

CALIFORNIA STUDENT AID COMMISSION

PROGRAM ADMINISTRATION AND SERVICES DIVISION

February 22, 2018



Chris Vitelli
President
Merced Community College
3600 M Street
Merced, CA 95348-2898

RE: Program Compliance Review ID#81700123700

Dear Mr. Vitelli:

This letter is in reference to the response to the Program Compliance Review report and the return of liabilities. All required actions have been addressed satisfactorily. The institution may now consider the program review for the 2015-16 award year closed, with no further action required.

Thank you for the courtesy and cooperation extended to the Commission staff during the review. Your continued effort and consideration toward the Commission's programs will help produce an efficient and beneficial student financial assistance program.

Sincerely,

A handwritten signature in blue ink that reads "Catalina Mistler". The signature is fluid and cursive.

Catalina Mistler, Deputy Director
Program Administration and Services Division

Enclosure

- c. Tracy Veyl, Director of Financial Aid, Merced Community College
Andre Urquidez, Director of Business & Fiscal Services, Merced Community College
Program Review File



***Program Compliance Office
Cal Grant Program Review Report***

2014-15 Award Year

**Merced Community College
Program Review ID#81700123700**

**3600 M Street
Merced, CA 95348**

Program Review Dates:

February 27 – March 2, 2017

Auditor:

Nati Bugarin

Report Approved by:

Catalina Mistler, Deputy Director
Program Administration and Services Division

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AUDITOR'S REPORT

SUMMARY

We reviewed Merced Community College's administration of California Student Aid Commission (Commission) programs for the 2014-15 award year.

The institution's records disclosed the following deficiencies:

- Eligible Cal Grant awardee not paid
- Satisfactory Academic Progress (SAP) policy not implemented
- Cal Grant funds not reconciled for the 2013-14 and 2014-15 award years
- Interest earned on Cal Grant funds not returned timely

BACKGROUND

The Commission performs institution compliance reviews to ensure program integrity and institution compliance with applicable laws, policies, contracts and institutional participation agreements as they pertain to the following grant programs administered by the Commission:

Cal Grants

B and C

The following information, obtained from the institution and the Commission's database, is provided as background on the institution:

A. Institution

- Type of Organization: Public Institution of Higher Education
- President: Chris Vitelli
- Accrediting Body: Western Association of Schools & Colleges

B. Institutional Persons Contacted

- Sharon Allred: Director of Financial Aid
- Traci Veyl: Interim Director of Financial Aid
- Joe Allison: Director of Business & Fiscal Services
- Andre Urquidez: Senior Accounting Manager

C. Financial Aid

- Date of Prior Commission Program Review: October 2001
- Branches: None
- Financial Aid Programs: Federal: SEOG, Pell, and Work-Study
State: Cal Grants B and C
- Financial Aid Consultant: Customers Bank, 115 Munson Street,
New Haven, CT 06511

AUDITOR'S REPORT (continued)

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our review is to provide the Commission with assurance that the institution adequately administered Commission programs and complied with applicable laws, policies, contracts and institutional participation agreements as they pertain to the grant programs administered by the Commission.

The review focused on, but was not limited to, the following areas:

- A. General Eligibility
- B. Applicant Eligibility
- C. Fund Disbursement and Refunds
- D. File Maintenance and Records Retention
- E. Fiscal Responsibility for Program Funds

The specific objectives of the review were to determine that:

- Administration systems have adequate controls to ensure that grant funds received by the institution are secure.
- Administration systems have adequate controls to ensure that grant payments are accurate, legal and proper.
- Accounting requirements are being followed.

The procedures performed in conducting this review included:

- Evaluating the current administrative procedures through interviews and reviews of student records, forms and procedures.
- Evaluating the current payment procedures through interviews and reviews of student records, forms and procedures.
- Reviewing the records and grant payment transactions from a sample of 40 students who received a total of 38 Cal Grant B awards and 2 Cal Grant C awards within the review period. The program review sample was selected from the total population of 1,431 recipients.
- Reviewing the records of unpaid Cal Grant recipients from a sample of 32 students who appeared on the institution's roster but were not paid for the award year. The program review sample was selected to include all unpaid students.

The review scope was limited to planning and performing procedures to obtain reasonable assurance that Commission grant funds were administered according to the applicable laws, policies, contracts and institutional agreements. Accordingly, transactions were examined on a test basis to determine whether grant funds were expended in an eligible manner. The auditor considered the institution's management controls only to the extent necessary to plan the review.

AUDITOR'S REPORT (continued)

OBJECTIVES,
SCOPE AND
METHODOLOGY
(continued)

This report is written using the exception-reporting format, which excludes the positive aspects of the institution's administration of the Commission grant programs.

The names and social security numbers of the sample of students reviewed have been excluded from the body of this report and have been replaced by identifying numbers.

CONCLUSION

In conclusion, this report records the findings from our review and identifies the required actions necessary to improve controls and ensure the adequate administration of the Commission's grant programs. The matters raised in this report are only those which have come to our attention during the course of the compliance review and do not necessarily represent a comprehensive record of all the matters.

VIEWS OF
RESPONSIBLE
OFFICIALS

The findings were discussed with Institution representatives in an exit conference on March 2, 2017. The Institution staff concurred with all findings.

We appreciate the cooperation and assistance of the management and staff during the course of this review.

Catalina Mistler, Deputy Director
Program Administration and Services Division

FINDINGS AND REQUIRED ACTIONS

APPLICANT
ELIGIBILITY:

FINDING 1: Eligible Cal Grant awardee not paid

A review of 32 unpaid students disclosed 1 case in which the student was eligible to have received Cal Grant funds for the 2014-15 award year but was not paid.

DISCUSSION:

The Commission provides reports such as the Unable to Determine Report, the Automatic Leave Report and the Unclaimed Awards Report to assist institutions in determining which students have potential Cal Grant Eligibility.

Merced Community College was provided with a list of 32 Cal Grant recipients that were not paid for the 2014-15 award year. The institution determined that student U29 met all eligibility requirements but failed to award and disburse Cal Grant funds to the student. Regardless, the institution cannot process Cal Grant payments for the unpaid student as the 2014-15 academic year has closed.

REFERENCES:

California Education Code 69436
Cal Grant Manual, Chapter 7, October 2005
Cal Grant Handbook, Chapter 15, page 147, 2/11/2016 – Version 2.1

REQUIRED ACTION:

The institution is required to submit policies and procedures to ensure all potential Cal Grant recipients are awarded.

INSTITUTION RESPONSE:

“Once verification has been completed, the student will be awarded and payment amount will be based on the students enrollment status at first census. The first census date is established by the Merced College Admissions and Records Office. All disbursements of Cal Grant will be paid after first census has occurred and will be disbursed through BankMobile. Merced College Financial Aid staff will review the Cal Grant roster weekly to award all eligible students and report any updated statuses on WebGrants. Once a month the Director of Financial Aid will review the unpaid roster to ensure that all eligible students are awarded. All students awarded after the first payment of Cal Grant will be paid on the next available disbursement date as shown on the Merced College website.”

COMMISSION REPLY:

The policies and procedures are deemed acceptable. No further action is required for this finding.

FINDINGS AND REQUIRED ACTIONS (continued)

APPLICANT
ELIGIBILITY:

FINDING 2: Satisfactory Academic Progress (SAP) policy not implemented

A review of 40 student files revealed 2 cases in which the institution failed to implement their SAP policy.

DISCUSSION:

Institutions are required to establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining SAP in his or her educational program.

The institution's SAP policy must include all periods of the student's enrollment including periods in which the student did not receive Title IV funds, and transfer credits that are applicable to the student's educational program. An institution's SAP policy must include the following elements:

- A qualitative component
- A quantitative components
- A maximum time-frame (150% of the normal program length)
- An incremental measurement
- A designated amount of work that must be completed per increment
- A determination at the end of each increment regarding the student's progress
- An appeal process
- Procedures for re-establishing SAP eligibility

A review of SAP is not complete until both the qualitative and quantitative measures have been reviewed.

At Merced Community College, students must maintain a cumulative Grade Point Average (GPA) of 2.0, complete 67% of cumulative units attempted and not exceed 90 attempted units. The Institution checks SAP after each semester.

Students who do not meet all of the cumulative academic requirements at the end of the semester will be placed on "Warning" status. Students who are placed on "warning" status may continue to receive financial aid for one more semester. If the student does not meet all of the cumulative academic requirements at the end of their "Warning" semester, the student will be placed on financial aid "Disqualification". Students who are on "Disqualification" status may file an appeal for consideration of reinstatement of financial aid eligibility or **a student may re-establish financial aid eligibility by meeting all cumulative SAP requirements in the subsequent semester.**

A review of the academic transcripts of student 3 revealed that the student should have been placed on "Disqualification" status at the end of the Spring 2014 semester as the student failed to meet all cumulative academic requirements as illustrated below:

FINDINGS AND REQUIRED ACTIONS (continued)

Semester	Attempted	Completed	CPGA	Status
Fall 2013	12	12	1.333	Warning
Spring 2014	13	13	1.800	Disqualification
Fall 2014	13	13	2.235	
Spring 2015	14	14	2.292	

A review of the student file and discussions with institutional staff disclosed that the student was not placed on a "Disqualification" status nor did the student submit an SAP appeal but was disbursed Cal Grant funds for the Fall 2014 semester in the amount of \$824 for which the student was not eligible to receive. Thus, the Cal Grant payment for the Fall 2014 semester in the amount of \$824 is ineligible and must be returned to the Commission.

Similarly, student 5 should have been placed on "Disqualification" at the end of the Summer 2014 semester for not meeting all cumulative academic requirements as illustrated below:

Semester	Attempted	Completed	Pace %	CPGA	Status
Spring 2014	61	34	58%	3.391	Warning
Summer 2014	64	37	58%	3.462	Disqualification
Fall 2014	74	47	64%		
Spring 2015	89	62	70%		

A review of the student file and discussions with institutional staff disclosed that the student was not placed on a "Disqualification" status and did not submit an SAP appeal. The student was disbursed Cal Grant funds for the Fall 2014 and Spring 2015 semesters in the amount of \$618 and \$824, respectively for which they were not eligible to receive. Thus, the student's Cal Grant award in the amount of \$1,442 is ineligible and must be returned to the Commission

REFERENCES:

34 CFR 668.16(e)
34 CFR 668.34
California Education Code sections 69432.7 and 69433.5
Institutional Participation Agreement, Article IV.B.
Cal Grant Manual, Chapter 3, September 2004
Cal Grant Handbook, Chapter 4, page 29, 2/11/2016 – Version 2.1

REQUIRED ACTIONS:

In response to this finding, Merced Community College must return the ineligible funds in the amount of \$824 on behalf of student 3 and \$1,442 on behalf of student 5 upon invoicing from the Commission.

In addition, the institution must add an additional step to its current SAP policy to ensure that a student's progress is correctly determined, documented and that students are made aware of their SAP status.

FINDINGS AND REQUIRED ACTIONS (continued)

INSTITUTION RESPONSE:

"I have enclosed the policies and procedures requested for each of the findings."

COMMISSION REPLY:

The Merced College SAP Policy (Appeal Action & Codes) procedure is deemed acceptable. The Commission has enclosed an invoice for the return of ineligible funds. No further action is required.

FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:

FINDING 3: Cal Grant funds not reconciled for the 2013-14 and 2014-15 award years

A review of the institution's accounting records revealed that Cal Grant funds were not reconciled for the 2013-14 and 2014-15 award years.

DISCUSSION:

All participating institutions agree to use the funds advanced to it solely for payment to eligible recipients in the Cal Grant program. Once the Commission advances Cal Grant funds, schools must determine and verify student eligibility before disbursing funds.

Institutions are required to reconcile payments no later than sixty (60) days after the end of the payment period. All Cal Grant funds must be properly recorded and allocated to the appropriate award year for which the funds were advanced and disbursed. The institution must also report adjusted payment transactions for transactions previously reported in error. The institution must reconcile all award year Cal Grant funds received and disbursed by the institution no later than December 31 following the award year (e.g. December 31, 2013, for the 2012-13 award year). The institution will bear the liability for payments not reported prior to the December month-end processing cycle. Should the institution's records of individual payments to eligible students be less than what the Commission paid, the institution must return the difference to the Commission.

Furthermore, the Commission considers an institution to have sufficient administrative capability in the area of fiscal responsibility if the institution:

- Maintains written policies and procedures to administer Cal Grant funds
- Maintains an accounting system which conforms to generally accepted accounting principles/practices and shall include, but not limited to, cash receipts and disbursement journals, bank reconciliations, evidence of receipt or credit of funds to recipients and all other accounting records necessary to account for all transactions

FINDINGS AND REQUIRED ACTIONS (continued)

- Reconciles Cal Grant program expenditures for each award year on a student-by-student basis. This includes having the necessary ledgers to account for prior and current award year funds
- Establishes a clear audit trail which demonstrates that fiscal records provide status of Cal Grant funds from the time they are received by the school from the State Controller's Office (SCO) through the time they are used to pay students' eligible charges, delivered to the student in the case of Access or Books and Supplies payments or refunded back to the Commission
- Reconciles Cal Grant funds with specific year advances and identify prior year award funds to ensure that funds are reported on the appropriate year's roster

For the 2014-15 award year, the institution was advanced and reported a reconciled amount of \$1,759,063 in payments. However, the institution's accounting records revealed that the institution disbursed \$1,765,498 of which \$12,635 was not reported to the Commission prior to the 2014-15 year-end reconciliation. The unreported payments are unable to be reimbursed and are detailed in the following chart:

2014-15 Unreported Payment			
No.	CSAC Paid	Institution Paid	Difference
X3	0.00	1442.00	1442.00
X4	0.00	1030.00	1030.00
X5	0.00	618.00	618.00
X6	0.00	618.00	618.00
X7	0.00	1648.00	1648.00
X8	1442.00	1648.00	206.00
X9	0.00	274.00	274.00
X10	412.00	618.00	206.00
X11	0.00	412.00	412.00
X12	0.00	412.00	412.00
X16	0.00	618.00	618.00
X17	0.00	412.00	412.00
X19	547.00	548.00	1.00
X20	0.00	824.00	824.00
X21	618.00	824.00	206.00
X22	0.00	412.00	412.00
X23	0.00	412.00	412.00
X24	0.00	412.00	412.00
X25	824.00	1648.00	824.00
X27	0.00	824.00	824.00
X30	0.00	824.00	824.00
Total 2014-15 Unreported Payment			\$12,635.00

FINDINGS AND REQUIRED ACTIONS (continued)

In addition to the payments that were not reported to the Commission, the institution failed to appropriately reconcile certain payments. The total disbursements to be reimbursed by the Commission for the 2014-15 award year equaled \$1,752,863 (\$1,765,498 actual disbursements less \$12,635 unreported payment). Therefore, the institution disbursed \$6,200 less than the amount advanced by the Commission (\$1,759,063 Commission reconciled amount less \$1,752,863 reimbursable payments) as indicated in the table below:

2014-15 Undisbursed Funds			
No.	CSAC Paid	Institution Paid	Difference
X1	1,442.00	1,030.00	412.00
X2	618.00	612.00	6.00
X13	1,236.00	412.00	824.00
X14	1,442.00	1,428.00	14.00
X15	824.00	412.00	412.00
29	824.00	0.00	824.00
X18	618.00	0.00	618.00
X26	1,648.00	824.00	824.00
X28	824.00	0.00	824.00
X29	824.00	0.00	824.00
X31	618.00	0.00	618.00
Total 2014-15 Undisbursed Funds			\$6,200.00

The institution was previously cited for not reconciling Cal Grant funds in the October 2001 CSAC Audit Report for the 1999-00 award year. Thus, this finding is deemed as an area of continued noncompliance. In order to meet its responsibilities to the Commission, an institution must be capable of adequately administering Cal Grant Program requirements. An institution that fails to comply with applicable laws, policies, contracts and institutional participation agreements may lose its eligibility for participating in the Cal Grant Programs for failing to meet standards of administrative capability.

As a result of the institution's noncompliance, the auditor expanded the audit scope to include the 2013-14 award year reconciliation. For the 2013-14 award year, the institution was advanced and reported a reconciled amount of \$1,584,396 in payments. However, institution accounting records revealed that the institution disbursed \$1,591,968 of which \$7,764 was not reported to the Commission prior to the 2013-14 year-end reconciliation. The unreported payments are unable to be reimbursed and are detailed in the following chart:

2013-14 Unreported Payment			
No.	CSAC Paid	Institution Paid	Difference
Y1	273.00	274.00	1.00
Y2	0.00	137.00	137.00
Y4	546.00	547.00	1.00
Y5	546.00	547.00	1.00

FINDINGS AND REQUIRED ACTIONS (continued)

2013-14 Unreported Payment			
No.	CSAC Paid	Institution Paid	Difference
Y6	410.00	411.00	1.00
Y7	921.00	922.00	1.00
Y8	546.00	547.00	1.00
Y9	0.00	369.00	369.00
Y10	411.00	412.00	1.00
Y14	0.00	737.00	737.00
Y16	1,104.00	1,105.00	1.00
Y18	479.00	480.00	1.00
Y19	0.00	552.00	552.00
Y20	0.00	737.00	737.00
Y21	0.00	553.00	553.00
Y22	0.00	736.00	736.00
Y24	0.00	68.00	68.00
Y26	205.00	206.00	1.00
Y27	0.00	1,289.00	1,289.00
Y29	737.00	1,473.00	736.00
Y30	0.00	736.00	736.00
Y31	0.00	736.00	736.00
Y32	0.00	368.00	368.00
Total 2013-14 Unreported Payments			\$7,764.00

In addition to the payments that were not reported to the Commission, the institution failed to appropriately reconcile certain payments. The total disbursements to be reimbursed by the Commission for the 2013-14 award year equaled \$1,584,204 (\$1,591,968 actual disbursements less \$7,764 unreported payments). Therefore, the institution disbursed \$192 less than the amount advanced by the Commission (\$1,584,396 Commission reconciled amount less \$1,584,204 reimbursable payments) as indicated below:

2013-14 Undisbursed Funds			
No.	CSAC Paid	Institution Paid	Difference
Y3	274.00	273.00	1.00
Y11	274.00	273.00	1.00
Y12	1,289.00	1,105.00	184.00
Y13	274.00	273.00	1.00
Y15	274.00	273.00	1.00
Y17	274.00	273.00	1.00
Y23	206.00	205.00	1.00
Y25	274.00	273.00	1.00
Y28	274.00	273.00	1.00
Total 2013-14 Undisbursed Funds			\$192.00

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

California Education Code, 69432.8
Institutional Participation Agreement, Article II, III and IV
Cal Grant Manual, Chapter 9, September 2003
Cal Grant Manual, Chapter 10, October 2003
Cal Grant Handbook, Chapter 13, 2/11/2016 – Version 2.1
Cal Grant Handbook, Chapter 14, 2/11/2016 – Version 2.1
Cal Grant Handbook, Chapter 16, 2/11/2016 - Version 2.1

REQUIRED ACTIONS:

The Institution must return the undisbursed funds in the amounts of \$6,200 and \$192 for the 2014-15 and 2013-14 award years, respectively upon invoicing from the Commission.

In addition, the institution must provide written procedures and quality control measures that will be implemented to ensure that Cal Grant funds are reconciled between accounting ledgers, financial aid generated reports and the institution's bank account on an award year basis. Furthermore, the institution must ensure that there is a zero Cal Grant balance at the end and beginning of award years. These written procedures should include staff titles and specific areas of responsibilities as they relate to the Cal Grant accounting process.

Because the institution has continuously been out of compliance reconciling its Cal Grant account, the Institutional staff must receive training as it pertains to this finding. Please contact Alessandra Morrison at (916) 464-7960 or via e-mail at Alessandra.Morrison@csac.ca.gov. Certification of completion of all required training must be provided when responding to this finding.

INSTITUTION RESPONSE:

The Director of Financial Aid will reconcile all Cal Grant payments monthly to ensure that the amounts and status for each students is reported correctly. Payments will be reconciled per student using the detailed reconciliation report available through WebGrants, a report run through the Financial Aid Office system Colleague, and account ledgers provided by the Director of Business and Fiscal Services at Merced College. All remaining funds will be sent back to the California Student Aid Commission at the time of final reconciliation. The Director of Financial Aid will make a payment request to the Director of Business and Fiscal Services who will process payment.”

FINDINGS AND REQUIRED ACTIONS (continued)

COMMISSION REPLY:

The institution's policies and procedures are satisfactory. The institution was required to obtain Commission training and submit certification of training completion. The institution completed training on the subject on February 8, 2018. The Commission has enclosed an invoice for the return of ineligible funds. Thus, no further action is required for this finding.

FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:

FINDING 4: Interest earned on Cal Grant funds not returned timely

A review of the institution's interest documents revealed that the interest earned on Cal Grant funds was not submitted timely.

DISCUSSION:

As indicated in the 2012-2016 Institutional Participation Agreement signed by the Institution's President, institutions must maintain Cal Grant funds in an interest-bearing account or an investment account at a financial institution with a presence in California whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or secured by collateral of value reasonably equivalent to the amount of Cal Grant Program funds in the account. Furthermore, these funds must be identified as "State" funds.

Annual interest earned on Cal Grant funds constitute State funds and must be remitted to the Student Aid Commission on behalf of the State no later than March 1 following the calendar year for which the interest accrued (e.g. March 1, 2015, for calendar year 2014). Each year, the Commission issues a Special Alert to all institutions to remind them that the interest is due by March 1st of the year.

When returning interest, neither bank related fees associated with maintaining the account nor negative interest associated with an institution's use of non-state funds for Cal Grant students should be deducted from the accrued interest. Both these amounts reflect expenses that cannot be offset against the interest earned by the advance of State funds for the Cal Grant program.

In calculating the interest on the Cal Grant funds, an institution should utilize the same methodology as was used by its financial institution or investment pool to calculate interest on the account in which the Cal Grant funds were deposited.

A review of the institution's interest documentation and discussions with Accounting staff revealed that the interest earned on Cal Grant funds for the 2014 and 2015 calendar years were returned on 5/27/2015 and 6/30/2016 respectively. During the on-site audit, the institution was reminded of the March 1st deadline.

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

Institutional Participation Agreement, Article III.D
Cal Grant Manual, Chapter 2, July 2004
Cal Grant Manual, Chapter 9, September 2003
Cal Grant Handbook, Chapter 14, page 128, 2/11/2016 – Version 2.1
Cal Grant Handbook, Chapter 16, pages 154-155, 2/11/2016 – Version 2.1

REQUIRED ACTION:

Merced Community College must submit policies and procedures that will be implemented to ensure that earned interest on Cal Grant funds be returned timely.

INSTITUTION RESPONSE:

“Cal Grant funds must be held an interest-bearing account or an investment account at a financial Institution with a presence in California whose accounts are insured by the Federal Deposit Insurance corporation. All interest earned on Cal Grant Funds will be returned by the Director of Business and Fiscal Services no later than March 1 following the calendar year for which the interest accrued. Merced College will calculate interest on Cal Grant funds in the same manner used by its financial institution. No bank fees, unearned interest on Institutional funds, or other cost shall be deducted nor offset against the interest earned by the advance of State funds for the Cal Grant Programs. Interest will be returned using the Interest Remittance Form and sent to the following address:

Management Services Division California Student Aid Commission Fiscal and Administrative Services Branch P.O. Box 419026 Rancho Cordova, CA 95741-9026.”

COMMISSION REPLY:

No further action is required as the policies and procedures are deemed acceptable.