



---

## Internal Audit Report

---

### CARES Act Disbursements

Report No. SC-21-03  
February 2021

**Performed By**

Steve Architzel  
Principal Auditor

**Approved**

Jim Dougherty, Director  
Internal Audit & Management Advisory Services

---

## Table of Contents

---

<b>I.</b>	<b>EXECUTIVE SUMMARY</b> .....	<b>2</b>
<b>II.</b>	<b>INTRODUCTION</b>	
	Purpose .....	3
	Background .....	3
	Scope .....	4
<b>III.</b>	<b>Results</b> .....	<b>5</b>
	<b>APPENDICES</b>	
	APPENDIX A – Summary of Work Performed and Results .....	8

---

## I. EXECUTIVE SUMMARY

---

Audit and Management Advisory Services has completed a review of CARES Act Disbursements. The purpose of the audit was to provide assurance that activities at UC Santa Cruz are in compliance with the requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

UC Santa Cruz applied for and received funding under two CARES Act programs:

- The **Higher Education Emergency Relief Fund (HEERF)** was established in section 18004(a)(1) of the CARES Act. This money is allocated for two purposes: student financial aid and institutional funding to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. At least 50% of the funds associated with section 18004(a)(1) must be allocated towards student financial aid.
- The **Minority Serving Institutions (MSI)** funding is established Section 18004(a)(2) of the CARES Act. Unlike the funds under Section 18004(a)(1), MSI funding does not require institutions use at least 50% of these funds for financial aid grants to students.

Overall, we found that the local processes to manage CARES Act disbursements were reasonable for HEERF and MSI funding. While it would not be feasible to validate with certainty that every financial aid disbursement and every dollar spent for institutional purposes was proper, our testing did not find any specific and material instances of non-compliance.

Generally, the CARES Act gave fairly wide latitude to institutions to determine how funding is to be allocated. The scope of our review covered five main areas to determine whether:

- HEERF funding was properly allocated between student financial aid and institutional expenses.
- Institutional funds were properly used to cover costs associated with changes in the delivery of instruction due to COVID-19.
- Student financial aid was disbursed using a consistent methodology.
- Reporting requirements were being met.
- Funds were being disbursed timely.

Again, we found that the local processes to manage CARES Act disbursements were reasonable for HEERF and MSI funding and we did not find any specific and material instances of non-compliance. Therefore, no management corrective actions are necessary as a result of this audit.

---

## II. INTRODUCTION

---

### Purpose

The purpose of the audit was to provide assurance that activities at UCSC are in compliance with the requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This audit was included on the campus FY21 Internal Audit Plan.

### Background

The CARES Act was passed by Congress and signed into law on March 27th, 2020. As stated on the U.S. Department of Education's website:

*"This bill allotted \$2.2 trillion to provide fast and direct economic aid to the American people negatively impacted by the COVID-19 pandemic. Of that money, approximately \$14 billion was given to the Office of Postsecondary Education as the Higher Education Emergency Relief Fund, or HEERF." (U.S. Department of Education, ed.gov, 2020)*

HEERF funding under the CARES Act was allocated to a variety of different programs. UC Santa Cruz applied for and received funding for Section 18004(a)(1) and Section 18004(a)(2):

- The **Higher Education Emergency Relief Fund (HEERF)** is established in Section 18004(a)(1) of the CARES Act. This money is allocated for two purposes:
  - 1) The "Student" portion of HEERF is to be distributed as emergency financial aid grants for students. A minimum of 50% of HEERF funding must be spent within this student financial aid portion. Institutions, such as UC Santa Cruz, administer and distribute this financial aid locally without direct involvement from the U.S. Department of Education.
  - 2) The "Institutional" portion of HEERF may be used to cover costs associated with significant changes to the delivery of instruction due to the coronavirus.<sup>1</sup> No more than 50% of HEERF funding may be spent for these institutional expenses. As with the student portion, this funding gives institutions fairly wide discretion on the specific allotment of the funds without direct involvement from the U.S. Department of Education.
- The **Minority Serving Institutions (MSI)** funding is established in Section 18004(a)(2) of the CARES Act. Unlike the funds under Section 18004(a)(1), MSI funding does not require institutions use at least 50% of these funds for financial aid grants to students.

---

<sup>1</sup> There are some expenses explicitly prohibited by the law. For example they may not be used to pay contractors for pre-enrollment recruitment activities.

At UC Santa Cruz, responsibility to manage funding related to student financial aid belongs to the Financial Aid and Scholarships Office. Meanwhile the Office of Planning and Budget and the Executive Vice Chancellor of UC Santa Cruz together manage funding related to the institutional funding from HEERF and MSI.

## Scope

During the audit, we reviewed processes the university has put into place to ensure it is in compliance with the requirements of the CARES Act.

Generally, the CARES Act gave fairly wide latitude to institutions to determine how funding is to be allocated. However, the law does have some key criteria that was reviewed as part of this audit. Thus, we reviewed whether:

1. HEERF funding was properly allocated between student financial aid and institutional expenses.
2. Institutional funds were properly used to cover costs associated with changes in the delivery of instruction due to COVID-19.
3. Student financial aid was disbursed using a consistent methodology.
4. Reporting requirements were being met.
5. Funds were being disbursed timely.

In order to address these topics we:

- Reviewed guidance from the U.S. Department of Education and UCOP.
- We interviewed key personnel from Planning and Budget, the EVC, and Financial Aid and Scholarships Office.
- We reviewed publically available UC Santa Cruz web resources.
- We pulled financial data based on fund code for the various sources of federal dollars and conducted analyses of individual financial transactions.
- We reviewed data internally generated by the Financial Aid and Scholarships Office for accuracy.

### III. Results

Overall, we found that the local processes to manage CARES Act disbursements were reasonable for HEERF and MSI funding. While it would not be feasible to validate with certainty that every financial aid disbursement and every dollar spent for institutional purposes was proper, our testing did not find any specific and material instances of non-compliance.

Generally, the CARES Act gave fairly wide latitude to institutions to determine how funding is to be allocated. However, the law does have some key criteria that was reviewed as part of this audit. Thus, our review sought to address the following:

- HEERF funding was properly allocated between student financial aid and institutional expenses.
- Institutional funds were properly used to cover costs associated with changes in the delivery of instruction due to COVID-19.
- Student financial aid was disbursed using a consistent methodology.
- Reporting requirements were being met.
- Funds were being disbursed timely.

1. **HEERF funding was properly allocated between student financial aid and institutional expenses.**

UC Santa Cruz received a total of \$20.8 Million in CARES Act funding as shown in the table below:

Section 18004(a)(1)	
Institutional Portion	\$ 9,663,600.00
Student Portion	\$ 9,663,601.00
<b>Total Section 18004(a)(1)</b>	<b>\$ 19,327,201.00</b>

  

Section 18004(a)(2)	
Minority Serving Institution	\$ 1,509,387.00

  

CARES Act Total	
<b>Total CARES Act Funding</b>	<b>\$ 20,836,588.00</b>

Section 18004(a)(1) funding has a stipulation that a minimum of 50% of funding must be disbursed to students in the form of financial aid. Indeed, UC Santa Cruz has allocated \$1 more in the student portion than in the institutional portion. Furthermore, the Financial Aid and Scholarship Office has disbursed a large majority of these funds already. As of September 30<sup>th</sup> 2020, nearly 94% of the student portion had been disbursed – greatly reducing the risk that the University could wind up out of compliance with this 50% requirement in the event student financial aid disbursements are not completely drawn down but institutional funds are before the CARES Act funds expire on July 1<sup>st</sup> 2021.

Section 18004(a)(2) funding from the MSI program does not stipulate a percentage of funds which must be disbursed as student financial aid, though it may be used in that manor should the university choose to do so.

Therefore we believe HEERF funding was properly allocated between student financial aid and institutional expenses.

**2. Institutional Funds were properly used to cover costs associated with changes in the delivery of instruction due to COVID-19.4**

The “Institutional” portion of HEERF and the MSI funding may be used to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. UC Santa Cruz was allocated \$9,663,600 towards these institutional expenses within fund code 83048 and \$1,509,387 for MSI funding within code 83049.

We reviewed the overall categories of spending within both of these fund codes as of January 2021. The largest expense by category of expenses were of housing reimbursements totaling exactly \$3,000,000. Other large expenses included equipment and supplies which we found to be reasonable. We also conducted a judgmental sample of 100 transactions and did not find anything that appeared out of the ordinary. However, this review of individual transactions was quite limited: we simply reviewed transaction descriptions, dates, vender, and amounts to test for reasonableness.

Overall, we did not find any instances of institutional funds being used improperly during our review.

**3. Student Financial Aid was disbursed using a consistent methodology.**

The CARES Act gave institutions a great deal of latitude in determining how they would allocate and distribute financial aid. At UC Santa Cruz, the Financial Aid and Scholarships Office coordinated with a number of campus stakeholders including with the Student Union Assembly (SUA) and the Graduate Student Association (GSA). The chosen course of action ultimately was for a spring term disbursement varying from \$500 to \$1,400 per student depending on a number of factors including if students are: Pell recipients, independent students, students with reduced campus employment, and/or students impacted by local housing.

The Financial Aid and Scholarships Office chose to minimize additional application requirements for students in order to streamline the process. In light of a public briefing by the Department of Education in April 2020 requiring Title IV eligibility, a decision was made that any Graduate students who had submitted a Free Application for Federal Student Aid (FAFSA) to UC Santa Cruz anytime since 2005 were considered Title IV eligible for the purposes of this financial aid (as Title IV eligibility should be demonstrated by the completion of a FAFSA).

Recent additional guidance released by the National Association of Student Financial Aid Administrators will restrict UC Santa Cruz’s ability to use families under-employment status as a result of COVID-19 as a metric to determine financial aid disbursements for the remaining balance of CARES Act financial aid.

The overall approach used to determine CARES Act financial aid eligibility and the amount of aid given was logical and consistent.

Finally, we were provided internal data from the Financial Aid and Scholarships Office that was used to determine which specific students would qualify for the various levels of financial aid. We tracked the logic of the data including formulas used and found the formulas were consistently applied to the data following

the criteria requirements set forth by the Financial Aid and Scholarships Office and properly identified the correct amount of financial aid to provide these students based on this criteria.

**4. Reporting requirements are being met.**

Section 18004(e) of the CARES Act directs institutions receiving funds under Section 18004 of the Act to submit a report to the Secretary of Education describing the use of funds distributed from the Higher Education Emergency Relief Fund (HEERF). UC Santa Cruz is publishing these reports publically on the Office of Planning and Budget and the Financial Aid and Scholarships Office websites on a quarterly basis. The most recent quarterly reporting period ended on 12/31/2020 and these reports are indeed published as of early January 2021.

**5. Funds are being disbursed timely.**

Financial aid disbursements have generally been made more quickly than institutional spending – which is reasonable considering the nature of these funds. In fact, as of September 30<sup>th</sup> 2020, nearly 94% of the student portion allotted to UC Santa Cruz for financial aid had already been disbursed.

Spending for the insitutional portion has moved at a slower, but still reasonable pace. As of January 2021, the university has spent approximately 44% of the institutional funds within 83048 and 83049, (which must be spent prior to July 1<sup>st</sup> 2021) as shown in the table below:

Fund	Budget	Expenses + Liens	Balance	% Spent
83048	\$ 9,663,600.00	\$ 4,588,379.91	\$ 5,075,220.09	47.5%
83049	\$ 1,509,387.00	\$ 311,836.96	\$ 1,197,550.04	20.7%
<b>Total</b>	<b>\$ 11,172,987.00</b>	<b>\$ 4,900,216.87</b>	<b>\$ 6,272,770.13</b>	<b>43.9%</b>

It is important to note that the Office of Planning and Budget and the EVC have managed these funds via a funding proposal process which has allocated much of the funds for specific purposes even if these expenses have not yet been recorded in the university’s financial system. Additionally, with relatively few barriers on the use of this money, there is likely little danger of the university not being able to take full advantage of the funding. As a fail-safe the university could always increase the amount of financial aid they distribute under section 18004(a)(1).

Overall, we think it is quite likely that the university is on track to disburse all the money provided within the timeframes established by law.

\*\*\*\*



**APPENDIX A. SUMMARY OF WORK PERFORMED AND RESULTS**

<b>Preliminary Analysis</b>	
<b>Work Performed</b>	<b>Results</b>
Reviewed guidance from the U.S. Department of Education and UCOP.	<ul style="list-style-type: none"> <li>• A review of this guidance helped guide the development of the audit program.</li> </ul>
We interviewed key personnel from Planning and Budget, the EVC, and Financial Aid and Scholarships Office.	<ul style="list-style-type: none"> <li>• Discussions with these individuals helped guide the development of the audit program.</li> </ul>
We reviewed publically available UC Santa Cruz web resources.	<ul style="list-style-type: none"> <li>• A review of these documents helped guide the development of the audit program.</li> </ul>

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
HEERF funding was properly allocated between student financial aid and institutional expenses.	<ul style="list-style-type: none"> <li>• Section 18004(a)(1) funding has a stipulation that a minimum of 50% of funding must be disbursed to students in the form of financial aid. Indeed, UC Santa Cruz has allocated \$1 more in the student portion than in the institutional portion.</li> <li>• Section 18004(a)(2) funding from the MSI program does not stipulate a percentage of funds which must be disbursed as student financial aid, though it may be used in that manor should the university choose to do so.</li> <li>• Therefore we believe HEERF funding was properly allocated between student financial aid and institutional expenses.</li> </ul>
Institutional funds were properly used for to cover costs associated with changes in the delivery of instruction due to COVID-19.	<ul style="list-style-type: none"> <li>• We reviewed the overall categories of spending within both of these fund codes as of January 2021. The largest expense by category of expenses were of housing reimbursements totaling exactly \$3,000,000. Other large expenses included equipment and supplies which we found to be reasonable. We also conducted a judgmental sample of 100 transactions and did not find anything that appeared out of the ordinary. However, this review of individual transactions was quite limited: we simply reviewed transaction descriptions, dates, vender, and amounts to test for reasonableness.</li> <li>• Overall, we did not find any instances of institutional funds being used improperly during our review.</li> </ul>
Student Financial Aid was disbursed using a consistent methodology.	<ul style="list-style-type: none"> <li>• The CARES Act gave institutions a great deal of latitude in determining how they would allocate and distribute financial aid.</li> </ul>

	<ul style="list-style-type: none"> <li>• The chosen course of action ultimately was for a spring term disbursement varying from \$500 to \$1,400 per student depending on a number of factors.</li> <li>• The overall approach used to determine CARES Act financial aid eligibility and the amount of aid given is logical and consistent.</li> <li>• Finally, we were provided internal data from the Financial Aid and Scholarships Office which was used to determine which specific students would qualify for the various levels of financial aid. We tracked the logic of the data including formulas used and found the data was consistently applying the criteria requirements set forth by the Financial Aid and Scholarships Office and properly identifying the correct amount of financial aid to provide these students based on this criteria.</li> </ul>
<p>Reporting requirements were being met.</p>	<ul style="list-style-type: none"> <li>• UC Santa Cruz is publishing required reports publically on the Office of Planning and Budget and the Financial Aid and Scholarships Office websites on a quarterly basis. The most recent quarterly reporting period ended on 12/31/2020 and these reports are indeed published as of early January 2021.</li> </ul>
<p>Funds were being disbursed timely.</p>	<ul style="list-style-type: none"> <li>• As of September 30th 2020, nearly 94% of the student portion allotted to UC Santa Cruz for financial aid had already been disbursed.</li> <li>• Spending for the insitutional portion has moved at a slower, but still reasonable pace. Within funds 83048 and 83049, the university has spent approximatley 44% of the institutional funds (which must be spent prior to July 1st 2021).</li> <li>• With relatively few barriers on the use of this money, there is likely little danger of the University not being able to take full advantage of the funding. As a fail-safe the university could always increase the amount of financial aid they distribute under section 18004(a)(1).</li> <li>• Overall, we think it is quite likely that the University is on track to disburse all the money provided within the timeframes established by law.</li> </ul>