



Internal Audit Report

FINANCIAL AID AND SCHOLARSHIP OFFICE

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Approved
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Table of Contents

I. EXECUTIVE SUMMARY	2
II. INTRODUCTION	
Purpose	3
Background	3
Scope.....	4
III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION	
A. Scholarships Reconciliation.....	5
B. Blue and Gold Opportunity Plan Over Awarded.....	6
C. Reconciling and Monitoring Reports Production	7
D. Written Policies and Procedures Completeness.....	8

I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of Financial Aid & Scholarship Office (FASO) compliance with federal student aid programs (Title IV funding) and university policies; and assessed the effectiveness of controls in place. We focused our review in undergraduate student financial awards management, operational processes, and compliance reviews.

Overall, FASO had established effective controls over operational processes necessary to carry out their business objectives and was in compliance with federal student aid programs and university policies. FASO management and staff were cognizant of its mission and focused on providing services that best served UCSC student financial needs. With the increasing financial aid demand, FASO continuously worked on balancing limited resources available, regulatory requirements, and applicant needs. This included awarding and disbursing student financial awards; and monitoring students' data to ensure compliance with applicable rules and regulations.

In addition, one of the strengths of the campus FASO operation was the integration of the campus academic information system (AIS) as the financial aid system of record providing for automated student academic data/enrollment updates.

The following observations were identified during our review requiring management corrective action:

A. Scholarships Reconciliation

Scholarships were not fully reconciled; credit balances were not reconciled to undisbursed awards.

B. Blue and Gold Opportunity Plan Over Awarded

A student was incorrectly awarded \$6,800 from the Blue and Gold Opportunity Plan due to a keying error on a verified financial aid application.

C. Reconciliation and Monitoring Reports Production

A number of critical reconciliation and monitoring reports, involving the extraction of data from various sources and using different applications, were generated manually by one person and could not be easily replicated by another individual.

D. Written Policies and Procedures Completeness

FASO has developed written policies and procedures in place but they were not complete as recommended by Information for Financial Aid Professionals (IFAP).

Management agreed to all corrective actions recommended to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III of this report.

II. INTRODUCTION

Purpose

The purpose of this audit was to evaluate the effectiveness of controls and compliance with federal student aid programs (Title IV funding) and university policies in Financial Aid & Scholarships Office over award management and compliance monitoring.

Background

The campus Financial Aid & Scholarship Office (FASO) is part of the Enrollment Management unit under the Division of Undergraduate Education. The office is composed of a Director, a Senior Associate Director, an Associate Director, 22 staff, and 14 student staff.

The primary mission of FASO 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 FASO processes grants (Federal, State, and University), loans (subsidized, unsubsidized, and private), scholarships, and federal work study to qualified students and parents.

In fiscal year 2012-2013, FASO disbursed over \$260 million financial aid to over 12,000 students: \$176 million grants, \$80 million loans, \$6 million scholarships, and \$3 million federal work study.

Types of aid available to undergraduate students are largely University of California Santa Cruz (UCSC) Grants, Federal Pell Grants, Cal Grant A&B, Federal Supplemental Educational Opportunity Grant (SEOG), Federal Student Perkins Loans, Federal Direct Subsidized and Unsubsidized Loans, Federal Parent PLUS Loans, Private Loans, Federal Work-Study, and Veteran Benefits.

Academic Information System (AIS) is UCSC's system of record supporting financial aid and this system is integrated with student admissions, student records, and academic advising. Other applications pertaining to financial aid, include but not limited to, FAFSA - Free Application for Federal Student Aid, G5 – the U.S. Department of Education's payment system, COD – the U.S. Department of Education's Common Origination and Disbursement, NSLDS – National Student Loan Data the U.S. Department of Education's central database for student loans and grants.

UCSC is a participant of the Quality Assurance Program established by the U.S. Department of Education allowing UCSC to use individualized approaches to verify students for financial aid. A student selected for verification is required to submit documentation to FASO to check for FAFSA accuracy. The Financial aid advisor may update or adjust an individual's Institutional Student Information Record (ISIR) as appropriate based on documentation received and/or the financial advisor's professional judgment.

A student must be making satisfactory academic progress (SAP) toward his/her degree to qualify for financial aid and loan balances are subject to type, annual, and aggregate limits.

Scope

The scope of the audit focused on the following:

- Reviewed a sample of undergraduate student financial applications selected for verification in academic year 2012-2013. Testing included:
 - ✓ Accuracy of awarded and disbursed amounts,
 - ✓ Enrollment data fulfilled SAP requirements,
 - ✓ Loan counseling was provided as applicable, and
 - ✓ Appropriate documentation was received as requested.
- Expanded our review of undergraduate student financial applications to another set of samples specifically related to tax verification due to an error that was identified in the first set of samples.
- Reviewed a sample of undergraduate students' summer financial aid applications in academic year 2012-2013. This group was tested separately because the summer financial aid application process was not automated. Testing included:
 - ✓ Accuracy of awarded and disbursed amounts,
 - ✓ Enrollment data fulfilled SAP requirements,
 - ✓ Loan counseling was provided as applicable.
- Reviewed various FASO reports including:
 - ✓ Spring 2013 cumulative loan debt report,
 - ✓ Spring 2013 SAP report,
 - ✓ September SCF_JR_ISIR_SUSP_PMP report.
- Reviewed academic year 2011-2012 grants and loans reconciliations.
- Reviewed the FASO June 2013 scholarships reconciliation.
- Reviewed FASO policies and procedures.

We did not perform testing on the return of Title IV Funds (R2T4) as this area was tested in the PricewaterhouseCoopers annual A-133 audit with no exception noted in the prior year. Also, we did not test Federal Work Study given the amount represented only 1% of the total financial aid disbursed.

III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

A. Scholarships Reconciliation		
Scholarships were not fully reconciled; credit balances were not reconciled to undisbursed awards.		
Risk Statement/Effect		
Without a complete reconciliation of scholarships; from amounts received to amounts deposited, amounts entered on the general ledger, amounts disbursed to students, amounts undisbursed to students, and credit balances on the general ledger may not represent undisbursed awards.		
Agreement		
A.1	The Financial Aid and Scholarship Office will initiate a collaborative solution with Financial Affairs to determine the best strategy to fully reconcile the scholarships. The option of starting with a new account next year will be reviewed.	Implementation Date
		3/31/14
		Responsible Manager
		Senior Associate Director Operations

A. Scholarships Reconciliation - Detailed Comments

Reconciliation of FASO scholarships included matching amounts disbursed with amounts deposited, and ensuring that a debit entry corresponded to a credit entry. As of June 2013, approximately \$94,000 in scholarship credit entries on the UCSC general ledger were not reconciled to undisbursed awards.

There is always a timing difference between scholarship received and disbursed. Credit balances should be reconciled in detail ensuring amounts received are equal to amounts disbursed and amounts undisbursed. Undisbursed credit amounts may need to be refunded to originated entities after certain time limits or may not fully cover undisbursed awards.

B. Blue & Gold Opportunity Plan Over Awarded		
A student was incorrectly awarded \$6,800 from the Blue and Gold Opportunity Plan due to a keying error on a verified financial aid application.		
Risk Statement/Effect		
When students are over-awarded from the Blue & Gold Opportunity Plan, the plan’s funding intent is not met, and other students with the most financial need are not provided with assistance.		
Agreement		
B.1	FASO will conduct sample reviews on verified financial aid applications targeting adjustments/updates more likely to have errors.	Implementation Date
		9/1/14
		Responsible Manager
		Senior Associate Director Operations

B. Blue & Gold Opportunity Plan Over Awarded - Detailed Comments

We randomly selected ten financial aid applications subjected to the verification process. These applications were determined to be more likely to require updates or adjustments to student financial aid application data based on documentation received.

Of the ten samples reviewed, one student was required to provide tax verification; the student parents’ adjusted gross income was listed as zero in AIS which allowed the student to receive \$6,800 Blue and Gold Opportunity Plan fund. Our review of the student’s submitted documentation disclosed the student parents’ adjusted gross income was over \$100,000 which exceeded the plan’s \$80,000 limit.

On the above exception identified, initial reporting from parents on the FAFSA had the adjusted gross income as zero. Upon verification, additional assets were identified and the actual adjusted gross income (AGI) reported on the tax forms. Assets data was updated in AIS and AGI data was inadvertently skipped and left at zero.

Because this error occurred within a small sample size, we expanded our review to include another ten financial applications requiring tax verifications, and no exceptions were noted.

FASO used to perform reviews on sampled financial aid applications; this review was ceased due to resources. We believe FASO should conduct financial aid application reviews on adjustments and updates more likely to have errors impacting student award amounts.

C. Reconciling and Monitoring Reports Production		
A number of critical reconciliation and monitoring reports, involving the extraction of data from various sources and using different applications, were generated manually by one person and could not be easily replicated by another individual.		
Risk Statement/Effect		
Significant delays could occur in reconciling data between different systems, submitting reports to the government, and reviewing student data to ensure compliance with applicable rules and regulations if the person preparing critical reconciliation and monitoring reports was unavailable, and they needed to be created by a second individual.		
Agreement		
C.1	FASO will either cross train a second individual to generate reconciling and monitoring reports (excel spreadsheets) and/or evaluate the cost benefit automating these reports.	Implementation Date
		6/30/14
		Responsible Manager
		Director

C. Reconciling and Monitoring Reports Production - Detailed Comments

During our review, we received a number of reports in excel format; these reports were used to reconcile data between different applications such as AIS and COD, monitoring student data such as loan balance, plus other purposes. We noted these reports extracted data from different sources such as COD, AIS, etc., and used different applications such as Microsoft applications to sort and compare data.

We found that a second individual has not been trained on generating the subject excel spreadsheets/reports and final reports can take hours to produce. These excel spreadsheets/reports are critical for data reconciliation and compliance monitoring; we believe it is important to develop alternatives ensuring production of these reports and/or improve efficiency.

D. Written Policies and Procedures Completeness		
FASO has developed written policies and procedures in place but they were not complete as recommended by Information for Financial Aid Professionals (IFAP).		
Risk Statement/Effect		
Without a complete set of written policies and procedures, FASO could be criticized by federal funding agencies for not having adequate control activities.		
Agreement		
D.1	Financial Aid and Scholarship Office will use Information for Financial Aid Professionals examples of topics that should be included in a school’s financial student aid policies and procedures identifying offices responsible and/or develop written policies and procedures within the office’s responsibilities.	
		Implementation Date
		03/31/14
		Responsible Manager
	Director	

D. Written Policies and Procedures Completeness - Detailed Comments

We obtained and reviewed written FASO policies and procedures and reviewed the FASO website. We also discussed existing written policies and procedures with the Associate Director Operations, who provided us with a gap analysis prepared by his staff of those procedures that have not been formalized. Required processes are in place, and we were informed that they were working toward developing the completed set of written policies and procedures. We encourage FASO to continue its efforts in this area as a complete set of written policies and procedures is considered a required control activity by IFAP.
