

# California Student Aid Commission

## Update on Cal Grant Program Audit

### Program Compliance Services

As part of its oversight duties, the California Student Aid Commission (CSAC) Program Compliance Services (PCS) conducts program reviews at participating Cal Grant institutions to confirm that campuses are in compliance with federal and state laws and regulations, the Cal Grant Institutional Participation Agreement (IPA), Cal Grant Handbook and the Commission's Operation Memos and Special Alerts. The PCS is responsible for evaluating an institution's compliance, identifying findings, assessing controls, and recommending corrective actions to improve its future program administrative capabilities. The external audit function is an essential element in the overall CSAC mission. The PCS reports directly to the Executive Office and has a team of four (4) Associate Management Auditors and an Audit Manager. The PCS is required to follow the Generally Accepted Government Auditing Standards (GAGAS or the Yellow Book).

### Audit Process Overview

#### Audit Selection Criteria

The PCS uses a risk-based approach in selecting the institutions and student records to audit. The Cal Grant audit program emphasizes the verification of applicant eligibility, fund disbursement, fiscal responsibility for program funds and general eligibility. The Commission also performs Fiscal Close-Out (Focused) audits. The Fiscal Close-out audit is a streamlined audit program centered on the fiscal accountability of funds for institutions that have ceased participation in the Cal Grant Program.

Audits are selected based on the following risk assessment criteria:

- Date of last audit of the institution's Cal Grant program
- Number of findings in prior review
- Amount of liability identified and collected in prior review
- Cal Grant funds received for the award year being audited
- Percentage of liabilities from total funds received for audit period

#### Fieldwork

Fieldwork begins with engaging the institution to be audited to request documentation for review. Once auditor receives and reviews the documentation, an entrance meeting is held with institutional financial aid personnel which is then followed by fieldwork. During the fieldwork phase, auditors select a sample of students and review their files to verify compliance with the applicable laws and

regulations. Additionally, auditors review the institution's financial aid reconciliation and bank statements. Once the review process is completed, an audit report is drafted and the audit goes through two levels of review – one by a peer auditor and another by the audit manager. A draft report is then sent to management for review prior to sending it to the institution. If findings are identified, the institution will be required to respond within 30 days of receipt of the draft report. Once the auditor receives the institution's response, a final report is created and sent to the Audit Manager for review. After the manager's review, the final report and close out letter is sent to the institution.

#### Common Areas of Noncompliance

The major areas of noncompliance found in the Cal Grant compliance audits are primarily in the areas of applicant eligibility, fund disbursement, fiscal responsibility, and general eligibility for program funds.

For an institution to resolve an audit finding, the institution is required to submit revised policies and procedures to the Commission. Upon approval, these revised policies and procedures must be implemented by the institution to ensure future program compliance. In addition, the institution must return ineligible funds, if any, upon receipt of the final report. An audit that is considered final (closed) indicates that the institution met all required action set forth by the Program Compliance review. Institutions that have numerous findings demonstrating a lack of administrative capability are placed in the Commission's At-Risk Program for a minimum of two years. Institutions on the At-Risk Program will be required to provide eligibility documentation for approval prior to receiving Cal Grant funds. While on the program, an audit will be conducted to ensure the institution meets the eligibility criteria prior to having funds disbursed for the term following the audit. An institution that fails to meet the requirements may have its participation in the Cal Grant Program terminated. The Commission's Institution Support Unit (ISU) will work with institutions on the At-Risk Program to bring them into compliance.

A final audit report and a close-out letter is sent to institutions at the end of the audit highlighting how the noted findings were resolved. The audit is only closed when all findings noted have been resolved.

#### Process Improvements

- 100% paperless audits
- Automation of testing workpapers and implementation of audit software
- Time savings
- Cost savings
- Legislative reports posted on Commission's website

#### Current Year Audits

- Twelve (12) audits performed and closed during the 2020-21 fiscal year.

- Restrictions due to the pandemic delayed performance of all audits as planned.
  - 50% of the audit team was assigned to the Governor's Contact Tracing Assignment
  - Audits stopped due to stay-at-home order and school staff not having remote access to applications
- Downtime was utilized by the audit team to implement all the improvements mentioned above
- FY 2021-22 Plan
  - Forty-three (43) audits planned for this year which includes 40 Cal-Grant and 3 Cal-SOAP audits.
  - All audits will be performed remotely due to COVID-19.
  - The team will continue to streamline workpapers and audit programs for Cal-Grant and Cal-SOAP to ensure a smooth audit process for both the Commission and institutions going forward.