

Grant Advisory Committee Chair's Report
Mary T. Lindsey, Chair
February 2007

In submitting the following report, I wish to acknowledge the efforts of GAC members and CSAC staff, and in particular acknowledge Catalina Misler, Kate Jeffrey, and Mary Robinson in contributing to the actual development and writing of this report.

The Grant Advisory Committee (GAC) workgroup met via three teleconferences in December 2006, January and February 2007 to discuss issues pertaining to Reconciliation Process and to the Institutional Participation Agreement (IPA.) On February 14, 2007, GAC met via teleconference to adopt the following recommendations to be presented to the Commissioners of the California Student Aid Commission:

The following are the recommendations:

RECONCILIATION PROCESS

The current process for reconciling the Cal Grant Program Funds consists of an annual reconciliation, to be final by October 15 each year following the close of the award year. The October 15 deadline has historically not been enforced. A recent audit found that large sums of money remain outstanding well past this deadline, and this resulted in an audit finding.

In April, 2006 the Commissioners approved a staff and GAC recommendation that this October 15 annual deadline be enforced for Fall through Spring term-based institutions. A special operations memo extended this deadline to December 31 for the 2005-06 award year. Summer term was excluded from this initial Commission action and referred back to the Grant Advisory Committee (GAC) because Summer terms often end in late August or early September, and October 15 deadline would not allow enough time for Institutions to reconcile a summer term. *The Commission has also approved a requirement for a **preliminary or "near"** reconciliation within 60 days of the close of each term.*

1. **Establish a December annual final reconciliation deadline for institutions with traditional academic years.** *Outstanding funds for the award year would be required to be returned to CSAC on or before that date. Using a December deadline instead of an October deadline precludes the need to have two deadlines, one for traditional academic years, and one for academic years that include a summer term for Cal Grant payments. GAC members and CSAC staff were in agreement with this recommendation*

2. **For Institutions that do not return outstanding funds by the deadline date or that return less than the appropriate amount, CSAC would generate invoices for outstanding funds, payable 30 calendar days from receipt of the invoice. If the refund to the state does not occur within the 30 days, a series of penalty**

letters would commence. Upon payment in full, an institution would receive an invoice indicating a zero balance.

3. **Consistent with current practice, students whose payments remain pending at the Institution, beyond December 31, would be permitted to enter an appeal process that permits them to receive payment of their grant.**

INSTITUTIONAL PARTICIPATION AGREEMENT (IPA)

In numerous discussions regarding the current draft of the proposed IPA, unresolved problems with expectations about the institution's role in determining Cal Grant eligibility arose. *These issues are critical to the development of a finalized IPA and are intertwined with the delivery process model.* Therefore:

GAC recommends that the existing IPA be extended pending a full review of the delivery process that evaluates the feasibility, cost-effectiveness, and efficiency of the following possibilities:

- *Movement to a fully centralized process with additional resources allocated to CSAC to take on responsibility for final determination of Cal Grant eligibility;*
- *Movement to a fully institution-based process with additional resources allocated to campuses to take on full responsibility for final determination of Cal Grant eligibility;*
- *Modification of the current hybrid process to clarify CSAC and institutional responsibilities for determination of Cal Grant eligibility with additional resources allocated where needed.*

Considerations upon which the above recommendation is based are:

The current draft of the revised IPA satisfactorily addresses some of the issues (the reconciliation process, the determination of high school GPA), but the GAC and CSAC staff reached an impasse on others (the determination of California residency, interest bearing accounts). In addition, expectations about the high school graduation requirement, which was put off pending CSAC counsel review, *remains as a pending issue for discussion and recommendation.*

For the most part the issues related to expectations about institutional responsibility for determining that Cal Grant eligibility requirements have been met. The "proposed draft of the IPA (IPA)" is premised on a hybrid model with CSAC generally having responsibility for making initial preliminary award decisions and institutions having final responsibility for ensuring the decisions are correct. CSAC bases the initial awards primarily on information from the FAFSA and GPA verification form. The IPA expects

campuses to confirm eligibility by identifying and resolving any instances where available information on the campus conflicts with the initial eligibility determination.

In principle, this expectation is reasonable. The irreconcilable problems surface when information that might affect Cal Grant eligibility is available on the campus but is not routinely used in the awarding of other financial aid (i.e., the state specific criteria). Expecting campuses to build into their Cal Grant awarding process the review of such information introduces significant new workload at the campus level. Rather than assuming campuses can absorb the additional workload without additional resources (which they cannot), the workgroup recommended that other options be identified.

- One alternative would be for CSAC to take responsibility for confirming the accuracy of the initial eligibility determination (a fully centralized process). In doing so, CSAC might need to improve the information on which the initial award determination is made so that it would take precedence over information that might be available at the campus. CSAC currently uses this approach with the determination of the Cal Grant GPA. Since the Cal Grant GPA is verified when submitted, campuses do not have better information to review.¹ CSAC has also used this approach in adopting the follow-up self-certification process that confirms high school graduation for the 2007-08 award year.
- A second alternative would be to provide institutions with the resources needed for making the final determination of Cal Grant eligibility so that they could absorb full responsibility for determining Cal Grant eligibility (a fully decentralized process).
- A third alternative could be an assessment of the accuracy of the current process. If the “error” rate in the current process is extremely low, establishing a special Cal Grant review process to duplicate the original eligibility determination may not be cost effective.²

Problems also occur with the expectation that campuses will have final responsibility for confirming Cal Grant eligibility when the eligibility requirement is not clearly specified or is very complicated. The determination of California residency is a good example. CSAC has not articulated the definition of Cal Grant residency for Cal Grant purposes completely enough for campuses to make a definitive Cal Grant residency determination. Moreover, because of the complexities in determining California residency, identifying conflicting information on the campus would require an extensive review even if CSAC did have a clear definition.

In support of the proposal to extend the existing IPA, members of the workgroup expressed significant reservations about the feasibility of resolving the remaining IPA issues and allowing sufficient time for review by institutional counsels prior to the

¹ Campuses typically 1) have no GPA information, 2) have GPA's calculated in a way different from the Cal Grant GPA, or 3) have a Cal Grant GPA based on a self-reported high school record.

² Note that ensuring a process with a very low error rate is separate from ensuring a process that is potentially error free. Both are needed.

Commission's consideration of the agreement. It was acknowledged by staff that legal counsel had not reviewed the draft IPA as yet. Pending the outcome of that review, it is premature for institutional participants to ask for a final review by their counsels. Concerns were also expressed regarding the short lead time that institutions will have for implementing any procedural changes that may be necessitated by the terms of the agreement.

GAC recommendations regarding specific IPA issues:

RECONCILIATION PROCESS

See Page one of this report, **Establish a December *annual final* reconciliation deadline for institutions with traditional academic years.**

COMMINGLING OPTION FOR INTEREST BEARING ACCOUNTS

The GAC recommends that the commingling option be available to campuses in all segments.

The workgroup recommended, (and GAC supported) that the requirement for holding Cal Grant funds in an interest bearing account follow the options provided by the federal government for federal student financial aid. Federal regulations permit commingling federal funds with funds from other sources if the institution's accounting records (e.g., subsidiary ledger) can track the federal funds as readily as if those funds were in a separate account. The commingling option is in recognition that it is a more efficient way for large institutions to handle funds and allows for higher yielding investment practices. The federal regulations also provide that a separate bank account can be required if institutions do not meet certain standards. The federal regulations apply equally to all five segments of higher education.

The proposed IPA extends the commingling option to public institutions but does not do so to private institutions. CSAC staff is concerned about the possible greater exposure to loss of Cal Grant funds that keeping Cal Grant funds in a commingled account might pose in the event of bankruptcy. Staff is also concerned that a commingled account might contribute to fraudulent use of Cal Grant funds, i.e., applying the funds to other institutional needs. While not convinced that a separate account would improve the State's ability to recover Cal Grant funds or avoid potential misuse, the workgroup was primarily concerned that access to the commingling option was based on segment rather than a more direct measure of risk for bankruptcy or other potential misuse of State funds. Clearly, most private and proprietary institutions are not at risk for bankruptcy or misuse of State funds but would nevertheless be treated as if they were. The workgroup was comfortable providing CSAC staff with discretion in how staff might identify at-risk institutions that would be required to establish separate bank accounts as long as the decision was not based on segment. However, staff felt they did not have the expertise or information on which to make such judgments.

CALCULATION OF INTEREST

The GAC continues to recommend that the calculation of interest on Cal Grant funds held on the campus recognize both positive and negative balances.

The workgroup recommended that the calculation of interest owed to CSAC be based on the net balance in the account (recognizing both positive and negative balances). Such an approach recognizes the loss of interest/investment revenue to the institution when institutions create a negative balance by advancing institutional funds to Cal Grant recipients rather than waiting for State funds. *It also recognizes that the State is holding funds and thus already earning interest on the funds that the institution would otherwise be advancing to recipients.* It is noted that when CSAC implements a “just-in-time” process for campuses to draw down Cal Grant funds, both positive and negative balances should decrease dramatically.

Although the language in the proposed IPA appeared to allow the use of net balances in calculating the annual interest earned on Cal Grant funds, CSAC staff interpreted the language to require interest on positive balances with no recognition of negative balances.

CAL GRANT GPA

The GAC recommends and supports the exclusion of the confirmation of the Cal Grant GPA from the list of campus responsibilities.

The workgroup recommended that the final determination of the Cal Grant GPA rest with CSAC since institutions typically do not have ready access to a GPA calculated according to the Cal Grant definition. Consistent with this recommendation, the list of eligibility requirements that institutions are to confirm does not include the Cal Grant GPA.

HIGH SCHOOL GRADUATION

The proposed IPA does not include high school graduation in the list of eligibility requirements that institutions are to confirm. Presumably, a final decision about statutory requirements regarding high school graduation self-reporting/confirmation awaits the Attorney General’s review of the current process. The GAC’s recommendation regarding high school graduation is pending until a final decision is received.

The following is for updates regarding discussions only:

The workgroup recommended that campuses not be required to collect any new information (i.e., high school transcripts) to confirm that a Cal Grant recipient has met the high school graduation requirement. Those campuses that do collect transcripts as part of their admission/enrollment process will ensure they do not contain evidence that a Cal Grant recipient has not graduated. Those who do not collect transcripts would not be expected to do so. However, if they have other self-reported information about high school graduation on the FAFSA or their enrollment records, they will ensure that those records do not conflict with CSAC’s initial determination that a student is eligible for a

Cal Grant if there is no follow-up self-certification process in place. If a follow-up self-certification process, such as the one for 2007-08, is in place, the workgroup recommended CSAC clarify that the follow-up self-certifications supercede the campus FAFSA and enrollment records so that a review of the campus self-reported records will not be needed.

CALIFORNIA RESIDENCY

THE GAC WAS UNABLE TO FORMULATE A RECOMMENDATION REGARDING STATE RESIDENCY REQUIRMENTS. GAC WILL CONTINUE TO WORK WITH CSAC STAFF ON THIS ISSUE.

The workgroup could not reach agreement on expectations for campuses in determining that Cal Grant recipients meet the California residency requirement. The application of the “conflicting information” principle proved problematic. Identifying what information might be conflicting is difficult because multiple factors go into determining residency and because CSAC has not clearly articulated what those factors are for purposes of Cal Grants and how they interact. One option would be for CSAC to use the determination of residency for tuition purposes made in accordance with regulations adopted by the various public segments. Under this approach, conflicting information at the public segments is simply a difference in the institutional and initial CSAC residency determinations. However, since each public segment has a somewhat different definition, this choice could result in different residency determinations for Cal Grant eligibility at different segments. Moreover, the independent and proprietary segments do not define California residency since it is not required for their admission or enrollment processes. Thus the workgroup recommended against this approach in favor of CSAC adopting its own definition for Cal Grant purposes to be applied to students in all segments. Concern was also expressed about the need for CSAC to adopt regulations for purposes of residency determination.

In order to make the latter approach work, CSAC would need a clearer and more complete definition of California residency so that campuses would know whether any particular information they had was actually conflicting. The workgroup supported CSAC’s proposed date for measuring the one-year physical presence test. CSAC currently requires a year of residency prior to March 2, although this requirement is not well known at the campus level. Under the proposed change, the required year of residency would be prior to the start of the fall term (publics) or September 20 (privates). This change would be a step to reducing differences in the CSAC and public segment determination of residency since all the public segments base their residency determinations on the fall time frame.

However, without a more complete definition of residency, the workgroup could not agree on what would constitute conflicting information. For instance, how does a student’s (or parent’s, in the case of a minor) intent to return to another state interact with

the physical presence test? An actual example is a military father of a minor student who has been stationed in California for over five years but has kept a home and paid taxes in another state because he eventually hopes to move back there. Another example is how a parent's undocumented status affects the residency of a minor student who is a U.S. citizen and has resided in California for years.

In addition, the workgroup was concerned about the significant workload that would be entailed if campuses were responsible for reviewing all information available on campus that could potentially conflict with CSAC's initial residency determination based on the FAFSA data. At a public institution the underlying information in each student's residency file would have to be carefully examined.³ In essence, the campus would need to make a residency determination for Cal Grant purposes, in accordance with CSAC's definition, that might vary from that used for institutional purposes. It is even less clear what information a private institution would be expected to review. Reconciling "red flags" for non-residency (e.g., a student who did not graduate from a California high school) surfaced as a possibility even though the red flags are not actually a factor in determining residency.

³ The final outcome of a public institution's residency determination for tuition purposes cannot be used since the Cal Grant standard is different (unless CSAC were to choose to designate the public segments' definitions as the Cal Grant standard in those segments).