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Information Item

Audit Committee

Overview of the activities of the office of Program Compliance

The California Student Aid Commission (Commission) is responsible for the effective oversight and efficient administration of the Cal Grant and Specialized Programs, the Assumption Program of Loans for Education (APLE), and the California Student Opportunity and Access Program (Cal-SOAP). This includes ensuring program integrity through compliance audits and reviews of the institutions participating in the programs. These program reviews give the Commission a measure and process to safeguard the state assets it has entrusted to the institution, to check the accuracy and reliability of the data submitted, and to ensure and protect the overall integrity of the Commission's programs.

The Commission uses a risk-based approach in selecting the institutions and student records for audit. The Commission's Cal Grant audit program includes High Risk and Low Risk audit reviews. The High Risk review emphasizes the verification of applicant eligibility, fund disbursement, and payment reconciliation and is applied to institutions with a high risk of material findings. The Low Risk review is a streamlined audit program centered on the most common areas of non-compliance and is applied to lower risk institutions.

1. Cal Grant Program

Compliance audits are conducted to review and analyze the administration of the Commission's programs at each participating institution and to provide information and feedback to institutional staff to assist them in taking corrective action, if necessary. By conducting interviews and reviewing records and internal controls, the Commission auditors are able to help safeguard the operational and fiscal integrity of the Commission's programs. A compliance audit provides an opportunity to:

- evaluate the institution's administration of the program;
- ensure compliance with applicable laws, regulations, Commission policies and procedures, and the Institutional Participation Agreement;
- evaluate the institution's controls and procedures, including routine processing and exceptions monitoring;
- document necessary administrative actions to ensure appropriate use of funds; and
- identify corrective action, including recovery of funds.

The following major program requirements may be audited:

- General Eligibility - *school and program eligibility, administrative responsibility and system security*
- Applicant Eligibility - *student eligibility and satisfactory academic progress*
- Fund Disbursement/Refunds - *enrollment status, authorization, verification of disbursement and refunds*

- File Maintenance/Record Retention - *record keeping*
- Fiscal Responsibility for Program Funds - *Accounting practices (GAAP, etc.), return of interest and reconciliation*

Institutions are selected for an audit based on a risk analysis that includes the following risk categories: amount of Cal Grant funds received by the institution, time frame of last audit or no prior audit conducted, the number and severity of findings noted in a prior audit, the amount of monetary liabilities collected from a prior audit and information that was brought to the Commission's attention. All major program requirements may be audited.

The audit sample is selected "randomly" from the total institutional student population and by Cal Grant program type (Cal Grant A, B, C or T). If significant exceptions are found in the sample, the institution may be asked to fully reconcile all awards. However, if there are no significant exceptions, findings are limited to the selected student records.

Information obtained during the audit is analyzed and a determination is made regarding the institution's compliance with applicable laws, policies, contracts and agreements. At the conclusion of the audit, a report is issued that identifies all areas of non-compliance and, if necessary, initiates required action and restitution.

In order for an institution to resolve an audit finding, the institution is required to submit revised policies and procedures to the Commission. Upon approval, these revised policies and procedures must be implemented to ensure future program compliance. In addition, the institution must return ineligible funds, if any, upon receipt of the draft report. An audit that is considered final (closed) indicates that the institution met all required action set forth by the Program Compliance review.

The major areas of noncompliance found in the Cal Grant Program compliance audits are primarily in the areas of applicant eligibility, fund disbursement and fiscal responsibility for programs funds. A summary of the most common reasons for these findings are noted below.

➤ Applicant Eligibility

Participating institutions are required to confirm that a Cal Grant recipient meets eligibility and program requirements at the time Cal Grant funds are paid to the recipient or the recipient's account using all existing information including the Institutional Student Information Record (ISIR). Most of the audit findings in this area consist of:

- the institution not determining that a student became ineligible for a Cal Grant, as a result of changes to the Institution Student Aid Report (ISAR), which increased the student's income ceiling;
- the institution not verifying the student's educational level;
- an overaward due to insufficient need; and
- the student's participation in an ineligible program.

➤ Fund Disbursement

The institution is required to disburse Cal Grant funds based on a student's attendance at the time of disbursement. The majority of the findings in this area

resulted from institutions disbursing a Cal Grant payment that is not consistent with the student's enrollment status.

➤ Fiscal Responsibility for Program Funds

Institutions participating in the Cal Grant program are required to reconcile their accounts with funds received from the Commission for each award year. The reconciliation process consists of comparing the transactions reported by the school via WebGrants with transactions accepted and reconciled by the Commission. The Commission strongly recommends that schools reconcile Cal Grant payments on a monthly basis. Furthermore, institutions must make all disbursements by December 30 following the end of the award year (for example, December 30, 2012, for the 11-12 award 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. In contrast, the institution will bear the liability for payments not reported prior to the required reconciliation due date.

Other areas of fiscal noncompliance include:

- the institution maintaining state funds in a non-interest bearing account; and
- not returning interest on state funds.

2. California Community College Transfer Entitlement Cal Grant (E2)

California Education Code Section 69436(d)(3)(B) requires the Commission to randomly select a minimum of 10 percent of the new and renewal E2 awards. The institutions must verify that the selected recipient graduated from a California high school or its equivalent after June 30, 2000, was a California resident at the time of high graduation, transferred to a qualifying baccalaureate-degree granting institution from a California Community College during the award year, is under the age of 28 at the time of transfer, has financial need, and is academically eligible. The E2 audits are conducted to confirm that the institutions correctly verify students meet the transfer entitlement eligibility criteria.

3. Assumption Program of Loans for Education (APLE) Audits

The APLE program audits verify both the institution's and the applicant's eligibility. Institutions are required to verify the student's eligibility at time they apply. The number of APLE applicants at the institution determines the number of students selected for verification.

4. California Student Opportunity and Access Program (Cal-SOAP) Audits

The Cal-SOAP audits are conducted to ensure compliance with applicable laws, policies, contracts and consortium agreements and to provide information and feedback to consortium staff to assist them in taking corrective actions if necessary. Some of the areas reviewed are consortium structure and governance, eligibility of tutors, fund matching requirements and fiscal administration of Cal-SOAP funds.

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