



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

2003-04 Award Year

**La Sierra University
Program Review ID#80500121500**

**4700 Pierce Street
Riverside, CA 92515-8247**

Program Review Dates: October 17 – 19, 2005

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AUDITOR'S REPORT

SUMMARY We reviewed La Sierra University's administration of California Student Aid Commission (Commission) programs for the 2003-04 award year.

The institution's records disclosed the following deficiencies:

- Non-Compliance with the Web Grants Information Security Confidentiality Agreement
- New Cal Grant A Recipient Not Eligible Due to Income Level
- Cal Grant Renewal Recipients' Need Could Not Be Reconstructed
- Interest on Cal Grant Funds Not Calculated
- 2003-04 Cal Grant Funds Not Returned Timely

BACKGROUND Through institution compliance reviews, the administration of Commission programs is evaluated to ensure program integrity with applicable laws, policies, contracts and institutional agreements as they pertain to the following grant programs administered by the Commission:

Cal Grants A, B, and T

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

A. Institution

- Type of Organization: Private Non-Profit Institution of Higher Education
- President: Lawrence T. Geraty
- Accrediting Body: Western Association of Schools & Colleges
- Size of Student Body: 1,952

B. Institutional Persons Contacted

- Audrey Gaspard: Assistant Director of Student Financial Services
- Esther Kinzer: Assistant Director of Student Financial Services

C. Financial Aid

- Date of Prior Commission Program Review: October 1995
- Branches: None
- Federal Financial Aid: Pell, SEOG, Perkins Loan, Work-Study, and Family Education Loans
- 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 the Commission programs and their compliance with applicable laws, policies, contracts and institutional 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. Roster and Reports
- E. File Maintenance and Records Retention
- F. 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 27 Cal Grant A awards, 12 Cal Grant B awards, and 1 Cal Grant T award within the review period. The program review sample was randomly selected from the total population of 380 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 California grant programs.

The names and social security numbers of the sample of students reviewed have been excluded from the body of this report and have been replaced by identifying numbers. Attachment A is a listing of the students by name, social security number and grant type.

CONCLUSION

In conclusion, except for the deficiencies cited in the Findings and Required Actions section of this report, the institution administrated the Commission grant programs in accordance with the applicable laws, policies, contracts and institutional agreements as they pertain to the Commissions grant programs.

**VIEWS OF
RESPONSIBLE
OFFICIALS**

The review was discussed with agency representatives in an exit conference held on October 19, 2005.

October 19, 2005

Charles Wood, Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

A. GENERAL
ELIGIBILITY:

FINDING: **Non-Compliance with the Web Grants Information Security Confidentiality Agreement**

A review of Institution and Commission records disclosed that the school did not comply with the Web Grants Information Security and Confidentiality Agreement (Agreement).

DISCUSSION:

When an institution completes the Agreement, the school designates an Authorized Official (AO). The AO signs the Agreement to certify that he or she is an official of the institution. Moreover, the AO assigns staff to be the school Cal Grant program WebGrants's System Administrators.

The La Sierra University's Agreement received by the Commission in March 2001 indicated that Christine Bartholomew as the Institution's Authorized Official. Ms. Bartholomew was the former Director of Student Financial Services. A discussion with the Assistant Director of Student Financial Services revealed that the institution had not yet provided an updated Agreement.

REFERENCES:

CSAC Operations Memo, GOM 2002-07, 6/27/02
Information Security and Confidentiality Agreement

REQUIRED ACTION:

Subsequent to the on-site visit, the institution submitted an updated Agreement, System Administrator and WebGrants User forms. In response to this issue, the school is required to submit written administrative procedures and controls that will be implemented to fulfill the requirements of the Agreement.

INSTITUTION RESPONSE:

LSU acknowledges that a new Agreement was not completed within 5 working days of when the Authorized Official - the former director - left the department.

Corrective Action: A retraining of the current Authorized Official and the two Security Administrators has occurred to make them aware of the requirements of the Agreement. Additionally, the policy for "Reporting Changes in the Institution" has been updated to include the requirements as stated in the Agreement. This policy resides both in Student Financial Services, the office that executes the Agreement, and with the office of the vice-president for Financial Administration, the office that oversees Student Financial Services and is responsible for employing the Director (Authorized Official) of SFS.

FINDINGS AND REQUIRED ACTIONS (continued)

AUDITOR REPLY:

The institution submitted written administrative procedures and controls that fulfill the requirements of the Agreement. This action is deemed acceptable and no further action is required.

B. APPLICANT ELIGIBILITY:

FINDING: New Cal Grant A Recipient Not Eligible Due to Income Level

A review of 12 new Cal Grant A recipients revealed 1 case where the total income level exceeded the Cal Grant A income ceiling for the 2003-04 award year.

DISCUSSION:

New Cal Grant A applicants with financial need whose income does not exceed the income ceiling and meet other selection criteria are eligible to receive funds. Although the Cal Grant program is a state-funded program, applicants must submit a Free Application for Federal Student Aid (FAFSA), which provides financial and family information used to determine eligibility for both federal and state aid. The income ceilings amounts are derived from the adjusted gross income plus FAFSA Worksheet A and B minus C which equals the total income.

The dependent and independent with dependents other than spouse income ceiling amount for a family of six or more for the 2003-04 award year is as follows:

| Dependent and independent with dependents other than spouse Family Size | Cal Grant A and C | Cal Grant B |
|--|--------------------------|--------------------|
| Six or more | 77,100 | 42,400 |

If a school has financial information that conflicts with that reported on the FAFSA, and if the student's award amount would be affected, the school must notify the Commission and not disburse funds, which would exceed the amount the student would be eligible to receive, based on the revised information.

For student No. 9 who was a dependent student for the 2003-04 award year, the institution failed to notify the Commission of income changes that affected the Cal Grant A eligibility. The following table illustrates the data that deems the Cal Grant A Funds disbursed as ineligible.

| No. | House Size | Reported Total Income | Cal Grant A Income Ceiling | Correct Total Income | Cal Grant A Funds Received |
|--|-------------------|------------------------------|-----------------------------------|-----------------------------|-----------------------------------|
| 9 | 6 | \$75,323 | \$77,100 | \$86,872 | \$9,708 |
| Total Ineligible 2003-04 Cal Grant A Funds Received | | | | | \$9,708 |

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

California Education Code 69535(a)
California Education Code 69537
Institutional Participation Agreement, Article IV. A and B
Cal Grant Manual, Chapter 3, page 3-15, June 1997
Cal Grant Manual, Chapter 3, page 3, September 2004
CSAC Special Alert, GSA 2002-12, 12/2/02

REQUIRED ACTION:

The institution repaid the **\$9,708** in Cal Grant A funds for student No. 9 for the 2003-04 award year and **\$9,708** for the 2004-05 award year with warrant No. 00262298. Furthermore, the school must also submit copies of updated policies and procedures that ensure the Commission is notified of any changes that affects a student's eligibility for an award.

INSTITUTION RESPONSE:

Change in EFC was not brought to Awarding Manager's attention and since Cal Grant award was originally packaged as "accepted", a payment status, Cal Grant was applied to student's account and went undetected for a period of two years.

Corrective Action: LSU has revised its Cal Grant awarding procedures to first package all grants as "estimated" (ESTI), a non-paying status, until students' records are validated to be accurate. In addition, verification procedures have been updated to notify Cal Grant Awarding Manager of all income and EFC increases. After Cal Grant eligibility criteria are validated, award status will be changed from "estimated" to "certified" (CERT), a paying status.

AUDITOR REPLY:

The institution returned \$19,416 (\$9,708 for 03-04 and for 04-05) on check # 00262298. Also, the institution submitted updated policies and procedures that notify the Commission of any changes that affects a student's eligibility for an award. This action is deemed acceptable and no further action is required.

FINDINGS AND REQUIRED ACTIONS (continued)

D. ROSTERS AND REPORTS: **FINDING:** **Cal Grant Renewal Recipients' Need Could Not Be Reconstructed**

A review of 21 renewal Cal Grant student files disclosed 2 students that their reported renewal need could not be reconstructed.

DISCUSSION:

For renewal students, schools must calculate a student's annual unmet need as a full-time student and report that figure to the Commission, retaining the supporting documentation within the student's record. Schools may use the Commission's annually established student expense budget or the school may adopt its own student budget for determining renewal financial eligibility provided the budgets do not exceed those used for campus-administered aid. The school must report the resulting net unmet need amount on the Grant Roster or the Commission G-21 letter. Net unmet need is defined as a student's budget minus the Expected Family Contribution (EFC) and Pell grant.

The following renewal need reported to the Commission was not adequately supported by documentation in the students' files:

| ID | Reported Need |
|-----------|----------------------|
| 6 | \$25,878 |
| 27 | 21,825 |

REFERENCES:

Institutional Agreement, Article IV.B
Cal Grant Manual, Chapter 6, pages 3 and 4, November 2003
Cal Grant Manual, Chapter 4, June 1997

REQUIRED ACTION:

Although no liability resulted due to the institution's high cost of attendance and need, the institution must submit in response to this report, the procedures implemented to ensure that the reported Cal Grant renewal need reflects the recipient's annual need as a full-time student for the award year.

INSTITUTION RESPONSE:

LSU acknowledges that the unmet need for two renewal students were submitted in error. In both cases, it appears that there were typographical errors. In one case, need was reported \$45 less than actual need. This was most likely a transposition error while calculating. In the other case, Pell amount appears to have been subtracted twice while determining need.

FINDINGS AND REQUIRED ACTIONS (continued)

Corrective Action: The need for accuracy when submitting eligibility data to the Commission is understood by LSU Cal Grant Coordinator and all other staff members. It has been understood by all Student Financial Services Staff that during Cal Grant reporting, the Coordinating Officer must work in an interruption-free environment.

AUDITOR REPLY:

The institution submitted procedures where the reported Cal Grant renewal need reflects the recipient's annual need as a full-time student for the award year.. This action is deemed acceptable and no further action is required.

F. FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:

FINDING 1: Interest on Cal Grant Funds Not Calculated

An examination of the institutional records disclosed that interest was not calculated Cal Grant funds held in an interest bearing account.

DISCUSSION:

As indicated in the Institutional Agreement signed by the institution's president, all interest earned on Cal Grant funds must be returned to the Student Aid Commission on behalf of the State of California regardless of any agreement between the bank and the institution relative to bank charges or co-mingling of funds.

A review of the institution's Cal Grant program review survey submitted with the engagement materials revealed that the institution kept the Cal Grant funds in an interest bearing account. This bank account earned interest daily. There was no evidence that interest had been calculated on undisbursed Cal Grant funds and also that Cal Grant interest payments were made to the Commission.

REFERENCES:

Institutional Agreement Article II.C and III.C.1, prior to 7/1/03
Institutional Agreement Article III.A.1, effective 7/1/03
Cal Grant Manual, Chapter 9, page 9-11

REQUIRED ACTION:

The institution must provide the bank statements and interest calculation Cal Grant fund daily balances for the Cal Grant account from July 2003 through the date of this report. If the institution chose to advance Cal Grant funds to students out of pocket, thus creating a negative balance in the Cal Grant account, the Commission will not pay negative interest.

In further response, the institution is instructed to provide the written procedures and internal controls that will be put into place beginning with the

FINDINGS AND REQUIRED ACTIONS (continued)

2005-06 award year to ensure that interest earned on Cal Grant funds is returned to the Commission as required.

INSTITUTION RESPONSE:

LSU acknowledges that interest earned on Cal Grant funds was not calculated and returned to the state as required by regulation.

Corrective Action: The University has calculated the interest due the Student Aid Commission from July 1, 2003 through January 31, 2006, and has included a check in payment for this amount along with the documents supporting the calculation with this response to the finding. Further, the University has taken steps to have the payments from the Commission deposited to a non-interest bearing account. Once it has been confirmed that the change in account has been processed, a final interest calculation will be made, and any accrual will be forwarded to the Commission.

AUDITOR REPLY:

The institution returned \$11,575.64 (\$125.48 for 03-04, \$3,275.00 for 04-05 and \$8,175.15 for 05-06) on check # 00266582 dated February 16, 2006 and the intent of placing Cal Grant moneys in a separate and distinct bank account. This action is deemed acceptable and no further action is required.

**F. FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:****FINDING 2: 2003-04 Cal Grant Funds Not Returned Timely**

A review of accounting documents revealed that undisbursed Cal Grant funds were not returned to the Commission for the 2003-04 award year.

DISCUSSION:

All participating institutions agree to use the funds advanced to it solely for payment to eligible recipients in the Cal Grant Program. Once the Commission advances Cal Grant funds, schools must determine and verify student eligibility before disbursing funds.

The Commission strongly recommends that schools reconcile Cal Grant payments on a monthly basis. At a minimum, Cal Grant participating institutions must reconcile their accounts with the funds received from the Commission for each academic year. Should the institution's records of individual payments to eligible students be less than what the Commission paid, the institution must return the difference to the Commission.

Schools must make all disbursements by September 30 following the end of the award year (for example, September 30, 2004, for award year 2003-04). At the latest, all payment transactions must be reported prior to the start of the month-end processing the following November. The school will bear the

FINDINGS AND REQUIRED ACTIONS (continued)

liability for payments not reported prior to the November month-end processing cycle.

For the 2003-04 award year, the Commission advanced the institution \$3,172,778. Upon examination of institution accounting records, the school disbursed a total of \$3,172,310. Therefore, the institution disbursed \$468 less than the amount advanced by the Commission (\$3,172,778 Commission advances less \$3,172,310). This amount was attributed to student No. 1X listed below.

| 2003-04 Undisbursed Funds | | | |
|--|-----------|------------------|--------------|
| ID | CSAC Paid | Institution Paid | Difference |
| 1X | \$11,581 | \$11,113 | \$468 |
| Total 2003-04 Undisbursed Funds | | | \$468 |

REFERENCES:

California Education Code, 69535.5
Institutional Agreement, Article II.C, Article IV.D.1, IV.D.2, and IV.D.5
Cal Grant Manual, September 2003, Chapter 9, pages 2, 4, 5

REQUIRED ACTION:

The institution returned the undisbursed funds of **\$468** for Student No. 1X for the 2003-04 award year on October 17, 2005 with warrant No. 00261998. The institution responded with the following response during the on-site review.

Audrey Gaspard reconciled the 2003-04 Cal Grant account in September and again in November 2004. In January an adjustment was made on the student's Summer 2004 Cal Grant. Since the adjustment was made for the University's 2004-05 school year (Summer being the first term of our 2004-05 year) the adjustment was not immediately brought to Audrey's attention, as it would be noticed and fixed as part of 2004-05 reconciliation.

The adjustment was made on a student who was participating in one of our study-abroad campuses. She was originally registered for 12 units (full-time), but when her transcripts were received, she had only 9 units (three-quarter time) that qualified for credit. The disbursement process was re-run in January for the Summer term, and the Cal Grant award was adjusted from \$1,873 down to \$1,405 at that time. Since the adjustment was made after the 2003-04 year closing, it was not included in the reconciliation. It was, however, discovered during the 2004-05 reconciliation process, at which the funds were returned to CSAC (ck#00261998, 10/11/05, \$468).

No further action is necessary from the institution.

OBSERVATION & RECOMMENDATION

OBSERVATION & RECOMMENDATION

OBSERVATION: Cal Grant Award was not Maximized

An examination of 40 student files revealed 1 case where the student's Cal Grant was not maximized.

DISCUSSION:

Student No. 11 was eligible to receive Cal Grant T in the amount of \$3,218 for the 2003-04 award year. A review of the student's academic transcript and Account summary Report revealed that student No. 1 should have received \$1,600 for Fall 2003 and \$1,618 for Winter 2004. During the on-site review it could not be determined why the student did not receive the maximum Cal Grant award.

RECOMMENDATION:

It is recommended that the Cal Grant eligibility be carefully reviewed when packaging student financial aid.

ATTACHMENT B - STUDENT IDENTIFIED IN FINDING F.2

| <i>ID</i> | <i>Student Name</i> | <i>Program & E/C</i> | <i>New/Renewa l</i> |
|-----------|---------------------|------------------------------|-------------------------|
| | | | |