



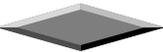
***Program Compliance Office  
Cal Grant Program Review Report***

***2007-08 Award Year***

**The Art Institute of California - Orange County  
Program Review ID#80900723603**

**3601 W. Sunflower Avenue  
Santa Ana, CA 92704-9888**

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|------------------------------|--|
| <b>Program Review Dates:</b> | April 20, 2009 through April 23, 2009                                |
| <b>Auditor:</b>              | Melanie Wong<br>(916) 464-8207                                       |
| <b>Report Approved by:</b>   | Charles Wood, Manager<br>Program Compliance Office<br>(916) 464-8912 |

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## AUDITOR'S REPORT

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### SUMMARY

We reviewed The Art Institute of California - Orange County's administration of California Student Aid Commission (Commission) programs for the 2007-08 award year.

The institution's records disclosed the following deficiencies:

- No written Cal Grant policies and procedures
- Renewal recipients' Cal Grant unmet need could not be reconstructed
- Cal Grant A recipient enrolled in ineligible program
- New Cal Grant A recipient not eligible due to income level
- Students received disbursements in excess of eligible amount due to enrollment status
- Cal Grant tuition award exceeds actual tuition charges
- Cal Grant funds not reconciled

### 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 C |
|------------|------------|

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

#### A. Institution

- Type of Organization: Private For Profit Institution of Higher Education
- President: Dan Levinson
- Accrediting Body: Accrediting Council for Independent Colleges and Schools
- Size of Student Body: 2,860

#### B. Institutional Persons Contacted

- Silvia Guzman: Director of Student Financial Services
- Jennifer Olevson: Associate Director of Student Financial Services
- Jean Garcia: Student Accountant

#### C. Financial Aid

- Date of Prior Commission Program Review: November 2003
- Branches: None



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**AUDITOR'S REPORT (continued)**

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**OBJECTIVES,  
SCOPE AND  
METHODOLOGY  
(continued)**

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 Commission's grant programs.

**VIEWS OF  
RESPONSIBLE  
OFFICIALS**

The review was discussed with agency representatives in an exit conference held on April 23, 2009.

April 23, 2009

Charles Wood, Manager  
Program Compliance Office

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## FINDINGS AND REQUIRED ACTIONS

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A. GENERAL  
ELIGIBILITY:

**FINDING: No Written Cal Grant Policies and Procedures**

The institution did not have specific policies and procedures to administer the Cal Grant Program.

**DISCUSSION:**

As indicated in the Institutional Agreement and the Cal Grant Manual, institutions are required to develop written policies and procedures governing the administration and processing of Cal Grant funds.

In order to measure an institution's performance, a routine procedure of the program compliance review is to evaluate and analyze the institution's implemented internal controls (procedures) for safeguarding the operational and fiscal integrity of the Cal Grant program.

It is imperative that institutions have written procedures so that in the event financial aid staff were to leave their position, written procedures would be available to direct new staff to continue the proper administration of the Cal Grant program.

**REFERENCES:**

2008-12 Institutional Participation Agreement, Article II.E  
Cal Grant Manual, Chapter 2, pages 2-4

**REQUIRED ACTION:**

The institution **must** submit the policies and procedures that will be put in place to administer the Cal Grant program.

**INSTITUTION RESPONSE:**

The institution returned written policies and procedures that govern the institution's administration and processing of Cal Grant funds.

**AUDITOR REPLY:**

This action is deemed acceptable and no further action is required.

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**FINDINGS AND REQUIRED ACTIONS (continued)**

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B. APPLICANT  
ELIGIBILITY:

**FINDING #1: Renewal Recipients' Cal Grant Unmet Need Could Not Be Reconstructed**

A review of 19 renewal Cal Grant student files disclosed 18 students' unmet 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 unmet needs reported to the Commission were not adequately supported by documentation in the students' files:

| <b>ID</b> | <b>Need</b> |
|-----------|-------------|
| 2         | \$25,803    |
| 3         | \$24,535    |
| 5         | \$39,873    |
| 6         | \$32,468    |
| 7         | \$23,502    |
| 9         | \$20,424    |
| 10        | \$18,850    |
| 11        | \$31,801    |
| 13        | \$40,669    |
| 16        | \$28,816    |
| 18        | \$20,758    |
| 22        | \$27,507    |
| 25        | \$20,442    |
| 27        | \$29,499    |
| 28        | \$35,421    |
| 30        | \$26,691    |
| 33        | \$30,089    |
| 40        | \$29,241    |

**REFERENCES:**

Higher Education Act, Part F – Need Analysis  
Cal Grant Manual, November 2003, Chapter 6, pages 3-4

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## FINDINGS AND REQUIRED ACTIONS (continued)

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### 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 unmet need reflects the recipient's annual need as a full-time student for the award year.

### INSTITUTION RESPONSE:

Part of policies and procedures supplied by the institution,

Renewal Cal Grant A & B recipients must have a financial need of \$100 or more using the following formula.

#### **Cost of Attendance - EFC - Pell=Cal Grant need**

This formula is used to determine which students will remain in the program. It is possible that a student can remain in the program based on the renewal need formula but not have any payment eligibility.

### AUDITOR REPLY:

The institution returned policies and procedures and a copy of the new Cal Grant need form. This action is deemed acceptable and no further action is required.

## B. APPLICANT ELIGIBILITY:

### **FINDING #2: Cal Grant A Recipient Enrolled in Ineligible Program**

A review of 40 student files revealed one student was enrolled in an ineligible Cal Grant A program.

### DISCUSSION:

Cal Grant A awards are for students who are enrolled in a program of instruction of not less than two academic years that leads to an associate or baccalaureate degree requiring 48 semester units (72 quarter credits) or that results in eligible for transfer from a community college to a baccalaureate degree program.

According to academic transcripts, student No. 24 was enrolled in the Art of Cooking Diploma program which requires a minimum 51 quarter credits to complete. Because the student was not enrolled in an associate or baccalaureate degree program, the \$4,416 disbursed to the student is deemed ineligible.

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## FINDINGS AND REQUIRED ACTIONS (continued)

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### REFERENCES:

California Education Code 69432.7(j)  
2008-12 Institutional Participation Agreement Article IV.A.7  
Cal Grant Manual, September 2004, Chapter 3, page 4

### REQUIRED ACTION:

The institution **must** return the ineligible funds of **\$4,416** for student No. 24 and submit policies and procedures to ensure students are in eligible programs to receive the appropriate awards.

### INSTITUTION RESPONSE:

Part of policies and procedures supplied by the institution,

#### Cal Grant A Program

- Students from low-middle income families
- Verified GPA requirement
- Eligibility for 4 years at full time study
- Minimum program length is two years
- Students studying in an AA Program, BA Program are eligible

### AUDITOR REPLY:

The institution returned \$4,416 on check #930047118 dated October 15, 2009 and policies and procedures. This action is deemed acceptable and no further action is required.

B. APPLICANT  
ELIGIBILITY:

#### **FINDING #3: New Cal Grant A Recipient Not Eligible Due to Income Level**

A review of 21 new Cal Grant recipients revealed one student's income level exceeded the income ceiling for the 2007-08 award year.

### DISCUSSION:

To be eligible for and receive payment for any Cal Grant award, a student must have family income and assets below the ceilings. The family income for a dependent student is the parent's total income (TI) as calculated by the Federal Processor. TI is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula (Parents' Adjusted Gross Income or Parents' Total Income Earned from Work + Total from Worksheet A + Total from Worksheet B – Total from Worksheet C). Initial eligibility for a Cal Grant award is based on information from the student's Free Application for Federal Student Aid (FAFSA). Schools are

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## FINDINGS AND REQUIRED ACTIONS (continued)

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responsible for verifying that students who appear on the Grant Roster meet program requirements, as required by the school's Institutional Participation Agreement, Article IV A.

Income and asset ceilings are set by the Commission in accordance with the provisions of *C.E.C. 69432.7 (k)* and are adjusted annually. The chart on the next page shows the Income Ceilings for the 2007-08 award year.

|   | Cal Grant A and C | Cal Grant B |
|---|-------------------|-------------|
| <b>Dependent students and Independent students with dependents other than a spouse:</b> |                   |             |
| Family Size:  |                   |             |
| Six or more   | \$84,600          | \$46,500    |
| Five  | \$78,400          | \$43,000    |
| Four  | \$73,200          | \$38,500    |
| Three   | \$67,400          | \$34,600    |
| Two   | \$65,800          | \$30,700    |
| <b>Independent students</b>   |                   |             |
| Single, no dependents   | \$26,800          | \$26,800    |
| Married, no dependents  | \$30,700          | \$30,700    |

Student No. 37 was verified as new Cal Grant A recipient for the 2007-08 award year based on the initial income of \$55,231 with a family size of 4 as reported on the FAFSA. After verification, the total income increased to \$78,554 which exceeds the Cal Grant A income ceiling for a family size of 4 (\$73,200) making the student ineligible for all funds. Student No. 37 received \$12,944 for the 2007-08 award year and \$9,708 for the 2008-09 award year.

### REFERENCES:

California Education Code 69535(a)  
California Education Code 69538  
2008-12 Institutional Participation Agreement, Article IV.A.12  
Cal Grant Manual, September 2004, Chapter 3, pages 1, 3  
Cal Grant Manual, February 2005, Chapter 5, page 3  
CSAC Operations Memo, GOM 2004-14, November 2004

### REQUIRED ACTION:

The institution **must** return **\$12,944** for the 2007-08 award year and reverse **\$9,708** on WebGrants for the 2008-09 award year. Additionally, the institution **must** submit policies and procedures to ensure students meet all eligibility requirements prior to disbursement of funds.

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## FINDINGS AND REQUIRED ACTIONS (continued)

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### INSTITUTION RESPONSE:

Part of policies and procedures supplied by the institution,

#### **What are the requirements to be eligible for Cal Grant? -GPA AND Income**

Cal Grant A has a minimum requirement of 3.0

Cal Grant B has a minimum requirement of 2.0

Cal grant C is on a point system based on Work history, Education History, Recommendation, and GPA. \*\*\* Additional form is sent out to students by the Cal Grant

Commission Income requirement

#### **Other qualifiers:**

Be a CA Resident

Be a U.S. citizen or Eligible non-citizens

Meet Selective Services Requirements

Enrolled at least half time at a qualifying CA postsecondary institution

Not be in default on any student loan

Now owe any federal or state grant refund

Turned in the GPA Verification and FAFSA by the deadline

Fulfilled all school requirements for verification

Have income and assets below the established ceilings

### AUDITOR REPLY:

The institution returned \$12,944 on check #930047118 dated October 15, 2009, reversed \$9,708 on WebGrants for the 2008-09 award year and policies and procedures. This action is deemed acceptable and no further action is required.

C. FUND  
DISBURSEMENT  
AND REFUNDS:

#### **FINDING #1: Students Received Disbursements in Excess of Eligible Amount Due to Enrollment Status**

A review of 40 student files disclosed 2 students received disbursements in excess of eligible amounts.

#### **DISCUSSION:**

Institutions are required to verify student eligibility at the time funds are processed to the recipient or the recipient's account. The institution must verify the enrollment status for each recipient listed on the grant roster in accordance with the established institutional policies.

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## FINDINGS AND REQUIRED ACTIONS (continued)

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The institution's enrollment status policy is as follows:

|                     |                  |
|---------------------|------------------|
| Full-time:          | 12 units or more |
| Three-quarter-time: | 9-11 units       |
| Half-time:          | 6-8 units        |

Student No. 12 was reported as full time for Winter 2008. The institution paid a full-time Cal B award of \$517 on January 9, 2008 and then reversed the payment on May 8, 2008. The funds were disbursed again on May 30, 2008 after the term was completed. At the time of final disbursement (May 30, 2008), the student had only completed 10 units (withdrew from 3 units on March 7, 2008) which is three-quarter time. The student was only eligible to receive a three quarter time award of \$388 making \$129 ineligible (\$517-\$388).

Student No. 21 was paid a full-time Cal Grant B award of \$3,753 (\$517 Access and \$3,236 Tuition) for Fall 2007. According to transcripts, the student was only enrolled in 11 units (three quarter time) for the term. The student was only eligible for a three quarter time award of \$2,815 (\$388 Access and \$2,427 Tuition) making \$938 ineligible (\$3,753-\$2,815).

### REFERENCES:

2008-12 Institutional Participation Agreement, Article IV.A.10 and IV.B.1.ii  
Cal Grant Manual, Chapter 8, November 2005, page 3

### REQUIRED ACTION:

The institution **must** return the ineligible funds of **\$129** for student No. 12 and **\$938** for student No. 21 and **must** submit copies of the policies and procedures to ensure enrollment status verification prior to fund disbursement.

### INSTITUTION RESPONSE:

Part of policies and procedures supplied by the institution,

E. Funds Received for Payment

2. The Financial Aid Administrator uses the quarterly roster for determination of who is to received payment. Awards are reduced based on  $\frac{3}{4}$  and  $\frac{1}{2}$  time.
3. Payment is processed.

### AUDITOR REPLY:

The institution returned \$1,067 on check #930047118 dated October 15, 2009 and policies and procedures. This action is deemed acceptable and no further action is required.

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## FINDINGS AND REQUIRED ACTIONS (continued)

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C. FUND  
DISBURSEMENT  
AND REFUNDS:

**FINDING #2: Cal Grant Tuition Award Exceeds Actual Tuition Charges**

A review of 40 student files disclosed 1 case where the institution overpaid a student Cal Grant funds.

**DISCUSSION:**

The California Education Code indicates that Cal Grant tuition/fee awards shall be used only for tuition and student fees. Based on a recipient's financial need, the Commission makes tuition/fee payments up to a maximum annual award **not to exceed the school's actual tuition/fee charges**.

Student No. 19 was disbursed a full-time Cal B tuition award of \$3,236 on October 1, 2007 and then the institution reduced the award by \$937 on January 7, 2008. The \$937 was then added back on April 20, 2009. According to transcripts, the student withdrew from all units on November 2, 2007. The Account Ledgers show tuition was adjusted from \$6,195 to \$2,816 on December 28, 2007. Because the student's actual tuition charges equaled \$2,816, the student was only eligible to receive this amount in Cal Grant B tuition awards making \$420 ineligible (\$3,236-\$2,816).

**REFERENCES:**

California Education Code 69532 (b)  
2008-12 Institutional Participation Agreement, Article IV.B.1.ii  
Cal Grant Manual, September 2003, Chapter 9, page 4

**REQUIRED ACTION:**

The institution **must** return the ineligible amount of **\$420** for student No. 19. Furthermore, the institution **must** provide the written policies and procedures that will be put into place to ensure that Cal Grant funds for tuition will not exceed the actual tuition and fees charged to students.

**INSTITUTION RESPONSE:**

Policies and procedures supplied by the institution, as noted in the response to Finding C.1.

**AUDITOR REPLY:**

The institution returned \$420 on check #930047118 dated October 15, 2009 and policies and procedures. This action is deemed acceptable and no further action is required.

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**FINDINGS AND REQUIRED ACTIONS (continued)**

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F. FISCAL  
RESPONSIBILITY  
FOR PROGRAM  
FUNDS:

**FINDING: Cal Grant Funds Not Reconciled**

Accounting documents disclosed Cal Grant funds were not reconciled for the 2007-08 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, 2009, for award year 2008-09). 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 liability for payments not reported prior to the November month-end processing cycle.

For the 2007-08 award year, the Commission advanced the institution \$1,624,243.00 and the institution reported \$1,623,662.00 in payments on WebGrants. The institution also paid an invoice for \$581.00 for the award year. Upon examination of institution accounting records, the school made \$1,630,540.74 in disbursements to students. Of the \$1,630,540.74 disbursed, \$13,210.62 in payments was not reported to the Commission prior to the 2007-08 year-end reconciliation.

The unreported payments are unable to be reimbursed and are detailed in the following chart:

| <b>2007-08 Unreported Payments</b>       |                  |                         |                    |
|--|------------------|-------------------------|--------------------|
| <b>ID</b>                                | <b>CSAC Paid</b> | <b>Institution Paid</b> | <b>Difference</b>  |
| X2                                       | 2,068.00         | 15,012.00               | 12,944.00          |
| 24                                       | 4,416.00         | 4,416.42                | .42                |
| X8                                       | 4,114.00         | 4,116.00                | 2.00               |
| 38                                       | 3,168.00         | 3,432.00                | 264.00             |
| 40                                       | 4,470.00         | 4,470.20                | .20                |
| <b>Total 2007-08 Unreported Payments</b> |                  |                         | <b>\$13,210.62</b> |

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## FINDINGS AND REQUIRED ACTIONS (continued)

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The total disbursements to be reimbursed by the Commission for the 2007-08 award year equaled \$1,617,330.12 (\$1,630,540.74 actual disbursements less \$13,210.62 unreported payments). Therefore, the institution disbursed \$6,331.88 less than the amount advanced by the Commission \$1,624,243.00 Commission advanced less \$581.00 invoice less \$1,617,330.12 reimbursable payments) as follows:

| 2007-08 Undisbursed Funds                             |           |                  |                   |
|---|-----------|------------------|-------------------|
| ID  | CSAC Paid | Institution Paid | Difference        |
| X1  | 11,096.00 | 10,403.00        | 693.00            |
| X3  | 11,260.00 | 9,383.00         | 1,877.00          |
| X4  | 11,260.00 | 11,259.00        | 1.00              |
| X5  | 6,925.00  | 6,922.00         | 3.00              |
| X6  | 2,012.00  | 2,011.52         | .48               |
| X7  | 6,033.00  | 6,032.60         | .40               |
| X9  | 4.00      | 0.00             | 4.00              |
| 36  | 10,321.00 | 6,568.00         | 3,753.00          |
| <b>Total 2007-08 Undisbursed Funds to be Returned</b> |           |                  | <b>\$6,331.88</b> |

**Cal Grant funds not reconciled is a recurring issue as this finding was also noted in the institution's November 2003 Grant Program Review.**

### REFERENCES:

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

### REQUIRED ACTION:

The institution **must** return **\$6,331.88** for the 2007-08 award year. The institution **must** also provide policies and procedures for reconciliation **that will be implemented** to ensure all payment transactions are reported by the Commission deadline and all undisbursed funds are returned to the Commission. These procedures should include time frames, staff titles, and specific areas of responsibility as it relates to the Cal Grant reconciliation process.

### INSTITUTION RESPONSE:

|                         |   |   |
|-------------------------|---|---|
| <b>Corporate Office</b> | Corporate   | Initiates the wires from the bank accounts once they are requested from the school and helps with reconciliation questions. |
| <b>Carl Henry</b>       | Director of Administrative and Financial Services | Performs the final review and approval of all bank reconciliations.   |

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**FINDINGS AND REQUIRED ACTIONS (continued)**

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|  |                           |  |
|--|---------------------------|--|
| <b>Silvia Guzman</b>                         | Director of SFS           | Monitors Cal Grant process   |
| <b>Accounting Department<br/>Jean Garcia</b> | Student Accountant        | Posts the funds to the general ledger and notifies C/S that the funds have been wired. The Accounting reconciliation that tracks the receipt, disbursement, and earned interest is completed by the Accounting department on a monthly basis, and reported to C/S. |
| <b>Jennifer Olevson</b>                      | Associate Director of SFS | Pays student Cal Grant on Webgrants from CARS list. Runs report from CARS of each student who was paid Cal Grant for the Qtr. & for the FY. Monitors and reconciles each quarter.  |
| <b>Yanela Morgan</b>                         | Associate Director of SFS | Help pay Cal Grant each quarter and reconciles.  |
| <b>Allison Lunsford</b>                      | Assistant Director of SFS | Help pay Cal Grant each quarter and reconciles.  |

**AUDITOR REPLY:**

The institution returned \$6,331 on check #930047118 dated October 15, 2009 and policies and procedures. This action is deemed acceptable and no further action is required.