



**REPORT ON  
PROGRAM COMPLIANCE REVIEWS  
FISCAL YEAR 2007-08**

**September 30, 2008**

Legislative Requirement:  
*2007-08 Budget Act Item # 7980-001-0001 Provision 4*

This report has been prepared by California Student Aid Commission pursuant to the requirements in the 2007-08 Budget Act Item # 7980-001-0001 Provision 4:

*Of the funds appropriated in Schedule (1), \$175,000 is available for 2.0 positions to increase program compliance reviews for institutions participating in the Cal Grant Program under Chapter 1.7 (commencing with Section 69430) of Part 42 of the Education Code and the Assumption Program of Loans for Education under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of the Education Code, with the objective of auditing higher risk institutions once every three years. The audits shall emphasize verification of applicant eligibility, fund disbursement, and payment reconciliation. The commission shall prioritize its review of institutions that have demonstrated noncompliance in prior audits. The commission shall report to the Legislature and the Governor by September 30, 2008, on the institutions audited, the rate of noncompliance with each major program requirement, and the steps taken to address noncompliance.*

## EXECUTIVE SUMMARY

The California Student Aid Commission (Commission) is responsible for the effective oversight and efficient administration of Cal Grant and Assumption Program of Loans for Education (APLE) financial aid programs. This includes ensuring program integrity through compliance audits and reviews of the institutions participating in the programs. These reviews give the Commission a measure and process to safeguard the assets it has entrusted to the institution, to check the accuracy and reliability of the data submitted, and to ensure and protect the overall integrity of the Commission's programs.

In response to the 2007 Budget Act # 7980-001-0001, Provision 4, and to maximize the use of its limited resources, the Commission incorporated a more risk-based approach in selecting the institutions and student records for audit. The Commission has revised its Cal Grant audit program to include High Risk and Low Risk (Focused) audit reviews. The High Risk review emphasizes the verification of applicant eligibility, fund disbursement, and payment reconciliation and is applied to institutions with a high risk of material findings. The Focused review is a more streamlined audit program that focuses on the most common areas of non-compliance and is applied to lower risk institutions. The Commission also instituted an audit review of the APLE and California Community College Transfer Entitlement Cal Grant (E2) programs using a Focused review format. Institutions that were scheduled for audit and were participating in both, APLE and E2, programs were audited together as a combined review.

During the 2007 Award Year, July 1, 2007 through June 30, 2008, the Commission initiated seventy-five (75) audits that are in various stages of completion; the following table shows the number of audits by program.

Type of Audit Program	No. of Compliance Reviews
Cal Grant - High Risk	7
Cal Grant - Focus	5
E2	23
APLE	23
APLE/E2 (Combined)	17

Cal Grant audit results will be provided in next year's report. The data on the E2 and APLE audits indicated that for the most part the participating institutions have complied with applicable state, federal and Commission requirements.

**TABLE OF CONTENTS**

Executive Summary

Introduction..... 4

Background ..... 4

Data Summary ..... 8

Conclusion..... 15

## INTRODUCTION

The California Student Aid Commission (Commission) is the state's principal provider of intersegmental statewide grant aid to postsecondary students. Founded in 1955 as the California State Scholarship Commission, the Commission's primary programmatic responsibilities include administration of the Cal Grant Program, the Chafee Grant Program and several targeted state scholarship and loan assumption programs. The Commission administers financial aid awareness and outreach programs, such as the California Student Opportunity and Access Program and Cash for College, in collaboration with business, private industry, and community-based organizations. The Commission is also the designated State guaranty agency responsible for the Federal Family Education Loan (FFEL) Program which it administers through its auxiliary organization, EDFUND. The Commission maintains responsibility in the FFEL Program with financial aid program administration, policy leadership, program evaluation and information development and coordination.

The Commission consists of 15 appointed members. Eleven members are appointed by the Governor and represent segments of the state's higher education community, postsecondary education students, and the general public. In addition, the Speaker of the Assembly and the Senate Rules Committee each appoint two Commission members as representatives of the general public.

In its policy decision-making, the Commission receives advice and recommendations from staff; advisory committees, including the Grant Advisory Committee, the Loan Advisory Council, and the Cal-Soap Advisory Committee; the EDFUND Board; and ad hoc committees comprised of individuals that represent colleges and universities, secondary schools, student groups, the business community, lending institutions, and various levels of government. The Commission's strong tradition of public participation stems from its commitment to continuous improvement and responsiveness in the development and delivery of its financial aid programs and services.

The 2007-08 Budget Act requires that the Commission report to the Legislature and Governor on the audits of the Assumption Program of loans for Education (APLE) and Cal Grant high risk institutions to determine the institutions' compliance with applicable state, federal and Commission requirements. As required, the report provides data on the institutions audited, the rate of noncompliance with each major program requirement, and steps taken to address noncompliance.

## BACKGROUND

The Legislature has a long history of supporting higher education access for California's students. The Commission administers the Cal Grant and specialized programs for the State of California. Below is a general description of Cal Grant and Specialized Programs:

**Cal Grant A** - assists with tuition and fees at public and independent colleges, and some occupational and career colleges. At the University of California and the California State University, the award covers up to full system-wide fees. Coursework must be for at least two academic years. There are two Cal Grant A awards: Entitlement and Competitive. A Cal Grant A award is held in reserve for students attending a California Community College until they transfer to a four-year college. Awards are renewable for up to four years, with an additional year if the student is attending a mandatory five year program.

**Cal Grant B** - assists with a living allowance and tuition and fee assistance for low-income students. Awards for most first-year students are limited to an allowance for books and living expenses. When renewed or awarded beyond the freshman year, the award also helps pay for tuition and fees. The awards for tuition and fees are the same as those for Cal Grant A. For Cal Grant B, coursework must be for at least one academic year. There are two types of Cal Grant B awards: Entitlement and Competitive. Awards are renewable for up to four years, with an additional year if the student is attending a mandatory five year program.

**Cal Grant C** - assist with tuition and training costs at occupational or vocational programs. The award includes an amount for books, tools and equipment. Funding is available for up to two years, depending on the length of the program.

**California Community College Transfer Entitlement Cal Grant (E2)** - High school students who graduated July 1, 2000 or after, and go to a California Community College may receive a Cal Grant award to attend a four-year college. Awards are guaranteed for students who have at least a 2.4 community college GPA, meet the admissions requirements for the qualifying four-year college, meet the Cal Grant eligibility and financial requirements, apply by March 2 of the award year and are under age 28 as of December 31 of the award year.

**Assumption Program of loans for Education (APLE)** - The APLE is a competitive teacher incentive program designed to encourage outstanding students, district interns, and out-of-state teachers to become California teachers in subject areas where a critical teacher shortage has been identified or in designated schools meeting specific criteria established by the Superintendent of Public Instruction. Participants may receive up to \$19,000 in loan assumption benefits over four years for completing teaching service.

## **Compliance Reviews**

Compliance reviews are conducted to review and analyze the administration of the Commission's programs at each participating institution and to provide information and feedback to institutional staff to assist them in taking corrective action, if necessary. Through interviews and reviews of records, compliance staff analyzes the adequacy and enforcement of institution-established internal controls. These controls help safeguard the operational and fiscal integrity of the Commission's programs. A compliance review provides an opportunity to:

- evaluate the institution's administration of the program
- ensure compliance with applicable laws, regulations, Commission policies and procedures, and the Institutional Participation Agreement
- evaluate the institution's controls and procedures
- document reasons for specific problem identified in the institution's routine processing and exceptions monitoring
- initiate corrective action, including recovery of funds
- assist in the correction and/or prevention of future problems, and
- initiate any necessary administrative actions to encourage appropriate use of funds.

## **Cal Grant Program – High Risk Institution Audits**

The basic components of the compliance review for the Cal Grant Program are general eligibility, applicant eligibility, fund disbursement, completion of rosters and reports, file maintenance/record retention and payment reconciliation. In response to the 2007-08 Budget

Act requirements and recommendations from other internal audits of the Cal Grant Program, the Commission revised its audit program for the Cal Grant program for high risk institutions to emphasize verification of applicant eligibility, fund disbursement, and payment reconciliation.

An institution is considered a high risk institution if there were major findings noted in the prior audit. A pool of high risk institutions will be developed each year ranked by the following risk factors: the number of findings, the amount of funds returned to the Commission and the amount of time since the latest review and input from the prior auditor (if applicable).

The revised audit program was developed with input from the Commission's Program Administration and Services Division during the first half of 2007-08. A training plan was developed and the audits were started during the first week of March 2008. In order to test the changes in the audit program for conformity to the requirements of the 2007-08 Budget Act and to facilitate the training of the compliance staff, two California Community Colleges, two California State University's, two University of California's and four California Private Institutions were selected. The initial institutions that were selected had only minor findings in a prior audit.

By the end of June 2008, 7 audits had been started but have not been completed (see Cal Grant High Risk Audits Table1). In 2008-09, approximately 40 percent of the audits conducted will be at high risk institutions. If major findings are still noted, a follow up audit will be scheduled within three years. Also if major findings are noted in chain institutions (Heald, ITT etc.) additional audits will be conducted at other institutions in the chain.

#### **Cal Grant Program – Low Risk Institution Audits**

The Commission also established a focused audit program for the Cal Grant program for low risk institutions which verifies only applicant eligibility, fund disbursement, and payment reconciliation.

A low risk institution is one that had minor or no findings noted in prior audits. A pool of low risk institutions will be developed each year ranked by the following risk factors: the number of findings, the amount of funds returned to the Commission and the amount of time since the latest review and input from the prior auditor (if applicable).

The low risk audit program was developed in conjunction with the development of the high risk audit program noted above. By the end of June 2008, 5 audits had been started but have not been completed (see Cal Grant Focused Audits Table 2). In 2008-09, approximately 30 percent of the audits conducted will be at low risk institutions. Compliance staff started 10 focused audit reviews during the months of July through September 2008.

#### **California Community College Transfer Entitlement Cal Grant (E2) and the Assumption Program of loans for Education (APLE)**

The Commission also established focused audit programs for E2 and APLE which emphasizes institutional criteria and applicant eligibility.

The audit programs for the E2 and APLE audits were developed during July through December 2007. A training plan was developed for the auditors and the audits started in April 2008. The Commission had not previously audited these areas. All institutions with E2 and APLE participants were selected for review. Reviews were conducted between April 2008 and August 2008. The results of these audits are provided on Table 3 in the E2 Focused Audits, E2 Focused Audits and APLE/E2 Combination Focused Audits sections.

The E2 Focused audit program was developed to verify the applicant's eligibility at completion of the Community College and transfer to a four year college. California Education Code Section 69436(d)(3)(B) requires the Commission to randomly select a minimum of 10 percent of the new and renewal E2 awards and that the institutions verify that the recipient meet the requirements regarding graduating from a California high school. Only those institutions required to verify the high school graduation requirement were selected for the audits. The focus audit verified the institutions eligibility to participate in the program, that the institution specifically verified the student's high school graduation requirement, and that the verification was done correctly. By the end of June 2008, 23 audits had been started and 20 completed (see Cal Grant Focus Audits Table 2). In all completed audits there were no findings noted.

The APLE Focused audit program was developed to verify the applicant's eligibility. Institutions are required to verify the student's eligibility at time of ALPE application. The number of APLE applicants at the institution determined the amount of students that would be selected for verification. The focused audit verified the institutions eligibility to participate in the program and that the student's eligibility was verified correctly. By the end of June 2008, 23 audits had been started and 8 completed (see Cal Grant Focus Audits Table 2). In all completed audits there were no findings noted.



## DATA SUMMARY – HIGH RISK AUDITS

**Table 1**  
**Cal Grant High Risk Audits**  
**Institutions audited and the status of the audit reports**

Institutions Audited	Audit Stage		
	Audit Work	Draft Report	Final Report
California State University at Sacramento	X		
Dominican University of California	X		
California State University at Long Beach	X		
California State University at Los Angeles	X		
College of the Canyons	X		
California State University at Channel Islands	X		
Western Career College – Citrus Heights	X		

**Table 2**  
**Cal Grant High Risk Audits**  
**Rate of Noncompliance with Each Major Program Requirement**

Institutions Audited	Audit Findings		
	Verification of Applicant Eligibility	Fund Disbursement	Payment Reconciliation
No audit has not been completed and issued final			

**Table 3**  
**Cal Grant High Risk Audits**  
**Steps Taken to Address Noncompliance**

Institutions Audited	Finding	Actions Taken
No audit has not been completed and issued final		

## DATA SUMMARY – CAL GRANT FOCUSED AUDITS

**Table 1**  
**Cal Grant Focused Audits**  
**Institutions audited and the status of the audit reports**

Institutions Audited	Audit Stage		
	Audit Work	Draft Report	Final Report
American River College		X	
Milan Institute - Visalia	X		
Lassen College	X		
Napa Valley College		X	
Sierra College	X		

**Table 2**  
**Cal Grant Focused Audits**  
**Rate of Noncompliance with Each Major Program Requirement**

Institutions Audited	Audit Findings		
	Verification of Applicant Eligibility	Fund Disbursement	Payment Reconciliation
No audit has not been completed and issued final			

**Table 3**  
**Cal Grant Focused Audits**  
**Steps Taken to Address Noncompliance**

Institutions Audited	Finding	Actions Taken
No audit has not been completed and issued final		

**DATA SUMMARY – CALIFORNIA COMMUNITY COLLEGE TRANSFER  
ENTITLEMENT CAL GRANT (E2) FOCUS AUDITS**

**Table 1  
E2 Focused Audits  
Institutions audited and the status of the audit reports**

Institutions Audited	Audit Stage		
	Audit Work	Draft Report	Final Report
Art Center College of Design			X
California College of the Arts			X
California Institute of the Arts			X
California Lutheran University			X
California State University Sonoma	X		
Design Institute of San Diego			X
Devry Institute of Technology - Pomona			X
Humboldt State University			X
New School of Architecture			X
Simpson University			X
So CA Institute of Architecture	X		X
University of La Verne			X
University of the Pacific			X
Azusa Pacific University			X
Brooks Institute			X
Chapman University			X
CSU Bakersfield			X
CSU Chico			X
CSU San Bernardino			X
CSU San Marcos	X		
CSU Stanislaus			X
Loma Linda University			X
Woodbury University			X

**Table 2**  
**E2 Focused Audits**  
**Rate of Noncompliance with Each Major Program Requirement**

Institutions Audited	Audit Findings		
	Institutional Criteria	Applicant Eligibility	No Findings
Art Center College of Design			X
California College of the Arts			X
California Institute of the Arts			X
California Lutheran University			X
Design Institute of San Diego			X
Devry Institute of Technology - Pomona			X
Humboldt State University			X
New School of Architecture			X
Simpson University			X
University of La Verne			X
University of the Pacific			X
Azusa Pacific University			X
Brooks Institute			X
Chapman University			X
CSU Bakersfield			X
CSU Chico			X
CSU San Bernardino			X
CSU Stanislaus			X
Loma Linda University			X
Woodbury University			X

**Table 3**  
**E2 Focused Audits**  
**Steps Taken to Address Noncompliance**

Institutions Audited	Finding	Actions Taken
All institutions were in compliance		

**DATA SUMMARY – ASSUMPTION PROGRAM OF LOANS FOR  
EDUCATION (APLE) FOCUS AUDITS**

**Table 1  
APLE Focused Audits  
institutions audited and the status of the audit reports**

Institutions Audited	Audit Stage		
	Audit Work	Draft Report	Final Report
Antioch University-Santa Barbara	X		
Holy Names College	X		
La Sierra University			X
Mills College			X
National Hispanic University		X	
Notre Dame de Namur University		X	
Occidental College	X		
Patten University		X	
San Diego Christian College			X
University of San Diego			X
Westmont College			X
Whittier College	X		
William Jessup University	X		X
Alliant International University-San Diego	X		
Argosy University-Orange County	X		
California Polytechnic State University, San Luis Obispo	X		
Loyola Marymount University	X		
New College of California	X		
Pepperdine University - Malibu			X
St. Mary's College of California	X		
Stanford University	X		
Touro University International			X
Vanguard University of Southern California	X		

**Table 2**  
**APLE Focused Audits**  
**Rate of Noncompliance with Each Major Program Requirement**

Institutions Audited	Audit Findings		
	Institutional Criteria	Applicant Eligibility	No Findings
La Sierra University			X
Mills College			X
National Hispanic University		X	
Notre Dame de Namur University		X	
Patten University		X	
San Diego Christian College			X
University of San Diego			X
Westmont College			X
William Jessup University			X
Pepperdine University - Malibu			X
Touro University International			X

**Table 3**  
**APLE Focused Audits**  
**Steps Taken to Address Noncompliance**

Institutions Audited	Finding	Actions Taken
National Hispanic University	Ineligible Applicant (not enrolled half time)	Student removed from participation
Notre Dame de Namur University	Ineligible Applicant (no educational loans)	Student removed from participation
Patten University	Ineligible Applicant (not enrolled in Fall or Spring terms)	Student removed from participation

**DATA SUMMARY – APLE/E2 COMBINED FOCUS AUDITS**

**Table 1  
APLE/E2 Combination Focused Audits  
institutions audited and the status of the audit reports**

Institutions Audited	Audit Stage		
	Audit Work	Draft Report	Final Report
Concordia University	X		
Hope International University	X		
Mount St. Mary's College	X		
Pacific Oaks College	X		
Pacific Union College	X		
Santa Clara University	X		
The Masters College	X		
Biola University	X		
CA Baptist University	X		
CSU East Bay	X		
CSU Fresno	X		
UC Berkley	X		
UC Davis	X		
UC Irvine	X		
UC Riverside	X		
UC Santa Cruz	X		
USC	X		

**Table 2  
APLE/E2 Combination Focused Audits  
Rate of Noncompliance with Each Major Program Requirement**

Institutions Audited	Audit Findings		
	Institutional Criteria	Applicant Eligibility	No Findings
No audit has not been completed and issued final			

**Table 3  
APLE/E2 Combination Focused Audits  
Steps Taken to Address Noncompliance**

Institutions Audited	Finding	Actions Taken
No audit has not been completed and issued final		

## **CONCLUSION**

The Commission is responsible for the effective oversight and efficient administration of authorized Federal and State financial aid programs. This includes ensuring program integrity through compliance audits and reviews of the institutions participating in the Commission's programs. Institutions participating in the Cal Grant Program, Specialized Programs and Cal-SOAP are monitored through the Commission's Program Compliance Office.

The 2007-08 Budget required that the Commission's compliance reviews focus more on high risk institutions, applicant eligibility, fund disbursement, and payment reconciliation and APLE participant eligibility. The Commission modified its audit programs accordingly.

While the Cal Grant audits are not complete, the data indicates that, for the most part, institutions are correctly verifying E2 and APLE student eligibility. The Commission will continue to monitor the Cal Grant, E2 and APLE program participants for noncompliance of statutory requirements and take steps to address noncompliance.