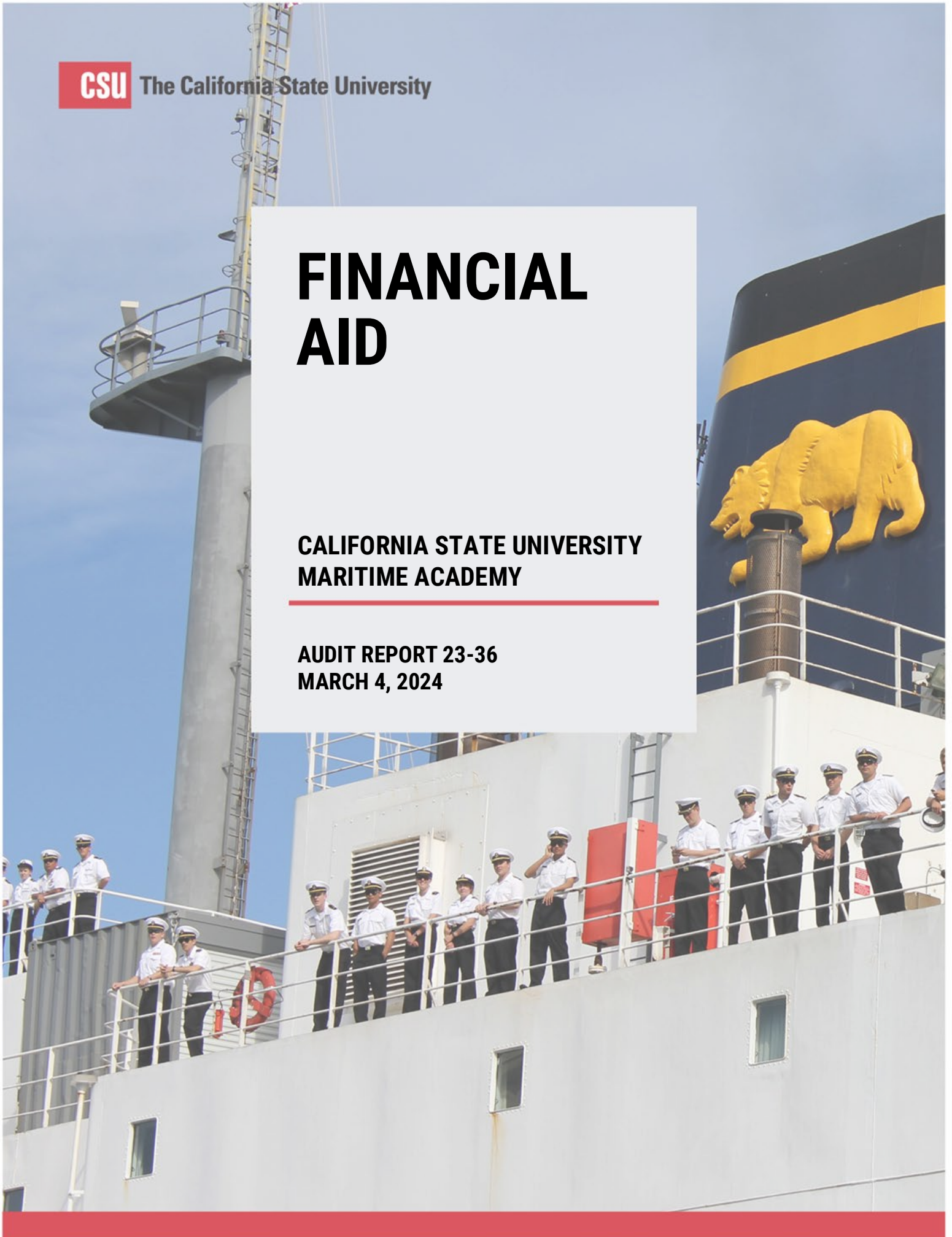
CSU Campuses

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 STATE UNIVERSITY
MARITIME ACADEMY**

**AUDIT REPORT 23-36
MARCH 4, 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 Maritime Academy (Cal Maritime).

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 Maritime disbursed aid totaling approximately \$9.23 million to about 84% (682) of their students. Funding for financial aid programs at Cal Maritime 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 (CSU) 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” because 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 CSU policies and procedures. Although Cal Maritime continues to experience staff shortages and turnover, the financial aid office strives to maintain an experienced and knowledgeable team that aims to deliver timely and essential services to students. However, we noted that the campus did not issue pre-award letters to admitted students, a common practice across the CSU system to facilitate student enrollment decisions. Although final award letters were issued within a reasonable time frame, we recommend that the campus consider implementing a process to send out pre-award letters in alignment with other CSU campuses. Campus management agreed, however they noted the need to prioritize their limited resources to implement recent federal regulation updates prior to working on this project. They hope to implement pre-award letters in Fall 2025.

Our review also noted areas for improvement related to fiscal and program administration. Specifically, we found that the campus did not have a comprehensive, documented policies and procedures manual for the overall administration of financial aid, and reconciliations were not consistently performed. Further, we noted that required consumer disclosures, as well as staff confidentiality agreements, were not completed timely. 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, consumer disclosures to financial aid recipients, and confidentiality agreements</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>Observation noted in 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 observation noted</i>
Disbursements	Controls surrounding disbursement procedures, return of Title IV funds, professional judgment decisions, and campus verification process	<i>Effective – no reportable observations noted</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. POLICIES AND PROCEDURES

OBSERVATION

The campus did not have formal policies and procedures covering the entire Federal Student Aid (FSA) program administration and operations.

We found that each service area involved in the administration of financial aid maintained its own policies and procedures to guide operations. However, those policies and procedures lacked certain elements required by the Department of Education specific to the administration of financial aid, such as, but not limited to:

- G5 procedures and responsibilities.
- Accounting for funds and activities.
- Cash management.
- Procedures for determining that students for whom funds are being requested have begun all the classes on which their aid is based.
- Monthly reconciliation procedures for all FSA programs.
- Methods to ensure that all employees of the financial aid office receive up-to-date training on the administration of the FSA programs.
- Procedures for evaluating and improving the operations of the business and financial aid offices.
- Copies of all forms, applications, standard correspondence, and other materials routinely used by the business office and financial aid office.
- Procedures to refer a student to the Office of Inspector General in cases of suspected fraud.

The 2022/23 FSA Handbook, Volume 4, states that in addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for FSA programs include an adequate system of internal controls or checks and balances. Control activities are the policies and procedures that help ensure a school’s administrative directives are followed. Thus, an all-inclusive policies and procedures manual is critical to establishing internal controls for the operation of the FSA programs.

Comprehensive policies and procedures for the financial aid program improve the effectiveness of administrative capability, decreases the risk of misunderstandings regarding employees’ responsibilities, and enhances the campus financial aid office’s ability to adequately administer FSA programs.

RECOMMENDATION

We recommend that the campus develop, communicate, and implement a financial aid policies and procedures manual that includes all key elements required by the FSA Handbook.

MANAGEMENT RESPONSE
<p>We concur. The campus will formalize, communicate, and implement a coordinated financial aid policies and procedures manual with the key elements required by the FSA Handbook.</p> <p>Expected completion date: August 31, 2024</p>

2. PROGRAM RECONCILIATIONS

OBSERVATION

FSA program reconciliations for cash drawdowns were not always completed timely.

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 Department of Education’s Common Origination and Disbursement (COD) system and G5 (grant management) system with the information in the school’s internal records. Through reconciliation, disbursements and cash discrepancies are identified and resolved in a timely manner to ensure the school meets all regulatory requirements.

We reviewed federal financial aid reconciliations for academic year (AY) 2022/23 and found that although the campus performed monthly and final reconciliations with the COD system in accordance with FSA requirements, G5 reconciliations for cash drawdowns were not completed monthly by student financial services and instead were completed at the end of each semester and during the close-out period.

Consistent and timely completion of FSA fund 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 establish a process for the timely preparation and review of G5 reconciliations, perform monthly reconciliations, and maintain appropriate documentation.

MANAGEMENT RESPONSE
<p>We concur. The campus will update its G5 reconciliation and review processes to transition from quarterly or end-of-semester reconciliations to a more regular schedule of monthly reconciliations and maintain appropriate documentation for each reconciliation.</p> <p>Expected completion date: August 31, 2024</p>

3. CONSUMER DISCLOSURE

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 (CFR), and guidance provided in the 2022/23 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.

We found that the notice of availability of information was not distributed to enrolled students during academic year 2022/23. Furthermore, the campus consumer information website did not state that, upon request, students are entitled to a paper copy, nor did it 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 establish a process for the timely distribution of notice of available information to target audiences and include all required information as noted above.

MANAGEMENT RESPONSE
<p>We concur. The campus will formalize its process for the timely distribution of notices, ensuring that the target audiences receive all necessary and required information in a prompt and efficient manner.</p> <p>Expected completion date: August 31, 2024</p>

4. CONFIDENTIALITY AGREEMENTS

OBSERVATION

Employee confidentiality agreement forms were not completed timely.

We found that the confidentiality agreement forms required for financial aid staff and student aid employees who work with protected student information were not collected for the two employees handling financial aid.

Timely completion of confidentiality agreement forms reduces the risk that protected confidential student information could be compromised.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement policies and procedures to ensure that confidentiality agreement forms are completed and retained when required.
- b. Obtain signed confidentiality agreement forms for the two staff members noted above.

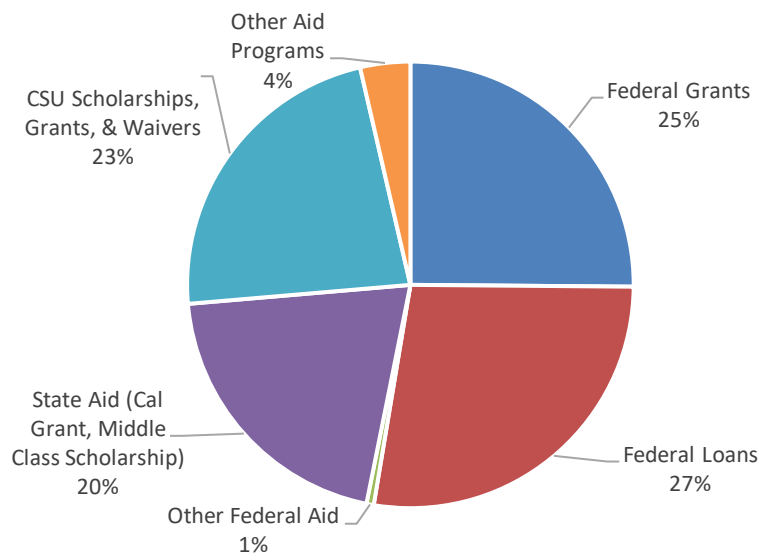
During fieldwork, the campus implemented corrective action by completing the confidentiality agreement forms for the two employees noted above and formalizing a policy, effective October 18, 2023, requiring all new or rehired employees to complete the confidentiality agreement form during the employee onboarding process.

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 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 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 to have more positions added to their staff, to fill current vacancies, or both. In AY 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 California State University Maritime Academy, the financial aid process is centralized within the financial aid administration (FAA) office. The FAA office consists of a director, a senior analyst, and a counselor; the counselor position was vacant at the time of the audit. FAA 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 student financial services, which is part of the financial services department. Student financial services maintains student accounting information, processes student transactions, applies financial aid disbursements and posts student payments, and oversees the G5 account for the school. Once financial aid disbursements have been calculated and approved by FAA, 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 Free Application for Student Aid (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
- Federal Student Aid Handbook 2022/23, Volumes 1-6
- CSU Financial Aid Webpage, State University Grant Program

AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditor: Marlon Perez