

CALIFORNIA STUDENT AID COMMISSION

Office of the Executive Director

May 29, 2009

Anne C. Broome
Vice-President, Finance
University of California
Office of the President
1111 Franklin Street
10th Street, 10th Floor
Oakland, CA 94607-5200

Re: Program Compliance Audits – Calculation of Interest Earned On Cal Grant Advances

Dear Ms. Broome,

This correspondence is in response to your letter dated April 23, 2009, regarding audit findings made by the Student Aid Commission (“Commission”) against three University of California campuses and potential similar findings at other University of California campuses with respect to the calculation of interest on Cal Grant funds advanced to the campuses.

In responding to appeals of audit findings, the Student Aid Commission does not accept system-wide appeals of individual campus audit findings. Audit findings are particular to specific campuses and can involve different factors that make system-wide audit appeals impractical. For example, a particular audit may involve a different time period, specific communications between a particular campus and the Commission that would impact a finding, and other relevant factors that may not apply to the findings made at other campuses.

Although you have indicated that “the calculation of interest issues and principle are the same at all UC Campuses”, this is not, in fact, accurate with respect to at least two of three audits currently at issue. In response to the recent Audit Finding pertaining to the “Interest Earned on Cal Grant Funds Not Returned”, the University of California, San Diego, informed the Commission that it has “... elected to calculate the interest annually, which means the Cal Grant Funds at UCSD during 2006-07 did not have earned interest to report and remit.” The University of California, Davis, also has an audit finding relating to “Interest Earned on Cal Grant Funds Not Returned.” In response to this finding, the University of California, Davis, informed the Commission that it is “the Institution’s policy to use the average month-end ledger balance to distribute Short Term Investment Pool (STIP) [funds] ... these monthly end-of-period balances are then averaged for the quarter and that quarter’s STIP rate for the campus is applied against the average balance to determine, in the event of average credit balance, the amount of interest returned to the Commission.”



As is demonstrated by the foregoing differences between how interest on Cal Grant funds is calculated at the University of California, San Diego and at the University of California, Davis, a system-wide appeal of the interest calculation is not likely to resolve all of the audit findings.

In response to the other concerns expressed over the interest calculation methodology and the negative interest being offset against interest earned, both of these issues will be dealt with more formally in response to the specific audit appeals. However, in general, the Commission has not required a campus to use average daily balance in calculating interest on Cal Grant funds. Instead, the Commission has indicated that the methodology used by the institution should be consistent with the methodology used by financial institution or investment pool to calculate interest on the Cal Grant funds. As an example, it is our understanding that the STIP actually calculates and distributes earnings to the campuses based upon average daily cash balance. Accordingly, campuses should utilize that same formula for determining interest on Cal Grant funds and not utilize average quarterly balance or average annual balance.

Lastly, the Commission is not attempting to penalize institutions who elect to advance funds to students, nor is the Commission unaware that an institution may incur a cost by advancing its own funds to students. The Commission does not have the legal authority to direct an institution to advance its own funds, nor does it have the legal authority to appropriate state funds to offset interest expenses on Cal Grant funds by any costs of advancing their own funds to students. This is not a policy decision by the Commission, but rather an indication that such a practice violates the California Constitution which vests appropriation authority with the California Legislature.

Sincerely,

/signature on file/

Diana Fuentes-Michel
Executive Director

TAB 7 - Additional Materials
CALIFORNIA STUDENT AID COMMISSION

OFFICE OF THE EXECUTIVE DIRECTOR

July 7, 2009

Mr. Rodney Rideau
Director of the Budget
The California State University
Office of the Chancellor
System Budget Office
401 Golden Shore, 5th Floor
Long Beach, CA 90802-4210

Re: Program Compliance Audits – Calculation of Interest Earned On Cal Grant Advances

Dear Mr. Rideau:

This correspondence is in response to your letter dated April 28, 2009, regarding audit findings made by the Student Aid Commission (“Commission”) at California State University campuses with respect to the calculation of interest on Cal Grant funds advanced to the campuses.

In responding to appeals of audit findings, the Commission does not accept system-wide appeals of individual campus audit findings. Audit findings are particular to specific campuses and can involve different factors that make system-wide audit appeals impractical. However, I will address your concern regarding the Commission’s position on the manner by which interest is calculated on Cal Grant funds.

The Commission is aware that an institution may incur a cost by advancing its own funds to students. The Commission does not have the legal authority to direct an institution to advance its own funds, nor does it have the legal authority to appropriate state funds to offset interest expenses on Cal Grant funds by any costs of advancing their own funds to students. This is not a policy decision by the Commission, but rather an indication that such a practice violates the California Constitution which vests appropriation authority with the California Legislature.

Sincerely,

/signature on file/
Diana Fuentes-Michel
Executive Director

cc: Robert Turnage, Assistant Vice Chancellor for Budget, CSU Chancellor’s Office
Sean Boylan, Cash Management Operations Officer, CSU Chancellor’s Office
Dean Kulju, Director, Student Financial Aid Services, CSU Chancellor’s Office
Catalina Mistler, Chief of Program Administration & Services Division, Commission

