



**UNIVERSITY OF CALIFORNIA, MERCED  
AUDIT AND ADVISORY SERVICES**

February 17, 2023

To: Charles Nies, Vice Chancellor for Student Affairs  
Subject: Title IV Review – Internal Audit  
Ref: UC Merced Audit Report No. M22A003

Internal Audit completed a review of the administration of programs under Title IV of the Higher Education Act of 1965 as part of its fiscal year (FY) 2022 Audit Plan.

Attached is the subject report. We appreciate the help we received from all personnel involved. If you have any questions, please feel free to contact me.

Respectfully reported,

Randy Schwantes  
Internal Audit Director

cc

Alexander Bustamante, Senior Vice President and Chief Audit and Compliance Officer  
Juan Sánchez Muñoz, Chancellor  
Gregg Camfield, Executive Vice Chancellor and Provost  
Luanna Putney, Associate Chancellor & Chief of Staff to the Chancellor, Chief Ethics & Compliance Officer  
Ron Radney, Director, Financial Aid and Scholarships



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**Title IV Review – Internal Audit  
Audit No. M22A003**

February 17, 2023

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## Title IV Review – Internal Audit Audit No. M22A003

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### I. MANAGEMENT SUMMARY

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Baker Tilly, US LLP (Baker Tilly) and the University of California, Merced (UC Merced or the University) Internal Audit department (collectively “Internal Audit” or “IA”), conducted a follow-up audit of prior Department of Education (ED) audit findings, including a review of risks, policies, procedures, and processes surrounding Title IV Federal financial aid. Internal Audit did not identify any high-risk observations throughout the course of the audit, and identified process improvement opportunities to strengthen internal controls regarding compliance with Federal financial aid regulations.

Detailed observations and management corrective actions are included in the following sections of the report.

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### II. BACKGROUND

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In 2019, the ED performed a review of UC Merced’s administration of the programs authorized pursuant to Title IV. The report identified six findings of noncompliance in the following areas:

- Failure to conduct a biennial review / prepare a biennial review report
- Failure to have a system to verify attendance at the start of a class
- Inadequate Satisfactory Academic Progress (SAP) policy
- Inadequate exit counseling
- Inaccurate NSLDS reporting
- Inadequate consumer information

The Office of Financial Aid and Scholarships (Office of Financial Aid) provided a response to ED in December 2019 of actions both completed and planned to be completed to address the six findings of noncompliance. The Office of Financial Aid has continued to make progress in addressing the findings, such as implementing processes to track academic activity, and consistently providing exit counseling materials to students separating (e.g., withdrawing, completing program) from the University.

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### III. PURPOSE, OBJECTIVES AND SCOPE

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The objectives of this audit were to review for compliance with the Higher Education Act requirements for consumer disclosures and reporting requirements, as well as follow up on prior ED audit findings.

Baker Tilly worked with UC Merced Internal Audit to perform the following procedures to meet the objectives related to this audit:

- Held kick-off meeting with key stakeholders to confirm scope, approach, timeline, and deliverables
- Requested and reviewed materials including:
  - Policies and procedures
  - Organizational charts, roles, and responsibilities, including the designation of the individual responsible for Title IV programs

- Relevant Title IV process information and documentation
- Reviewed for compliance with high-risk HEA consumer disclosures and reporting requirements
- Reviewed Title IV Aid process, including timing of return of aid and appropriate review of calculations
- Selected a sample of 20 students to review for eligibility and correct timing of payments
- Reviewed prior ED audit findings and ensure continued compliance with findings and related recommendations from the report
- Recommended enhancements to current processes, controls, and systems to achieve greater risk mitigation and efficiency
- Communicated conclusions, issues, and recommendations using UC Merced’s Internal Audit reporting template and through Internal Audits’ process.

#### IV. CONCLUSION

Internal Audit identified observations related to noncompliance with Federal financial aid requirements (e.g., satisfactory academic progress, enrollment reporting). Additionally, process improvement opportunities were identified regarding the Drug and Alcohol Abuse Prevention Program, academic activity reporting, and consumer information disclosures.

Observation details were discussed with management, who formulated action plans to address the issues. Details are presented below.

#### V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS<sup>1</sup>

1. **Improve Drug and Alcohol Abuse Prevention Program (DAAPP) Biennial Review Procedures and Ensure Compliance with Regulations**

##### **Background**

In response to the FY 2019 ED review finding – failure to conduct a biennial review and prepare a biennial review report – UC Merced developed and implemented a biennial review process and published a 2019-2020 biennial review report. However, there are opportunities to improve the current DAAPP processes and ensure compliance with regulations, as well as opportunities to assess the roles and responsibilities of departments involved in current DAAPP and biennial review processes. For example, the responsibility for facilitating the DAAPP program and biennial review is currently shared between Student Affairs, Human Resources, and Academic Personnel, with heavy involvement by the Ethics and Compliance Office. However, it is leading practice in higher education for the department who owns the relevant data and information (i.e., Student Affairs) to be responsible for the DAAPP and biennial review, with Compliance providing guidance, as needed.

##### **Observation**

The University’s DAAPP documented procedures are still in interim and do not reflect current practices. For example, the DAAPP Committee does not meet regularly (i.e., quarterly), as documented in the DAAPP procedures, and program and assessment information is not provided in a timely manner, subsequently

<sup>1</sup> Observations and recommendations are listed in the same order as the Department of Education report, to help show current status and follow up on prior findings.

impacting the timing of the biennial review (e.g., increased risk of delays or failure to meet review deadline). There is currently no documented procedure for holding responsible offices accountable (e.g., for performing roles and responsibilities related to DAAPP and biennial review in a timely manner, in accordance with started procedures). Inaccurate or outdated procedures can lead to confusion regarding staff responsibilities and inconsistencies or inaccuracies when onboarding new team members (e.g., if procedure does not accurately or completely reflect the current process). Further, without updated and clear procedures, there is a risk that the Biennial Review report is not completed timely (e.g., if there is a lack of clarity concerning who is responsible for providing the information and drafting the report).

Additionally, there is currently no procedure in place to monitor new and changing federal regulations related to DAAPP and ensure compliance with the Drug Free Schools and Communities Act (DFSCA) requirements. Noncompliance with these federal requirements can lead to repeat ED or other external audit findings, which could negatively impact Federal aid.

### **Recommendation**

The DAAPP Workgroup should review and update the DAAPP procedures to align with current practices. The procedures should outline and define responsibilities of parties involved in DAAPP and the biennial review process (e.g., who is responsible for providing the relevant information, reviewing and drafting the report, oversight of the process, and responsibilities related to compliance). Additionally, the DAAPP Committee should establish an effective cadence for regular meetings and ensure those meetings occur (e.g., quarterly, semiannually).

To maintain compliance with DAAPP regulations, the DAAPP Workgroup should implement a process to regularly (e.g., annually) compare regulations with current practices, as well as proactively monitor regulation changes. The DAAPP Workgroup should leverage available resources, such as the Federal Student Aid (FSA)<sup>2</sup> and National Association of Student Financial Aid Administrators (NASFAA)<sup>3</sup> membership and email subscriptions and the annual FSA virtual training conference<sup>4</sup>, to stay up to date on regulation updates and changes.

### **Management Corrective Action:**

By April 1, 2023, the DAAPP Workgroup will update the DAAPP procedure to incorporate the following elements:

- Updated meeting schedule to reflect the current practice
- Updated roles and responsibilities
- Process for proactively monitoring changes to regulations
- Escalation procedures for noncompliance

## **2. Maintain Academic Activity Reporting Procedures**

### **Background**

It was identified in the 2019 ED report that UC Merced did not have a system to verify attendance at the start of class. Verification of attendance or academic activity is necessary for students receiving federal financial aid. Academic activity must be demonstrated for students through the 60% point of the semester, or a Return of Title IV Funds (R2T4) is required. As UCM is not an attendance taking institution; the Office of Financial Aid has developed an academic activity policy and reporting process for which faculty are responsible for recording academic activity for students (i.e., within CatCourses or manually reporting to

<sup>2</sup> FSA What's New webpage: [What's New | Knowledge Center](#)

<sup>3</sup> NASFAA News webpage: [News \(nasfaa.org\)](#)

<sup>4</sup> FSA Training Conference: [FSA Training Conference \(ed.gov\)](#)

the Office of Financial Aid). The Office of Financial Aid is currently working with the Office of Information Technology (IT) to implement a course management system and develop improved guidance documentation (e.g., training and instructions with screenshots) for reporting academic activity. Other higher education institutions have recently begun requiring faculty to provide midterm grades as an alternative method of reporting academic activity.

#### **Observation**

N/A – The Office of Financial Aid has an Academic Activity Policy in place.

#### **Management Advice**

The Office of Financial Aid should continue to promote the Academic Activity Policy, to help ensure timely recording of academic activity. If there are instances of faculty or instructor noncompliance with the policy, consider escalation to the Office of the Executive Vice Chancellor and Provost, to help reiterate the importance and responsibilities of instructors/faculty regarding monitoring and reporting of academic activity.

### **3. Ensure Compliance with SAP Regulations & Improve SAP Monitoring and Appeals**

#### **Background**

In response to the FY 2019 ED review finding – inadequate SAP policy – UC Merced has updated the SAP policy in accordance with federal regulations regarding measuring the maximum timeframe and pace of completion. Federal regulations require that SAP must be evaluated at the end of each payment period for programs lasting one year or less; other programs require evaluation at least annually to correspond with the end of a payment period. The University must notify students of SAP evaluation results that impact the student's Title IV eligibility. SAP warnings (i.e., applicable for programs lasting one year or less) and SAP appeal processes are optional regulations.

#### **Observation**

Internal audit did not identify any observations relating to federal regulation requirements (34 CFR 668.34):

The following observations relate to optional federal guidance (34 CFR 668.34):

- The Office of Financial Aid has no mechanism for monitoring and notifying a student when a student is close to reaching the maximum timeframe outlined in the SAP policy.
- Students are not provided warning/notifications that they may lose federal aid due to SAP (e.g., no semester warning or probation period is provided prior to a student losing Title IV eligibility); note, these warnings/notifications are applicable only if SAP processes are performed more than once a year.
- There is no formalized guidance for evaluating SAP appeals (e.g., criteria for denial). This can lead to inconsistencies regarding appeal decision outcomes.

#### **Recommendation**

The following recommendations relate to optional federal guidance:

- The Office of Financial Aid should consider monitoring and notifying students who are approaching the maximum credit hour limit that they may lose federal aid due to SAP the semester before they become ineligible.
- Consider if it is feasible (e.g., assess opportunities to automate to reduce level of effort) to monitor SAP at the end of the fall semester, to identify students who may not be making satisfactory progress,

and providing them with a warning or probation period prior to the student losing eligibility at the end of the Spring semester (e.g., if the student continues to not make satisfactory progress).

- The Office of Financial Aid should formalize the SAP appeal process to enhance consistency of outcomes (e.g., define criteria and guidelines for appeal outcomes). The Office of Financial Aid should also track and regularly (e.g., annually) review appeal decision outcomes for consistency.

**Management Corrective Action:** By April 1, 2023 the Office of Financial Aid & Scholarships will add general appeal criteria and guidelines to our SAP policy in the Campus Catalog to enhance consistency of outcomes.

#### 4. Maintain Exit Counseling Procedures

##### **Background**

Within the 2019 ED report, it was identified that students did not consistently receive exit counseling materials upon graduating or withdrawing. To address this, the Office of Financial Aid has begun sending (e.g., via email and/or hardcopy) exit counseling materials to all students graduating or withdrawing, including tracking these communications in their system. Electronic and/or hardcopy counseling materials are sent to students within 30 days of withdrawing or completing their program.

##### **Observation**

N/A – All samples who withdrew from UC Merced (and did not subsequently re-enroll) were provided with exit counseling materials within 30 days of withdrawal.

#### 5. Enhance Efficiencies in Reporting Retroactive Withdrawals to NSLDS

##### **Background**

Within the 2019 ED report, it was identified that a student's enrollment change was not reported accurately to NSLDS. The Office of Financial Aid, in coordination with the Office of the Registrar, has updated its procedures to help ensure accurate and timely reporting of enrollment changes to NSLDS. Students complete a "Leaving UC Merced" form (submitted to the Office of the Registrar) as part of the withdrawal process. The date on this form can inform the date of determination of the student withdrawal. Office of the Registrar's NSC reporting process protocol for students "Leaving UC Merced" is as follows:

- For Leaving UC Merced forms submitted within the term dates, reporting to the National Student Clearinghouse (NSC) occurs during the regularly scheduled monthly reporting.
- For Leaving UC Merced forms submitted after the term ends (retroactive withdraws), the Office of the Registrar logs into NSC for each student and updates their withdrawal date when the request is approved by the Dean.

For students who do not complete a "Leaving UC Merced" form, they remain enrolled for the given term in accordance with Senate policy. If the student does appear on the "all failing grades report" at the end of the term, the Office of Financial Aid & Scholarships may or may not reverse aid depending on the last date of reported academic activity. UC Merced Financial Aid & Scholarships has 60 days from the date of determination (as required by federal regulations 685.309(b)(2) and 682.610(c)(2)) to report the enrollment change of any student with Federal financial aid to the National Student Loan Data System (NSLDS) and determine whether a R2T4 calculation is necessary (i.e., if student withdrew before the 60% point of the semester).

**Observation**

The process for reporting retroactive withdrawals to NSLDS can be manual and time consuming. The Office of the Registrar is often made aware of student withdrawals via the “Leaving UC Merced” form, and subsequently notifies the Office of Financial Aid. During audit fieldwork (i.e., June 2022), the Office of the Registrar was not able to successfully log into NSLDS; however, by January 2023, Internal Audit confirmed that the Office of the Registrar was provided access to NSLDS and able to successfully log in in order to perform periodic spot checks of enrollment status. Continued periodic spot checks by the Office of the Registrar would help ensure compliance with Federal regulations (e.g., to confirm enrollment changes were reported timely).

**Recommendation**

The Office of Financial Aid should ensure the Office of the Registrar staff can continue to log into NSLDS to perform spot checks of withdrawn student status updates.

**Management Corrective Action:** We have confirmed that the Associate Registrar is now able to log into NSLDS to spot check student reporting.

**6. Monitor and Better Communicate Consumer Information****Background**

In order to receive federal funding, institutions are required to produce and publish consumer information to their website. It was identified in the 2019 ED report that UC Merced did not provide adequate consumer information (e.g., completion, graduation, etc. disaggregated by gender and major racial and ethnic sub-group categories, as required). In coordination with the Office of Ethics and Compliance as well as Institutional Research & Decision Support, the Office of Financial Aid has updated its policies and consumer information webpage to include the required dashboards (e.g., key data disaggregated by demographic groups as required).

**Observation**

Consumer information is reported on multiple different University webpages and linked to a central website (<https://www.ucmerced.edu/right-to-know>). Ethics and Compliance performs an annual review of all data linked to this website to confirm that all links are working and point to accurate and updated information. While Internal Audit did not identify inaccuracies or inconsistencies as part of website review, the controls and process in place are not designed sufficiently to prevent inaccuracies or inconsistencies in information across University webpages.

**Recommendation**

Responsible Offices that include consumer information on their websites should implement a regular (e.g., annual), formal process for reviewing and updating their websites to ensure information is accurate and consistent. The process should include escalation procedures if data is outdated, inaccurate, and/or inconsistent between the webpages. Ethics and Compliance should continue to work with Responsible Offices annually to confirm they are reviewing and updating consumer information and coordinate with offices to ensure consistency across websites.

**Management Corrective Action:**

Ethics & Compliance will continue to work with Responsible Officers via the formal annual review to ensure that consumer information linked to the central Right to Know website is accurate and consistent. If a department fails to update consumer information as requested, Ethics & Compliance will escalate to

departmental management with a copy to the Chief Ethics & Compliance Officer. If still unresolved, the Chief Ethics & Compliance Officer will escalate to divisional leadership Evidence of the annual review is maintained in the Ethics & Compliance Box folder.