

*California Student Aid Commission*

Report from the Grant Advisory Committee (GAC)

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Enclosed is a written report from Ms. Mary Lindsey, the Grant Advisory Committee (GAC) Chair.

***Recommended Action:*** For information only. No action required.

***Responsible Person:*** Mary Lindsey, Chair  
Grant Advisory Committee

## The Grant Advisory Committee (GAC)

### Chair's Report to Commission

Mary T. Lindsey, Chair

June 19, 2008

*The Grant Advisory Committee is a committee composed of members representing stakeholder groups that are essential to the delivery of state financial aid funds to students. The members are officially nominated to represent their stakeholder group and the student interests served by their respective group. The Commissioners formally approve a nominee's appointment to the Committee. The Commissioners formed this advisory committee in 1985 to assist the Commission in policy development and delivery of state financial aid to post-secondary students. The Committee is composed of 20 members: --three members from each of the five segments of higher education, three members from Kindergarten -12<sup>th</sup> grade (K-12), one member from the California Association of Financial Aid Administrators (CASFAA), and one member from the California Commission on Post-Secondary Education. Originally the Committee advised the Commission on policy matters related to grant programs, outreach activities and loan programs. In the late 1990's the Loan Advisory Council (LAC) was created and the GAC ceased advising the Commissioners on student loan issues. In the early 2000s, the Commissioners created a separate Outreach Advisory Committee and the GAC ceased advising the Commissioners on Outreach issues. Currently the GAC advises the Commissioners on its Grants and Special Programs.*

The GAC met May 15, 2008 in one-day meeting. The first half of the day was a workgroup format. The following topics were considered for formal recommendation and are followed by a brief discussion as well as the recommendations adopted by the GAC for presentation to Commissioners for consideration and/or Action at their June 2008 meeting:

- Consideration of At-Risk Institutions
- Consideration of Commissioners' Directive: Adding Additional Member Positions from Secondary Education to GAC

### **CONSIDERATION OF AT-RISK INSTITUTIONS:**

During the past two years the Commissioners, CSAC staff and GAC have worked together to resolve issues that emerged from a CSAC internal audit. During this work an additional issue evolved that was not included in the original audit, but nevertheless, warranted attention and resolution. That issue related to protecting Cal Grant Funds (i.e. state funds) at Institutions that were financially at-risk and could subsequently file for bankruptcy. CSAC staff informed the Commissioners that it was difficult to recover state funds that were subject to bankruptcy proceedings. The amount of money subject to bankruptcy proceedings, over the past 10 years, has amounted to less than one percent. While the amount of funds involved is relatively small, no procedures are currently in place to protect these funds.

At the **March 2008** GAC meeting, CSAC staff presented the following material:

The CSAC staff found that the most efficient and less taxing process to identify at-risk institutions would be to utilize the existing U.S. Department of Education's (Department) Postsecondary Education Participants System (PEPS). The PEPS identifies institutions that are placed on a provisional certification status. Provisional certification may be assigned by the Department for a variety of reasons: initial application; change of ownership, structure or governance; reapplication after approval to participate has ended, been limited, suspended, or terminated; a participating institution's accrediting agency has lost Department approval; an institution has a high default rate; or an institution is determined to be not administratively and financially responsible.

The PEPS also maintains case management's comments and contact information from the most recent program reviews; at times, these comments indicate a lack of administrative and financial responsibility. These conditions may be used as flags if they indicate that an institution has had repeat adverse findings and will imminently be placed on the restrictive oversight or face termination unless the corrective measures have been applied by the next annual report.

The CSAC staff is considering only classifying institutions as "at-risk" if institutions are found in a provisional certification status that are judged by the Department to lack administrative and/or financial responsibility coupled with restrictive measures.

Moreover, only private non-profit and for-profit institutions should require scrutiny and be identified as "at risk." We found during our recent IPA renewal process that 54 institutions were found to be in a provisional certification status for various reasons as stated earlier. However, only 6 of those institutions were determined by the Department to be deficient in administrative capability and/or in financial responsibility. Those 6 institutions were identified as either private non-profit or for-profit institutions. Further research found that during the past 12 years, 11 institutions (1 private non-profit and 10 for-profit) closed their facilities leaving an outstanding balance with the Commission. In addition, CSAC staff is considering that institutions that are found to be "at-risk" be placed on a reimbursement program and remain on the reimbursement program until their status is cleared by the Department. "At-risk" institutions would no longer benefit from term advances, which allows institutions to receive 95% of the prior year reconciled Cal Grant funds two to three weeks prior to the start of the term for timely disbursement to students. The reimbursement program would require that institutions request Cal Grant disbursements by posting payments for eligible students on WebGrants. The reimbursement program, also called the "pay as you go method," would minimize the amount of Cal Grant funds that "at-risk" institutions will hold in their account.

As specified in Article VII and Article VIII of the Institutional Participation Agreement, institutions would be sent written notice on the Commission's intent to withhold term advances. Institutions will have an opportunity to submit in writing any legal and factual reasons why such corrective measure or termination should not be imposed.

Conclusion:

In summary, the CSAC has identified the following considerations:

- Consider utilizing the PEPS system, available through the Department, as the means to identify “at-risk” institutions.
- As determined by the Department, consider using the lack of administrative capability and financial stability as the criteria to identify institutions as “at-risk.”
- Consider checking only private non-profit and for-profit institutions. Research found that these segments lead in the number of deficiencies in the areas of administrative capability and/or financial stability.
- Lastly, consider placing these segments on a reimbursement program until cleared by the Department.

In response to this presentation (at their March, 2008 meeting), GAC members requested that Staff present how a CSAC “reimbursement program” would work.

At the May 2008 GAC meeting Staff made the following presentation:

**Background:**

At the March 14, 2008, Grant Advisory Committee (GAC) meeting, California Student Aid Commission (Commission) staff provided criteria for the GAC members to consider when identifying “at-risk” institutions. Institutions that are found in a provisional certification status judged by the Department of Education (Department) to lack administrative capability and/or financial stability can potentially be classified as “at-risk” institutions and placed in a reimbursement Program.

The GAC members requested information describing the Reimbursement Program and the following outlines those efforts.

**Reimbursement Program Description:**

The Reimbursement Program would require that institutions request Cal Grant funds by posting payments for eligible students to WebGrants. “At-risk” institutions would no longer benefit from term advances, which allows them to received 95 percent of the prior year reconciled Cal Grant funds two to three weeks prior to the start of the term for timely disbursement to students. Also called the “pay as you go method,” the Reimbursement Program would minimize the amount of Cal Grant funds that “at-risk” institutions will hold in their bank account.

**Reimbursement Program Options for Consideration:**

The following lists two options under the Reimbursement Program that can potentially be implemented when an institution is determined to be “at-risk.” These options are being presented to the GAC for review and consideration.

**Option 1 –** Under this method, the Commission releases Cal Grant funds to the institution after the institution has verified a student’s eligibility and has posted the requested payment to WebGrants.

- Institution must verify eligibility of Cal Grant recipients

- Institution must post payments (reimbursement) to WebGrants for eligible students
- Commission will approve disbursement of Cal Grant funds to the institution
- Commission will notify students that funds are available for distribution at the institution
- Institution must submit documentation within two weeks of disbursement that each student was eligible to receive and received Cal Grant funds

**Option 2** – Under this method, the Commission releases Cal Grant funds to the institution after the institution has made the disbursement to students using their institutional funds.

Institution identifies students' Cal Grant eligibility for which it is seeking reimbursement

- Institution must post payments (reimbursement) to WebGrants for eligible students who will receive Cal Grant funds
- Institution must submit documentation that each student is eligible to receive Cal Grant funds
- Commission will approve disbursement of Cal Grant funds to the institution

**The GAC recommends a modification of option 1:**

- Institution must verify eligibility of Cal Grant recipients *and the* Institution must post payments (reimbursement) to WebGrants for eligible students (prior to the Institution actually receiving the funds from CSAC. (combining bullets one and two)
- Commission will approve disbursement of Cal Grant funds to the institution.
- ~~➤ Commission will notify students that funds are available for distribution at the institution.~~  
GAC recommended eliminating this bullet item, because it could be confusing to students.
- Institution must submit documentation within two weeks of disbursement that each student and received Cal Grant funds.
- Institution must hold Cal Grant funds in separate Cal Grant account.

***GAC recommended that the requirement for a separate bank account be added based on prior CSAC staff presentations that stated that state funds held in separate bank accounts are easier to recover in bankruptcy proceedings.)***

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**Consideration of Commissioners' Directive: Adding Additional Member Positions from Kindergarten – 12<sup>th</sup> grades (K-12) to GAC:**

The GAC currently has three positions designated to represent k – 12. One position is vacant but should be filled by the Commission at today's meeting. This third position is not from a

campus but rather from the California Department of Education. The following represents the input from the two current K-12 representatives on GAC (during the committee meeting on the topic):

Committee Member Sally Pace:

COMMITTEE MEMBER PACE: You know, I've learned so much that I never knew, that has very, very little impact on what the high schools do. And so I would say that the only thing you would be doing by having another high school person would be educating them. Because there's been maybe one issue, ...little tiny threads of issues that have even come up that deal with the high school. So I know that I've learned more than I have ever given to this group, or at least I feel that way. I feel like my opinion generally is pretty useless in the way that you -- the things that you have to deal with. Like all the issues today, the only thing that the high school has anything to do with is I know now that if a kid is going to a private institution, that I'm going to make sure that they know that let's check their finances out, how reputable are they. But other than that, I really think that this is more or less a college group.

Alternate for Sharon Bowels Committee Member Louise McClain:

COMMITTEE MEMBER MC CLAIN (alternate for Sharon Bowels): I think two is sufficient. I mean, it's hard for us to participate. As the liaison, I would always stay very focused because my learning curve was very abrupt. I don't work in a financial aid office. So discussion about disbursement and interest-bearing accounts, I have nothing to say, I have no field of -- you know, where we come in is how to interface with students, when to interface with students, that kind of grass roots, that's where we come in. And I think that two is certainly sufficient.

Members of GAC expressed their opinions about the critical and valuable input members from K-12 provide and specifically noted issues (and on-going issues) regarding the calculation of the student's GPA for Cal Grant awarding purposes. The discussion included a desire to increase K-12 input through public participation when issues specific to K-12 or requiring K-12 expertise are placed on GAC's agenda. The discussion acknowledged that since "outreach" was removed from GAC's charge, K-12 issues are less likely to be the subject of discussion. It was noted that Cal Soap might greatly benefit from increased K-12 representation. No formal motion was voted on at the meeting.