CALIFORNIA STUDENT AID COMMISSION

Program Compliance Office
Cal Grant / Specialized Program Review Report

2006-07 Award Year

California State University Los Angeles
Program Review ID#80800114000

5151 State University Dr.
Los Angeles, CA 90032

Program Review Dates:	5/12/2008 - 5/16/2008
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AUDITOR'S REPORT

SUMMARY

We reviewed California State University Los Angeles's administration of California Student Aid Commission (Commission) programs for the 2006-07 award year.

The institution's records disclosed the following deficiencies:

- Noncompliance with the Commission's Information Security and Confidentiality Agreement
- Incorrect Budget Component
- Student Education Level Reported Incorrectly
- Incorrect Renewal Unmet Need
- Interest Earned on Cal Grant Funds Not Returned

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 and B
Specialized Programs	Child Development Teacher Grant and Assumption Program of Loans for Education (APLE)

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

A. Institution

- Type of Organization: Public Institution of Higher Education
- President: Dr. James M. Rosser
- Accrediting Body: Western Association of Schools & Colleges
- Size of Student Body: 25,901

B. Institutional Persons Contacted

- Tanya Ho — University Internal Auditor
- Christine Leung — Senior Internal Auditor, University Internal Audit
- John Tcheng — Student Aid and Investment Services Manager
- Dr. Arlie Stops — Assistant Vice President, Student Affairs, VP Office
- Mae Santos — Director, University Budgets, Budget Administration
- Ronnie Wills — Director, Student Financial Services
- Ramona Martinez — Operations Supervisor, Disbursement

BACKGROUND (continued)

B. Institutional Persons Contacted (continued)

- Tina Mimiaga — Operations Supervisor, Student Loan Services and Collections
- Monique Sosa Allard — Director, Office for Student Services, Charter College of Education
- Michele Jordan — Compliance Officer
- Dr. Mary Falvey — Dean, Charter College of Education

C. Financial Aid

- Date of Prior Commission Program Review: April 2004
- Branches: N/A
- Financial Aid Programs:
  - Federal: Family Education Loans Direct Loans, Pell, Work-Study, Perkins and SEOG
  - State: Cal Grants A, B, Graduate Fellowship, Child Development Teacher & Supervisor Grant, Assumption Program of Loans for Education (APLE) and Law Enforcement Personnel Dependents Grants
- Financial Aid Consultant: None

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 6 Cal Grant A awards and 34 Cal Grant B awards within the review period. The program review sample was randomly selected from the total population of 3,314 recipients.
- Reviewing the record and grant payment for 1 Child Development recipient within the review period. The review sample was the entire population.
- Reviewing the records from a sample of 20 students who have been accepted into the Assumption Program of Loans for Education within the review period. The program review sample was randomly selected from the total population of 203 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.

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.

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 May 16, 2008.

May 16, 2008

Charles Wood, Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

A. GENERAL ELIGIBILITY: **FINDING:** **Noncompliance with the Commission's Information Security and Confidentiality Agreement**

A review of institutional records disclosed that the institution failed to comply with the Commission's WebGrants Information Security and Confidentiality Agreement.

DISCUSSION:

As stated in the Information Security and Confidentiality Agreement, institutions must notify the Commission within five working days to disable the password and ID of any employee whose change in employment status or duties no longer requires access to the Grant Delivery System (GDS) – WebGrants System.

A comparison between Commission and institutional records revealed that the institution did not notify the Commission in writing within 5 working days to disable the password and ID of three employees who were no longer employed. The institution did attempt to disable the access on-line with Web Grants prior to the compliance review, but were unsuccessful. However, after the on-site review, the institution's System Administrator requested that the Commission disable the password and ID of the aforementioned employees.

REFERENCES:

Institution Agreement, Article II.E.
WebGrants Information Security and Confidentiality Agreement
Commission Special Alert, GSA 2000-01, 01/19/00

REQUIRED ACTION:

The institution is required to submit administrative policies and controls to ensure compliance as outlined on the WebGrants Information Security and Confidentiality Agreement.

INSTITUTION RESPONSE:

The Center for Student Financial Aid at CSU, Los Angeles has done a WebGrants security review for the entire staff. Security access of employees who are no longer employed with the University has been disabled. Further, employees who do not have a business need to access the Webgrants system have also been disabled.

The office has also implemented appropriate protocols and internal control measures in accordance with the Commission's Security and Confidential Agreement. The designated system administrators are required to notify the Commission in writing in order to disable the password and 10 of employees who have separated their employment appointment(s) with the financial aid office.

Further, the system administrators are expected to perform periodic review to analyze the business justification for continued security access to the Webgrants system for active employees.

AUDITOR REPLY:

The institution provided revised policies and procedures; this action is deemed acceptable and no further action is required.

B. APPLICANT ELIGIBILITY:

FINDING: Incorrect Budget Component

A review of 40 student files disclosed 1 instance in which the institution's system calculated budgets and Expected Family Contributions that were incorrectly computed.

DISCUSSION:

Schools are responsible for confirming the financial need for Cal Grant awards. Financial need is defined as a student's cost of attendance (COA) minus expected family contribution (EFC), Pell Grant, and all other aid.

The COA and EFC are key components in of establishing a student's financial need, as it sets a limit on the total aid that a student may receive.

The cost of attendance is a student's cost for the period in which the aid is intended and most schools establish average costs for different categories of students. The cost of attendance covers the student's an actual cost for the period in which need is being analyzed.

EFC is defined as the amount of money a student and his or her spouse or family is expected to pay towards the student's total cost of education. The EFC is determined using information provided by the student on the Free Application for Federal Student Aid (FAFSA). The EFC is sent to the school on a need analysis output document and is used by the school to determine the student's eligibility for a Cal Grant award. The EFC, found in the upper right hand corner of the first page of the Student Aid Report (SAR), is based on a 9-month enrollment period. The second section of this document contains a grid of 1 to 12 month alternate EFC's. The institution must choose the correct EFC amount based upon the number of months in the student's enrollment period.

The length of time used by the institution to determine a students COA and EFC must be constant with the length of the enrollment period.

A review of the file for student No. 9 revealed that the institution's PeopleSoft system uses incorrect components (COA and EFC) when it computes a student 12 month budgets. The system computes 12 month budgets in two steps:

Step 1 – Determine need / Program Eligibility
COA – 9 month Cost of Attendance
EFC – 9 month Estimated Family Contribution
Base – Unmet need for 9 months

Step 2 - Award Prorated for 4 Terms
COA – 9 month Cost of Attendance
Prorated EFC – 9 month EFC / 12 X 9
EFA – EFA amounts for 12 months (4 terms)

Student No. 9 is an example of a budget with incorrect components:

Step 1 - Student No. 9 (9 Month Budget)		
COA		$11,571
less EFC		2,461
Unmet Need		$ 9,110

Step 2 - Student No. 9 (12 Month Budget)		
COA		$11,571
less prorated EFC (9 mo EFC/12 X 9)		1,858
Unmet Need		$ 9,713
EFA (Not Including Cal Grant)		
Subsidized	$ 3,948	
Pell	1,334	
University Grant	360	
less Total EFA		5,642
Equals Cal Grant Need		$ 4,071
less Cal Grant Award		4,071
Remaining Unmet Need		**$ -0-**

This method does not reflect the accurate need for a student that attends the school for 4 terms (12 months) for the following reasons:

1. The COA has not been increased to reflect the 12 month cost of attending the institution. **The COA used to package must reflect the students cost for that period of actual enrollment**.

2. The prorated EFC is computed incorrectly, the **EFC should reflect the amount calculated on the students ISAR for a 12 month attendance**.

This method could cause a student to be underawarded, since the increase in the COA normally would be greater the increase in EFC and cause the unmet need to be larger.

The following table documents the correct determination of the 12 month need computation for student No. 9:

Student No. 9 (12 Month Budget)		
COA (12 Months)		$15,385
less EFC (12 Months)		2,680
Unmet Need		$12,705
EFA (Not Including Cal Grant)		
Subsidized	$ 3,948	
Pell	1,468	
University Grant	360	
less Total EFA		5,776
Equals Cal Grant Need		$ 6,930
less Cal Grant Award		4,071
Remaining Unmet Need		**$ 2,859**

The correct computation shows a change of the remaining unmet need from $-0- to $2,859 for this student. The increase in unmet need could allow the student to be eligible for additional financial aid, if it was available.

REFERENCES:

Institutional Participation Agreement, Article IC.A. & B.
Cal Grant Manual, Chapter 8, November 2005
2006-07 FSA Handbook, Application and Verification Guide, Chapter 3 Expected Family Contribution
2006-07 FSA Handbook, Volume 3, Calculating Awards & Packaging, Chapter 2, page 3-21

REQUIRED ACTION:

The institution **is required** to submit procedures that will be implemented to enhance the institution's PeopleSoft system to ensure that a Cal Grant recipient's budget includes a COA and EFC that **is constant** with the **length** of the enrollment period.

INSTITUTION RESPONSE:

The Center for Student Financial Aid at CSU, Los Angeles has evaluated and tested PeopleSoft's delivered functionality. The appropriate adjustments have been made to the system to ensure the Cost of Attendance (COA) and the Expected Family Contribution (EFC) remain constant with the length of the enrollment period for cal grant recipients.

AUDITOR REPLY:

The institution provided revised policies and procedures; this action is deemed acceptable and no further action is required.

D. ROSTERS AND REPORTS:

FINDING 1: Student Education Level Reported Incorrectly

A review of 20 new Cal Grant recipients disclosed 1 case in which the student was selected for education level (EL) verification, but the institution calculated and reported an incorrect EL to the Commission.

DISCUSSION:

The Educational Level Report is used to verify a new Cal Grant A and B recipient's educational level. A recipient's EL determines the number of years a student will be eligible to receive Cal Grant benefits. Institutions verify each recipient's EL based on the recipient's EL at the time the student receives the initial payment. The verification should not be based on the EL of the recipient at the time the report is received and/or completed.

The undergraduate student classification is as follows, according to the institution catalog:

# of Credits/Units	Education Level
0 – 44	1
45 – 89	2
90 – 134	3
135+	4

The following student was found to have an Education Level reported incorrectly:

Student No.	Number of Units	Education Level Reported	Correct Education Level
2	182.50	3	4

REFERENCES:

Cal Grant Manual, Chapter 7, Section 7.3 and 7.4, October 2005
Cal Grant Manual, Chapter 8, Section 8.2. November 2005
Institutional Participation Agreement IV.A. & IV.B.

REQUIRED ACTIONS:

In response, the institution **must** inform the Commission's Grant Operations Branch of the correct grade level determination above so that the necessary adjustments can be made.

In addition, the institution **must** provide the written policies and procedures that will be put into place to ensure that the correct grade level is reported to the Commission.

INSTITUTION RESPONSE:

For this finding, the Center for Student Financial Aid has reported the correct educational level (EL) to the Commission's Grant Operations Branch. This correction was done on November 19, 2008.

The office has also implemented a procedure for verifying educational level of cal grant recipients. The implemented policy also contains a built-in quality control mechanism to ensure the work performed by staff is reviewed for correctness and accuracy prior to submission.

Staff will be required to attend the annual Cal Grant workshops sponsored by the Commission to further strengthen their knowledge of the Cal Grant Programs. In addition, staff will also receive in-house, hands-on training on the mechanics of EL verification.

AUDITOR REPLY:

The institution provided revised policies and procedures; this action is deemed acceptable and no further action is required.

D. ROSTERS AND REPORTS:

FINDING 2: Incorrect Renewal Unmet Need

A review of 40 student files disclosed 2 instances in which the institution calculated the unmet need incorrectly for renewal students

DISCUSSION:

For renewal students, institutions must calculate a student's maximum annual unmet need as a full-time student and report that figure to the Commission, retaining the supporting documentation within the student's record. Institutions may use the Commission's annually established student expense budget or the institution may adopt its own student budget for determining renewal financial eligibility provided the budgets do not exceed those used for campus-administered aid. The institution 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 annual budget (12 months since the institution is set-up for payments for four quarters – summer, fall, winter and spring) minus the Expected Family Contribution (EFC) and Pell Grant.

The EFC is defined as the amount of money a student and his or her spouse or family is expected to pay toward the student's total cost of education and is determined using information provided by the student on the Free Application for Federal Student Aid (FAFSA). The EFC figure is sent to the institution on a need analysis output document and is used by the institution to determine the student's eligibility for a Cal Grant award. The EFC, found on the first page of the

Institutional Student Information Record (ISAR), is based on a 9-month enrollment period. The second section of this document contains a grid of 1 to 12 month alternate EFCs. The institution must choose the correct EFC amount based upon the number of months in the student's enrollment period.

Student Nos. 21 and 32 attended the summer 2007 quarter. Since the summer quarter is the first quarter of the 2007-2008 academic year for CSU Los Angeles, the institution used the 2007-2008 9-month budget for calculating the Cost of Attendance (COA) and Expected Family Contribution (EFC).

REFERENCES:

34 CFR 668.2
Cal Grant Manual, Chapter 6, pages 3-4, November 2003
Cal Grant Manual, Chapter 8, pages 1-2, November 2005

REQUIRED ACTION:

The institution **is required** to submit policies and procedures that will be implemented to ensure that the renewal unmet need amount is correctly calculated for the specific award year and reported to the Commission and documented within the student's file.

INSTITUTION RESPONSE:

The Center for Student Financial Aid has addressed this deficiency by establishing a procedure for reporting unmet need for renewal cal grant recipients. As mentioned above, staff will be required to attend cal grant workshops and hands-on training on how to compute the maximum "unmet need" for renewal cal grant recipients.

AUDITOR REPLY:

The institution provided revised policies and procedures; this action is deemed acceptable and no further action is required.

F. FISCAL RESPONSIBILITY FOR PROGRAM FUNDS:

FINDING: **Interest Earned on Cal Grant Funds Not Returned**

An examination of the institution's Cal Grant account revealed that interest earned on Cal Grant funds and returned to the Commission included negative daily balances.

DISCUSSION:

Institutions must maintain all Commission Cal Grant funds in a designated account identified as the property of the State either by a ledger account or a bank account. Interest earned on Cal Grant funds in these accounts must be returned to the Commission on behalf of the State.

Each year in August, or after the annual State budget becomes law, whichever is later, the Commission advances money to participating Cal Grant schools. Each school's fall term advance is distributed to the institutions.

After the initial advance payment from the fall term, all advances for subsequent terms are reduced by any unused funds remaining in the school's account. Each month, the Commission produces a Payment Activity Report summarizing all funds sent to the school and the total of reconciled payment transactions received from the school for the academic year.

A review of the institution's bank statements, Cal Grant survey and discussions with institutional staff revealed that Cal Grant funds are initially deposited into a Wells Fargo bank account. The funds are then swept to into the California State University's Chancellor's system wide investment fund (SWIF). Interest earned on Cal Grant funds is calculated on an average daily balance which includes positive and negative balances. The institution calculated and returned $6,697.79 to the Commission for the 2007 calendar year

A review of the institution's interest records for the 2007 calendar year revealed that the institution had positive cash flow that earned $20,369.12 in interest on Cal Grant funds during the year. If an institution chooses to advance Cal Grant funds to prior to receipt of funds from the Commission, thus creating a negative daily balance in the SWIF account, the negative interest is not a cost that is allowable under the State Budget Act and the Commissions discretionary authority granted by the Education Code and thus can not be reimbursed by Cal Grant funds. .

REFERENCES:

Institutional Participation Agreement, Article III
Grant Operations Memo 2007-21
Cal Grant Manual, Chapter 2, July 2004
Cal Grant Manual, Chapter 9, September 2003
2006 Budget Act
California Education Code 69430 thru 69547.9

REQUIRED ACTION:

In response to this Finding, CSU Los Angeles **must** return additional interest earned on Cal Grant funds on the amount of $13,671.33. Please submit payment as directed in the general payment instructions located at the conclusion of this Report along with supporting documentation of the amount returned.

This finding has been questioned by the institution, their position is that negative interest is a cost that is allowable under the requirements of the Cal Grant program and thus can be reflected in the computation of interest earned on Cal Grant funds.

The required action noted above will not be required until the Commission issues a final determination of whether negative interest is allowable within the requirements of the State Budget Act and California Education Code

AUDITOR REPLY #1:

The Commission has determined that negative interest associated with an institution's use of non-state funds for Cal Grant students **should not be deducted** from accrued interest.

Consequently, CSU Los Angeles **must** return additional interest earned on Cal Grant funds in the amount of **$13,671.33** for the 2006-07 Award Year. Furthermore, the institution **must** provide the computation used to determine the interest returned for the 2007-08 award year with supporting documentation and any additional interest accrued but not remitted for the 2007-08 award year must also be returned.

Additionally, the accounting and financial aid office's **must** develop and implement written policy and procedures that describe the means to return any earned Cal Grant interest at the minimum of once per year. A copy of these policies and procedures must be returned as part of the institution response.

INSTITUTION RESPONSE:

The University returned $6,697.79 to CSAC for calendar year 2007 and met the requirements of the 200607 Institutional Participation Agreement (IP A), Article III, Sec. A (3). The University used the average daily balance method, which includes positive and negative daily balances, in calculating interest earning.

CSAC asserted that (i) "the institution had positive cash flow that earned $20,369.12 in interest on Cal Grant Funds during the year" and (ii) "the negative interest is not a cost that is allowable under the legal requirements of the Cal Grant program and thus cannot be reimbursed by Cal Grant funds."

In its final determination, "the Commission has determined that negative interest associated with an institution's use of non-state funds for Cal Grant students should not be deducted from accrued interest," thus requiring the University to return additional interest earned on Cal Grant funds.

The University disagrees with the above assertions. The campus maintains, among other items, that:

1. The Education Code, the Budget Act and the Institutional Participation Agreement, Article III, do not prescribe a specific methodology for calculating Cal Grant interest or specifically prohibit the inclusion of negative cash balance when computing Cal Grant interest.

2. The Education Code, the Budget Act, and the Institutional Participation Agreement, Article III, do not specifically prohibit the use of Average Daily Balance as a method to calculate Cal Grant interest earnings.

    - The CSAC Operations memo, GOM 2007-21 - 07/11/07, attachment states, "the Commission is open to any type of method as long as the bank or financial institution can clearly demonstrate how the interest was calculated."

    - The University uses the average daily balance method to calculate the interest earned on Cal Grant funds. This is a generally accepted accounting practice which is widely used.

3. The University's timely disbursements of Cal Grant funds to students were necessary to meet the purpose of the Cal Grant program and the IPA, even when there were delays in the Commission's remittance of Cal Grant funds to the University. The University has established a disbursement schedule consistent with the IP A. The 2006-07 IP A, Article IV C (2) states "the institution has the responsibility to establish a written disbursement schedule consistent with the start dates of the institution's enrollment periods and in accordance with the applicable requirements specified for each educational program."

4. The Commission did not always provide timely payments to the University because the Grant delivery system is not a real time process.

The Commission stated that negative interest associated with the use of non-state funds for Cal Grant students should not be deducted from accrued interest. The University, as a state agency, utilizes state funds to disburse to students in the absence or delay of the Commission's Cal Grant funds. Per Government Code section 16301, "Except as otherwise provided by law, all money belonging to the State received from any source whatever by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance, in such form as he prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation." As a state agency, all funds belonging to the University are considered state funds and by using other state funds to advance Cal Grant funds, the University is meeting the requirements of the Commission's policy and is allowed to deduct negative interest.

In a decision dated November 28, 1989 (In the Matter of the Audit Appeal of California State University and Colleges (Administrative Proceeding in the United States Department of Education), Administrative Law Judge Paul S. Cross ruled, "CSUC properly complains that the auditors incorrectly refused to allow a credit for "negative cash balances caused by the institution's payment of Pell Grant funds to students entitled to the receipt of Federal funds. CSUC also shows that its payments to students were necessary to meet the Pell Grant program requirements."

Last but not least, it is quite disturbing that CSAC is seeking to compel the University, now in 2009, to apply CSAC's relatively new mandate (that negative interest should not be an offset) to the University's calendar year 2007 monies. It is clear from a review of documents that the CSAC did not even realize that the offsetting of negative interest was an important issue until CSAC's September 7,2006, meeting. As set forth in CSAC's documents (including GSA 2007-29, dated December 27,2007 - four days prior to the end of the calendar year), the Grant Advisory Committee was actively recommending that negative interest be allowed as an offset throughout 2007. The CSAC did not issue a definitive statement that it was rejecting the GAC's recommendation until its January 18, 2008, memorandum ("Re: Interest Remittance Reminder"). Without proper notice at any time during 2007, it would be improper now to retroactively declare that the interest on calendar year 2007 monies cannot be offset by negative interest. By claiming that 2007 calendar year monies cannot be offset would be nothing less than an ex post facto regulation that would easily be struck down by a state court should it be necessary to file a writ of administrative mandamus.

<u>Cal Grant Interest Policy:</u>

California State University, Los Angeles has an established policy regarding Cal Grant interest earnings and remittance. The policy is consistent with the California Education Code, the State Budget Act, California State University policies, and generally accepted accounting methods.

It is the existing policy of the University to compute interest earnings for Cal Grant funds on an annual basis. The calculation is based on average daily balances of the fund, which is computed by performing a mathematical average of the daily fund balances in the calendar year. The average daily balance is then multiplied by the State's Surplus Money Investment Fund (SMIF) rate to obtain the net interest amount. This computation methodology is consistent with prevailing generally accepted accounting practices.

The California State Aid Commission has required the University to modify its interest computation methodology when calculating interest earnings for Cal Grant funds. The Commission is requiring the University to compute interest earnings based solely on periods with positive cash balances and to ignore periods with negative cash balances, so as to achieve positive interest earnings to the Commission all the while retaining the funding in the agency's fund.

Campus Procedure:

Student Financial Aid Office (SFAO) Responsibility:

- Provide CSAC monthly payment information to the Budget Office
- Provide CSAC monthly disbursement reports to the Budget Office
- Coordinate with the Budget Office to calculate interest earnings annually

Budget Office Responsibility:

- Review CSAC monthly payment and disbursement information from SF AO Review the Cal Grant fund balance on an on-going basis
- Annually compute the average daily balances for Cal Grant funds for interest computation purpose
- Obtain the State Treasurer's Surplus Money Investment Fund (SMIF) rates
- Perform mathematic calculation of net interest earnings. As required by the California Student Aid Commission, concentrate only on periods with positive cash balances and ignore periods with negative cash balances, and multiply by the SMIF rate
- Determine annual interest and remit to the Commission.

AUDITOR REPLY:

Your appeal is in regards to 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.

Consequently, CSU Los Angeles **must** return additional interest earned on Cal Grant funds in the amount of **$13,671.33** for the 2006-07 Award Year. Furthermore, the institution **must** provide the computation used to determine the interest returned for the 2007-08 award year with supporting documentation and any additional interest accrued but not remitted for the 2007-08 award year must also be returned.

Additionally, the accounting and financial aid office's **must** develop and implement written policy and procedures that describe the means to return any earned Cal Grant interest at the minimum of once per year. A copy of these policies and procedures must be returned as part of the institution response.

INSTITUTION RESPONSE:

California State University, Los Angeles is remitting the additional interest earned on Cal Grant funds for the 2007 calendar year, as well as, interest earned on Cal Grant funds for the 2008 calendar year, totaling $21,490.20 as follows.

2007 Additional Interest Earnings	$13,671.33
2008 Interest Earnings	7,818.87
Total Check 776587	$21,490.20

Also enclosed is the computation used to calculate the 2008 interest earnings, including written policy and procedures that describe the means to return any earned Cal Grant interest.

AUDITOR REPLY:

The institution returned $21,490.20 on check # 776587 dated July 20, 2009 and revised policies and procedures. This action is deemed acceptable and no further action is required.