



UCSB Audit and Advisory Services  
Internal Audit Report

**Undergraduate Financial Aid**

April 24, 2012

**Performed by:**

Albert Rojas, Staff Auditor  
Benjamin Wong, Systemwide Auditor

**Approved by:**

Robert Tarsia, Acting Director

Report No. 08-12-0012

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AUDIT AND ADVISORY SERVICES  
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April 24, 2012

To: Director Mike Miller  
Office of Financial Aid & Scholarships

Re: **Undergraduate Financial Aid  
Audit Report No. 08-12-0012**

As part of the 2011-12 annual audit plan, Audit and Advisory Services conducted an audit of Undergraduate Financial Aid. Enclosed is the audit report detailing the results of our review.

The primary purpose of the audit was to ensure that the University of California, Santa Barbara Office of Financial Aid & Scholarships has implemented appropriate processes and internal controls for undergraduate financial aid to ensure compliance with University and Department of Education regulations and requirements. The scope of the review was limited to undergraduate financial aid for fiscal years 2011 and 2012. Our scope included:

- Financial Aid Disbursements
- Student Withdrawals
- Student Cancellations

The audit found that the Office of Financial Aid & Scholarships has appropriate processes and internal controls for undergraduate financial aid to ensure compliance with University and Department of Education regulations and requirements. However, the audit's findings suggest that enhanced department procedures for monitoring the quality of financial aid processing would help ensure that the department meets its quality control objectives.

We have included a copy of our detailed observations and management corrective actions. The management corrective actions provided indicate that each recommendation was given thoughtful consideration and that positive measures have been planned to implement the corrective actions. The cooperation and assistance provided during the review by Office of Financial Aid & Scholarships personnel was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

Robert Tarsia  
Acting Director  
Audit and Advisory Services

Director Mike Miller  
April 24, 2012

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Enclosure

cc: Chancellor Henry Yang  
Vice Chancellor for Student Affairs Michael D. Young  
Associate Vice Chancellor Ron Cortez  
UCSB Audit Committee  
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca  
Associate Director Blanca Nuila

**UCSB Audit and Advisory Services  
Undergraduate Financial Aid  
Audit Report No. 08-12-0012**

**PURPOSE**

The primary purpose of the audit was to ensure that the University of California, Santa Barbara (UCSB) Office of Financial Aid & Scholarships (OFAS) has implemented appropriate processes and internal controls for undergraduate financial aid to ensure compliance with University and Department of Education regulations and requirements.

**SCOPE, OBJECTIVES AND METHODOLOGY**

The scope of the review was limited to undergraduate financial aid for fiscal years 2011 and 2012. Audit objectives were developed for review of:

- Financial Aid Disbursements
- Student Withdrawals
- Student Cancellations

Table 1 in this section details the objectives for each review area.

To accomplish our objectives, we gained an understanding of current federal regulations, University requirements, and OFAS policies and procedures. We held discussions with OFAS management and staff to gain an understanding of OFAS procedures for determining and verifying eligibility, and awarding and disbursing financial aid. We evaluated OFAS business practices to determine whether they incorporate adequate internal controls, and performed detailed testing in several areas to determine whether internal controls are in place and operating as intended.

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<b>Table 1    Audit Objectives</b>	
Review Area	Objectives
<b>Evaluated and Unevaluated Financial Aid Applications</b>	<p>To determine whether:</p> <ul style="list-style-type: none"> <li>• Students were registered at UCSB.</li> <li>• Students were eligible to receive financial aid based on the cost of attendance and the expected family contribution.</li> <li>• Financial aid awards were calculated correctly based on the packaging parameters.</li> <li>• Students received the amount of financial aid they were eligible to receive.</li> <li>• Student financial aid otherwise appeared reasonable and supported.</li> </ul>
<b>Student Withdrawals</b>	<p>To determine whether:</p> <ul style="list-style-type: none"> <li>• The OFAS properly calculated the amount of Title IV aid the student earned.</li> <li>• The OFAS had appropriate backup to support the withdrawal calculations, including the date of withdrawal, percentage of completion, refund percentage, and what aid components were reduced.</li> <li>• Student returned unearned Title IV funds to the University, if applicable.</li> <li>• Any unearned Title IV funds were returned to the University within 45 days of the date that the Registrar’s Office determined the student withdrew, if applicable.</li> <li>• Student financial aid was otherwise reasonable and supported.</li> </ul>
<b>Student Cancellations</b>	<p>To determine whether:</p> <ul style="list-style-type: none"> <li>• BARC records reflect timely updating regarding aid that the students were not eligible to receive, if applicable.</li> <li>• Students paid back the financial aid amount they weren’t entitled to receive.</li> <li>• Student financial aid otherwise appeared reasonable and supported.</li> </ul>

Source: Auditor Analysis

**BACKGROUND**

The primary mission of the Office of Financial Aid & Scholarships (OFAS) is to provide students and their families with the financial resources to enable access to higher education for those who would not otherwise be able to attend. In order to accomplish its mission, the OFAS offers federal, state, and University aid. According to the UCSB Campus Profile published by Institutional Research and Planning for fiscal year 2011-12, the OFAS disbursed \$272,049,111 in undergraduate financial aid for fiscal year 2010-11. Table 2 summarizes the types of aid, the number of undergraduate students who received each type of aid, and the total amount of aid that was disbursed to undergraduate students for fiscal year 2010-11. There were approximately 15,531 students who applied for financial aid for fiscal year 2010-11.

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<b>Table 2 Undergraduate Student Financial Aid - Fiscal Year 2010-11</b>			
<b>Type of Aid</b>	<b>No. of Recipients*</b>	<b>Total</b>	<b>% of Total</b>
<b>Scholarships</b>			
Regents & Chancellor	302	\$1,663,501	0.61%
Other UCSB Scholarships	1,567	2,502,911	0.92%
National Merit	18	42,350	0.02%
Outside Agency	1,457	4,021,124	1.48%
<b>Total Scholarships</b>	<b>2,992</b>	<b>\$8,229,886</b>	<b>3.03%</b>
<b>Grants</b>			
Cal Grants	5,729	\$57,107,118	20.99%
Pell Grants	7,130	33,946,554	12.48%
Academic Competitive Grants	2,036	1,552,014	0.57%
UC Grants	9,763	65,254,397	23.99%
Other Federal Grants	1,235	2,908,308	1.07%
Other Non-UC Grants	52	343,544	0.13%
<b>Total Grants</b>	<b>10,411</b>	<b>\$161,111,935</b>	<b>59.23%</b>
<b>Loans</b>			
Perkins Loans	915	\$1,943,216	0.71%
Direct Loans	8,025	34,508,048	12.68%
Unsubsidized Direct Loans	6,221	19,538,023	7.18%
Agency Alternative Loans	425	4,385,262	1.61%
SB Foundation Loans	31	80,000	0.03%
<b>Total Loans</b>	<b>9,204</b>	<b>\$60,454,549</b>	<b>22.21%</b>
Parent Loans	2,187	\$32,101,437	11.80%
Work-Study**	819	1,188,184	0.44%
Fee Waivers	400	5,479,888	2.01%
VA/Voc Rehab Benefits	189	3,483,232	1.28%
<b>Total Aid</b>	<b>13,106</b>	<b>\$272,049,111</b>	<b>100.00%</b>

Source: 2011-12 Campus Profile – UCSB Institutional Research & Planning

\* Total unduplicated number of financial aid recipients for each category (column does not total).

\*\* Figures based on actual work-study earnings provided by OFAS.

The Federal Student Aid, an office of the U.S. Department of Education, ensures that all eligible individuals can benefit from federally funded financial assistance for education beyond high school. Federal student aid programs are authorized under Title IV of the Higher Education Act of 1965. Title IV programs, which are summarized in Table 3, include federal grants, loans, and work-study programs.

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To receive financial assistance from Title IV programs, students are required to complete the Free Application for Federal Student Aid (FAFSA). The federal deadline to submit the FAFSA is June 30 of each year; however, students who want to be considered for state and UC financial aid need to submit their FAFSA by March 2 of each year. With the information provided on the FAFSA, the Central Processing System, a federal contractor, calculates the applicant's expected family contribution (EFC) and checks the application for inconsistencies, contradictions, and missing data. The EFC effectively determines whether students qualify for financial assistance, and is a key factor in determining how much financial assistance students would receive.

<b>Table 3 Title IV Federal Student Aid Programs</b>		
<b>Grants</b>	<b>Loans</b>	<b>Work-Study</b>
<ul style="list-style-type: none"> <li>• Pell Grants</li> <li>• Federal Supplemental Educational Opportunity Grants</li> <li>• Academic Competitiveness Grants</li> <li>• National Science and Mathematics Access to Retain Talent</li> <li>• Teacher Education Assistance for College and Higher Education Grants</li> <li>• Leveraging Educational Assistance Partnership (LEAP) and Special LEAP Grants</li> </ul>	<ul style="list-style-type: none"> <li>• Direct Loan Program</li> <li>• Federal Perkins Loans</li> </ul>	<ul style="list-style-type: none"> <li>• Work-Study</li> </ul>

See Department of Education's Website @ [http://federalstudentaid.ed.gov/about/title4\\_programs.html](http://federalstudentaid.ed.gov/about/title4_programs.html) for additional information for each program.

Other primary sources of financial aid include the State of California and the University of California. State aid is provided in the form of Cal Grants, administered by the California Student Aid Commission, which determines the student's eligibility for two types of grants, Cal Grant A & Cal Grant B. Cal Grant A awards are made to students from low and middle income families, and provide funds only for tuition assistance. For UC students, this includes the mandatory fees charged to all UC students, but not the campus-based fees (i.e., student services fees) that vary from campus to campus. Cal Grant B awards are made to students from disadvantaged and low income families. In the first year of eligibility, these awards include a \$1,551 Access Grant; in the second through fourth years, the awards include fee assistance in addition to the Access Grant.

University of California grants are awarded to undergraduate students who are considered on-time FAFSA applicants, and who are determined to have sufficient financial need as determined by OFAS.



The following terms are central to the work of OFAS:

- Evaluated Financial Aid Applications - FAFSA applications selected for further review by the Department of Education and OFAS due to inconsistencies, contradictions, or missing data. Students selected for further review are required to provide additional documentation to OFAS to either support or revise the questioned information.
- Unevaluated Financial Aid Applications - FAFSA applications not selected for further review. Information included on the application is used to determine financial aid eligibility, as well as how much financial assistance the student would receive.
- Student Withdrawal - A withdrawal occurs when a student decides not to attend a certain quarter after classes have officially begun.
- Student Cancellations - A cancellation occurs when a student decides not to attend a particular quarter(s) and has alerted the Registrar's Office prior to the beginning of that quarter (before classes have begun).
- Packaging - Packaging is a process that determines the amount of financial aid the student is qualified to receive based on the EFC and the cost of attendance.

The OFAS uses multiple systems to transfer financial aid data between OFAS, the Department of Education, and other University systems. One of the main systems used for financial aid processing is EDEXpress. EDEXpress is an application provided by the Department of Education to process and package financial aid awards and to manage Title IV student financial aid records. Wave, another system that is integral to OFAS financial aid processing, is an internally developed system that includes the student's grade point average (GPA), demographic and registration information, completed units, document tracking, conference notes, disbursement information, and packaging summary.

There are 26 full-time and 2 part-time staff members, and approximately 13 student employees, who engage in the financial aid process. The OFAS recently hired a Business Officer and filled the Quality Assurance Manager and Work-Study Manager positions.

## **SUMMARY OPINION**

The audit found that the OFAS has appropriate processes and internal controls for undergraduate financial aid to ensure compliance with University and Department of Education regulations and requirements. However, the audit's findings suggest that enhanced department procedures for monitoring the quality of financial aid processing would help to ensure that the department meets its quality control objectives.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

**DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

**A. Financial Aid Monitoring**

The audit findings suggest that enhanced department procedures for monitoring the quality of financial aid processing would help ensure that financial aid is processed correctly. We selected samples of 10 evaluated students, 10 unevaluated students, 10 student withdrawals, and 15 student cancellations, for the period July 2010 through December 2011, for detailed review. The audit found the following:

- Student financial aid packages were incorrectly awarded in two instances:
  - In one instance, a student was over awarded and disbursed \$4,976 in financial aid. The student had cancelled his/her enrollment for UCSB's Summer Sessions, but OFAS overlooked the financial aid award when processing the student cancellation.
  - In another case, a student's budget was not increased for summer quarter even though he/she had increased enrollment units. The OFAS reviewed the student's Pell Grant amount, determined that it was under-awarded, and properly increased the amount of the award. However, the student's recommended unsubsidized loan amount should also have been increased by \$402.

The audit also found that:

- Secondary reviews to ensure accuracy are performed for financial aid withdrawal processing and financial aid applications that involve manual calculations/revisions by OFAS personnel; however, they are not performed for other types of processing (e.g., cancellations, unevaluated applications, etc.) due to resource limitations. The lack of secondary reviews increases the risk that errors will not be detected. We did note that there are other quality control measures used by both OFAS and Central Processing System to help ensure the accuracy of financial aid information.
- There may not be sufficient checks on the accuracy of student information provided, since only 30% of financial aid applications are reviewed in detail by requesting additional documentation to support the information noted on the FAFSA. Although this is consistent with federal government mandates, it may not be sufficient to ensure adequate quality control. When more resources were available in previous years, the OFAS was able to review approximately 70% of the student applications.
- Although not a federal requirement, multi-year comparisons of applicant asset and income information, a quality control procedure that is useful in detecting financial aid fraud, are not being routinely completed; only student applications already selected for further review have multi-year reviews.
- Management reports regarding the amounts of financial aid required to be returned to the University due to cancellations and withdrawals are not generated. Most of the student withdrawals in our selected sample occurred after the students completed 60% of the quarter. This suggests that some students are aware that if they complete 60% of the quarter, they are eligible to receive 100% of financial aid even if they withdraw

from the University. Title IV regulations state that, "Up through the 60% point in each payment period or period of enrollment, a prorated schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. After the 60% point in the payment period or period of enrollment, a student has earned 100% of the Title IV funds he or she was scheduled to receive during the period." The OFAS recently started to track write-off students who are repetitively on the write-off report generated by OFAS. However, producing and reviewing regular management reports regarding financial aid required to be returned to the University could help detect trends so that proactive measures could be taken. Write-offs occur when the University is unable to recover the amounts of financial aid that a student is ineligible to receive 6 months after receiving those funds.

We also noted that the OFAS cannot ensure that the financial information reported on the FAFSA is the same financial information that is reported to the Internal Revenue Service (IRS). The Department of Education has acknowledged that this is an ongoing issue for all institutions of higher education, and is changing the process by requiring that tax transcripts be sent directly to the institutions beginning with the 2012-13 academic year.

To ensure that financial aid is processed correctly, the OFAS should implement enhanced procedures for monitoring the quality of financial aid processing that include:

- Performing secondary reviews for student cancellations and other types of financial aid events.
- Performing multi-year comparisons of applicant income and asset information.
- Producing and reviewing regular management reports regarding financial aid required to be returned to the University due to cancellations and withdrawals.
- Continuing to monitor students who repetitively withdraw from the University.

In addition, the OFAS should attempt to collect the over-awarded amount of financial aid that the audit found to be disbursed to the student.

The OFAS may want to initiate discussions with the UC Office of the President or other UC campuses regarding the issue of students who repetitively withdraw from the University after they have completed 60% of the quarter. Although these students are eligible to receive federal financial aid, there could be discussions on developing restrictions on receiving UC financial aid in these cases.

### **Management Corrective Actions**

The OFAS agrees that continued commitment to further enhance our department procedures for monitoring the quality of financial aid will ensure that all of our quality control objectives are met. To that end, we have hired a new Quality Assurance Manager for the sole purpose of identifying risks associated with the awarding process and to determine whether our processes are effectively and efficiently mitigating risks while still complying with federal, state, and University regulatory policies. The OFAS agrees with the recommendations:

- To perform secondary reviews on cancellations. However, due to the large number of cancellations involved, the OFAS is currently exploring alternate ways to automate this

secondary review process while at the same time adding test sample reviews in this area. We will also explore the possibility of tracking repeat student withdrawals and of monitoring aid retracted from student awards as a result of said process.

- That conducting multi-year comparisons of income and asset information would help in addressing concerns of potential fraud. However, our current database system is year-specific and cannot handle multi-year comparisons as proposed. The OFAS is fully committed to minimizing, and whenever possible, eliminating risk of potential fraud. For example, we have stepped up our efforts to ensure that multi-year reviews do take place whenever there is conflicting information, as required by law, during the verification review process. Our office has also been a systemwide leader, since fiscal year 2010-11, in promoting the use of the IRS retrieval tool, which allows FAFSA applicants to request and retrieve their income and tax data from the IRS, to further mitigate fraud risk.
- For collecting the over awarded amount of financial aid that the audit found to be disbursed to the student. The OFAS has taken corrective action to recoup the over-award funds as required by law.

The OFAS acknowledges that students are aware of return of Title IV requirements more than ever before, which has made them aware of the 60% withdrawal process; however, schools are responsible for providing this information to all students as part of consumer information disclosures requirements. To help limit potential risk to the University, our office has adopted a policy to suspend future quarter aid for students at risk of academic disqualification. This preventive measure has yielded positive measurable results in that we have prevented students likely to withdraw from receiving aid.

The OFAS is fully committed to implementing the recommended enhancements brought to light through this audit. The major enhancements will be addressed through the system rewrite the OFAS is currently undergoing. A new delivery system will allow for more oversight, efficient practices, and ensure that we are able to follow all federal, state, and University regulations.

Audit and Advisory Services will follow-up by July 1, 2013, to ensure that the corrective actions have been implemented by OFAS.

## **B. Financial Aid Systems**

Each UC campus has its own systems for processing financial aid. The audit noted that UCSB uses multiple systems to exchange large amounts of sensitive financial aid data between OFAS, Department of Education, and other University systems, on a daily basis. To mitigate the risks associated with the transfer of data between these systems, the OFAS has developed a system of daily checklists for its Operations Unit which detail whether or not individuals are allowed to use the systems when updates occur, the tasks that need to be completed, the time when the updates occur, the duration of the updates, and the initials of the individual who performed the function. However, the required transfers of data between systems do increase risks of compromised data and data integrity.

It is our understanding that a planned rewrite of financial aid systems, scheduled for completion in fiscal year 2015-16, will reduce risks by eliminating the transfer of information between EExpress and Wave.

**Management Corrective Actions**

Audit and Advisory Services will follow up on the status of the financial aid system project as part of a planned fiscal year 2012-13 progress audit of the ongoing Student Information Systems project.