

CALIFORNIA STUDENT AID COMMISSION

PROGRAM ADMINISTRATION AND SERVICES DIVISION

March 15, 2018



Dr. Keith Snow-Flamer
President
College of the Redwoods
7351 Tompkins Hill Road
Eureka, CA 95501-9300

RE: Program Compliance Review ID#81600118500

Dear Dr. Keith Snow-Flamer:

This letter is in reference to the response to the Cal Grant Program Compliance Review report and the return of liabilities. All required actions to the findings have been addressed satisfactorily. The institution may now consider the program review for the 2014-15 award year closed, with no further action required.

Thank you for the courtesy and cooperation extended to the California Student Aid Commission (Commission) staff during the review. Your continued effort and consideration toward the Commission's programs will help produce an efficient and beneficial student financial assistance program.

Sincerely,

Catalina Mistler, Deputy Director
Program Administration and Services Division

Enclosure

- c. Program Review File
Rianne Connor, Director of Enrollment and Financial Aid



***Program Compliance Office
Cal Grant Program Review Report***

2014-15 Award Year

**College of the Redwoods
Program Review ID#81600118500**

**7351 Tompkins Hill Road
Eureka, CA 95501-9300**

Program Review Dates:

September 12, 2016 – September 15, 2016

Auditor:

Paramjeet Singh
Ana Marquez

Report Approved by:

Catalina Mistler, Deputy Director
Program Administration and Services Division

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AUDITOR'S REPORT

SUMMARY

We reviewed College of the Redwoods' administration of California Student Aid Commission (Commission) programs for the 2014-15 award year.

The institution's records disclosed the following deficiencies:

- Federal verification not performed accurately
- Interest earned on Cal Grant funds not remitted to the Commission

BACKGROUND

The Commission performs institution compliance reviews to ensure program integrity and institution compliance with applicable laws, policies, contracts and institutional participation agreements as they pertain to the following grant programs administered by the Commission:

Cal Grants

B and C

The following information, obtained from the institution and the Commission's database, is provided as background on the institution:

A. Institution

- Type of Organization: Public
- Interim President: Dr. Keith Snow-Flamer
- Accrediting Body: Western Association of Schools & Colleges

B. Institutional Persons Contacted

- Rianne Connor: Director of Enrollment and Financial Aid Services
- Doug Edgmon : Senior Accounting Manager

C. Financial Aid

- Date of Prior Commission Program Review: July 2001
- Branches: None
- Financial Aid Programs: Federal: Direct Loan Program, Pell, Work-Study and SEOG
State: Cal Grants B and C
- Financial Aid Consultant: None

AUDITOR'S REPORT (continued)

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our review is to provide the Commission with assurance that the institution adequately administered Commission programs and complied with applicable laws, policies, contracts and institutional participation agreements as they pertain to the grant programs administered by the Commission.

The review focused on, but was not limited to, the following areas:

- A. General Eligibility
- B. Applicant Eligibility
- C. Fund Disbursement and Refunds
- D. File Maintenance and Records Retention
- E. Fiscal Responsibility for Program Funds

The specific objectives of the review were to determine that:

- Administration systems have adequate controls to ensure that grant funds received by the institution are secure.
- Administration systems have adequate controls to ensure that grant payments are accurate, legal and proper.
- Accounting requirements are being followed.

The procedures performed in conducting this review included:

- Evaluating the current administrative procedures through interviews and reviews of student records, forms and procedures.
- Evaluating the current payment procedures through interviews and reviews of student records, forms and procedures.
- Reviewing the records and grant payment transactions from a sample of 40 students who received a total of 37 Cal Grant B awards and 3 Cal Grant C awards within the review period. The program review sample was randomly selected from the total population of 430 recipients.

The review scope was limited to planning and performing procedures to obtain reasonable assurance that Commission grant funds were administered according to the applicable laws, policies, contracts and institutional agreements. Accordingly, transactions were examined on a test basis to determine whether grant funds were expended in an eligible manner. The auditor considered the institution's management controls only to the extent necessary to plan the review.

AUDITOR'S REPORT (continued)

**OBJECTIVES,
SCOPE AND
METHODOLOGY
(continued)**

This report is written using the exception-reporting format, which excludes the positive aspects of the institution's administration of the Commission grant programs.

The names and social security numbers of the sample students reviewed have been excluded from the body of this report and have been replaced by identifying numbers.

CONCLUSION

In conclusion, this report records the findings from our review and identifies the required actions necessary to improve controls and ensure the adequate administration of the Commission's grant programs. The matters raised in this report are only those which have come to our attention during the course of the compliance review and do not necessarily represent a comprehensive record of all the matters.

**VIEWS OF
RESPONSIBLE
OFFICIALS**

The findings were discussed with institution representatives in an exit conference on September 15, 2016. The institution staff concurred with all findings.

We appreciate the cooperation and assistance of the management and staff during the course of this review.

Catalina Mistler, Deputy Director
Program Administration and Services Division

FINDINGS AND REQUIRED ACTIONS

**APPLICANT
ELIGIBILITY:**

FINDING 1: Federal verification not performed accurately

A review of eight students who were selected for the federal verification process disclosed two instances where verification was not performed accurately.

DISCUSSION:

All Cal Grant applicants must submit a completed official financial aid application, either the Free Application for Federal Student Aid (FAFSA) or the California Dream Act application (CADA) annually to determine eligibility. For FAFSA applicants, the Commission electronically draws down applicant information from the Central Processing System (CPS) contractor selected by the U.S. Department of Education. The CPS also provides institutions with the Institutional Student Information Record (ISIR) that contains all of the information provided on the FAFSA.

The institution must compare the verification documentation submitted by the student to the information provided on the FAFSA and recalculate the applicant's financial need, if necessary. Additionally, the institution must have on file the final valid ISIR, showing the official EFC.

Students who are selected for verification will be placed in one of the five following groups that determines which FAFSA information must be verified for the student:

Group Number	Description
V1	Standard Verification
V3	Child Support Verification
V4	Custom Verification
V5	Aggregate Verification
V6	Household Resources

A review of the file for student 31 and 38 revealed that the students were identified as group V1 and were required to submit documentation to verify or update the following information:

- Adjusted gross income
- U.S. income tax paid
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- IRA deductions and payments
- Tax-exempt interest income
- Education credits
- Household Size
- Number in College
- Supplemental Nutrition Assistance Program (SNAP) benefits
- Child support paid

FINDINGS AND REQUIRED ACTIONS (continued)

Student 31 and 38 submitted verification worksheets as required for verification which revealed a family size of two and five, respectively. However, the ISIR for student 31 showed a family size of three while the ISIR for student 38 showed a family size of six. In both cases, it was determined that the verification process was not completed accurately.

Family size together with total income determines Cal Grant eligibility however, in the two cases above the incorrect family size did not affect the student's Cal Grant eligibility.

REFERENCES:

Institutional Participation Agreement, Article IV.B.
Cal Grant Manual, Chapter 3, Section 3.1, September 2004
Cal Grant Handbook, Chapter 5, page 37, 2/11/2016
Cal Grant Handbook, Chapter 10, pages 77-79, 2/11/2016
Student Financial Aid Handbook, Application and Verification Guide

REQUIRED ACTIONS 1 :

In response to this finding, the institution must submit written procedures and quality control measures that will be implemented to ensure that the verification process is fully completed and documented prior to the disbursement of Cal Grant funds.

Furthermore, the institution is required to conduct a portfolio review of all Cal Grant recipients selected for federal verification for the 2014-15 award year (excluding the students on the sample list) providing the following data elements:

- SSN
- Last Name
- First Name
- Cal Grant Type (B or C)
- ISIR Transaction No.
- Dependent or Independent
- Verification completed (yes or no)
- Verified Total Income (TI)
- Verified Family size
- Number in college
- Student eligible (yes or no)
- Ineligible Cal Grant award (if No above)

A statement attesting to the completeness and accuracy of the data submitted must be provided by the person(s) performing the portfolio review. The necessity for requesting additional information/documentation will be determined after the response to this finding has been reviewed.

FINDINGS AND REQUIRED ACTIONS (continued)

The institution will be required to return any ineligible funds as a result of the portfolio review upon invoicing from the Commission.

INSTITUTION RESPONSE 1:

The College has implemented a number of quality control measures to ensure that the verification process is fully completed prior to the disbursement of Cal Grant funds. We follow a strict process for file review that includes a printed checklist to ensure we evaluate each of the required items. A copy of a blank File Review Checklist is attached as Appendix A. The steps used to complete the review are attached as Appendix B. To ensure accurate packaging after the review is complete the bottom of the File Review Checklist includes a place for the reviewer to sign off once the file is packaged using the expected transaction number and corresponding EFC.

For additional quality control for any files in which clarification, additional documentation or supplemental materials are required, a Follow Up Checklist is generated and reviewed independent of the first checklist once the required information is submitted. An example of a Follow Up Checklist is attached as Appendix C.

The financial aid office also meets weekly to discuss any file review specific issues that have been encountered that should be discussed or shared with the group. These meetings include items that the file review processors bring to senior members of the department for clarification, discussion and research to ensure compliance and consistency across processors. Examples of topics discussed include clarification around household size determinations, citizenship questions and others related to federal verification requirements.

We regularly self-audit prior years' files when completing training for new team members and while preparing for the upcoming years processing cycle. However, as a result of this finding we are in the process of setting up a smaller scale audit to be completed on a 6-8 week cycle on the current academic year while we are still in the academic year. We are modeling this audit process after the additional portfolio audit we completed for this compliance review and will organize it in such a way that it is a "blind" audit. This means that information from verification documents will be gathered in such a way that the corresponding FAFSA information will not be viewed at the same time. The data from the verification documents will be gathered and at a *later time* compared to the information in our Student Information System for accuracy. We will be auditing approximately 30- 40% of our completed files every term for accuracy. Attached as Appendix D is an example of a checklist we are using to complete this audit process.

FINDINGS AND REQUIRED ACTIONS (continued)

During the required portfolio review of all Cal Grant recipients selected for federal verification for the 2014-2015 award year, we reviewed 127 student files completely (including those already included in the sample list) to ensure accurate auditing. By leaving these students in the selection we were able to ensure the validity of our own findings as we also identified the two incorrectly verified files uncovered during the review performed by the Commission.

The required portfolio review identified 4 additional files that had been incorrectly verified. To protect student identity these files will be referred to as files 1-4.

File #1 uncovered that the parent's total income had not been adjusted based on the verification documents received. The income used to determine eligibility was higher than the verification documents demonstrated, however, household size was accurate. This did not impact the student's Cal Grant eligibility. (Total income used \$18,000 and household size of 7; Accurate income \$13,382 and HHS of 7).

File #2 uncovered that the student's total income had not been adjusted based on the verification documents received. The income used to determine eligibility was higher than the verification documents demonstrated; however, the household size was accurate. The income included financial aid funds and federal work study earnings which should not be included in the total income. This did not impact the student's Cal Grant eligibility. (Total income used \$19,595 and household size of 4; Accurate income \$13,382 and HHS of 4).

File #3 uncovered that the student's parent income information had not been adjusted based on the verification documents received, specifically the child support paid. It appears that the amount used to determine eligibility may have been an estimate and the verification documents included an exact amount. The income used to determine eligibility was slightly less than the verification documents demonstrated; however, the household size was accurate. This did not impact the student's Cal Grant eligibility. (Total income used \$10,404 and household size of 4; Accurate income \$10,929 and HHS of 4).

File #4 uncovered the student's total income from their tax transcripts had been used instead of their adjustment gross income. The income used to determine the student's eligibility was higher than the verification documents demonstrated; however, the household size was accurate. This did not impact the student's Cal Grant eligibility. (Total income used \$20,545 and household size of 2; Accurate income \$20,017 and HHS of 2).

FINDINGS AND REQUIRED ACTIONS (continued)

SUMMARY: Based on the portfolio review we found an error rate of 4.7%. This includes the 2 files uncovered during the review performed by CSAC and the additional 4 files identified during our review (6 out of 127 files). Despite these oversights Cal Grant eligibility for these students was not impacted. As detailed above we have implemented a number of measures to ensure that errors, regardless of their impact on eligibility, are identified and resolved.

While not an intentional action of this audit, the staff associated with the errors identified are no longer employed by the Financial Aid Office. Furthermore, increased new hire training has improved staff knowledge of both federal and state requirements.

The statement requested regarding the completeness and accuracy of the data reviewed is attached as Appendix E. The review was completed by Director of Enrollment & Financial Aid Services and Enrollment Operations Analyst.

PORTFOLIO REVIEW RESULTS:

The federal verification portfolio review revealed that the remaining students' verification process was performed accurately. However, upon review of the documents provided four students were found to have exceed the income level for the award year 2014-15.

The following table indicates the income ceiling levels for new and renewal Cal Grant B recipients for the 2014-15 award year:

	Cal Grant B
Dependent students and Independent students with dependents other than a spouse:	
Family Size:	
Six or more	\$55,500
Five	\$51,400
Four	\$45,900
Three	\$41,300
Two	\$36,700

FINDINGS AND REQUIRED ACTIONS (continued)

Student ID	Cal Grant	New/Renewal	ISIR Trans#	Dep/Ind	Family Size	Total Income	Income Ceiling	Ineligible Funds 2014-15
0306000/58v	B	N	4	D	3	\$53,459	\$41,300	\$1,442
0304269/68v	B	N	2	D	3	\$45,623	\$41,300	\$824
0274486/75v	B	N	2	D	4	\$48,917	\$45,900	\$1,648
0304318/119v	B	N	3	D	4	\$62,189	\$45,900	\$1,648
Total Ineligible Amount								\$5,562

COMMISSION REPLY 1:

The submission of revised policies and procedures for the verification process are deemed acceptable.

REQUIRED ACTION 2:

The institution must submit policies and procedures that will be implemented to ensure that Cal Grant recipients meet all program eligibility requirements prior to the disbursement of Cal Grant funds.

In addition, these students will be withdrawn from the program. The school is required to return the ineligible funds in the amount of **\$5,562** as directed in the invoice instructions the Commission has issued.

INSTITUTION RESPONSE 2:

"Based on a review of COTR's full portfolio review for Academic year 2014-2015 it was identified that some students were paid despite not meeting the income/asset ceiling as outlined by CSAC. This issue has already been rectified for current years by identifying an individual person to review, award, and maintain Cal Grant awards. COTR is in the process of creating and finalizing a comprehensive manual with detailed instructions for Cal Grant awarding. In addition to the steps COTR has already taken to ensure accurate awarding of Cal Grant awards, we also have more clearly outlined the necessary requirements for a student to be eligible for a Cal Grant disbursement. In our process we place Cal Grant awards on student accounts in our system based on the Cal Grant roster in WebGrants. The awards are placed in an "E" status, estimated, in our system. After all eligibility criteria, including income and asset amounts, are verified, the awards are placed in "A" status, accepted, at which time they can be disbursed to a student. This process allows for a student's eligibility to be reviewed at two stages reducing the occurrence of mis-awarding and disbursing of Cal Grant funds."

FINDINGS AND REQUIRED ACTIONS (continued)

COMMISSION REPLY 2:

The institution submitted revised a policy and procedures that are deemed acceptable. Additionally, the school is required to return the ineligible funds in the amount of **\$5,562** as directed in the invoice instructions the Commission has issued.

FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:

FINDING 2: Interest earned on Cal Grant funds not remitted to the Commission

A review of the institution's accounting documents and discussion with accounting personnel revealed that the institution had not returned interest earned on Cal Grant funds for the 2011, 2012, 2013, and 2015 calendar years.

DISCUSSION:

Annual interest earned on Cal Grant funds constitute State funds and must be remitted to the Student Aid Commission on behalf of the State no later than March 1 following the calendar year for which the interest accrued (e.g. March 1, 2016, for calendar year 2015). Each year, the Commission issues a Special Alert to all institutions to remind them that the interest is due by March 1st of the year.

When returning interest, neither bank related fees associated with maintaining the account nor negative interest associated with an institution's use of non-state funds for Cal Grant students should be deducted from the accrued interest. Both these amounts reflect expenses that cannot be offset against the interest earned by the advance of State funds for the Cal Grant program.

In calculating the interest on the Cal Grant funds, an institution should utilize the same methodology as was used by its financial institution or investment pool to calculate interest on the account in which the Cal Grant funds were deposited.

At College of the Redwoods Cal Grant funds are deposited and maintained in an interest bearing account at US bank (account number 153495271469). Funds are retained in this account until they are credited to the students' accounts.

Discussions with accounting personnel during the onsite visit revealed that interest earned on Cal Grant funds had not been returned to the Commission for the 2015 calendar year. However, during the onsite review the institution returned interest earned of **\$7.01** (check No. 1067) for the 2015 calendar year. Additionally, it was discovered that interest for the 2014 calendar year was remitted on July 9, 2015, after the March 1 deadline.

FINDINGS AND REQUIRED ACTIONS (continued)

After further review of accounting documents and Cal grant bank statements the accounting personnel also revealed that interest for the following calendar years have not been remitted to the Commission:

Calendar year	Interest
2011	\$ 3.17
2012	\$ 0.15
2013	\$12.54
Total	\$15.86

REFERENCES:

Institutional Participation Agreement, Article III.D
Cal Grant Manual, Chapter 2, July 2004
Cal Grant Manual, Chapter 9, September 2003
Cal Grant Handbook, Chapter 14, pages 128, 2/11/2016
Cal Grant Handbook, Chapter 16, pages 154-155, 2/11/2016
CSAC Special Alert, GSA 2014-34, November 10, 2014
CSAC Special Alert, GSA 2015-38, September 25, 2015

REQUIRED ACTION:

The institution must submit policy and procedures that will be implemented to ensure that interest earned on Cal Grant funds is returned to the Commission as outlined in the Institutional Participation Agreement.

The institution will be required to remit interest for the 2011, 2012, and 2013 calendar years in the amount of **\$15.86** upon invoicing from the Commission.

INSTITUTION RESPONSE:

The College has implemented a number of measures to ensure that the interest payments are remitted to the Commission by the March 1 deadline each year. There is a shared Outlook Calendar reminder regarding the interest payment. The reminder includes two team members from Financial Aid and two from the Business Office with a 3 day reminder period to ensure that the payment is sent on time each year. A copy of this calendar invite is attached as Appendix F.

The Financial Aid Director also has a large wall calendar visible to anyone in the office space that has an entry for the Interest Payment. This means that any person working in the Financial Aid Office is able to see when important dates are approaching, including the deadline for interest payment submission to the Commission.

FINDINGS AND REQUIRED ACTIONS (continued)

The Business and Financial Aid Offices also have a weekly reoccurring meeting every Monday to review topics important to both offices. A copy of this calendar invite is attached as Appendix G. While there is no formal agenda for these meetings, during each hour-long conversation a variety of topics are discussed including the management of disbursements, financial aid drawdowns and financial aid related accounts, including CSAC accounts. These meetings include three members from each of the offices; the same individuals included in the calendar invite plus one additional member from each office.

SUMMARY:

While remittance of the interest is a Business Office function, the Financial Aid office and the Business Office have taken the shared responsibility of ensuring that the interest payment is submitted to the Commission by the March 1 deadline each year with a variety of reminder tools. The two offices meet regularly to discuss issues such as this and will continue to do so. The Business Office has also recently had a large turnover in staff and the new staff has been involved in this audit response and understands the importance of remitting these payments on time each year.

COMMISSION REPLY:

The institution submitted policy and procedures that are deemed acceptable. College of the Redwoods must remit the ineligible amount of **\$15.86** as directed in the invoice instructions the Commission has issued.