

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**A REVIEW OF THE
STUDENT AID COMMISSION'S ADMINISTRATION
OF MAJOR STUDENT AID PROGRAMS**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

015

A REVIEW OF THE STUDENT AID
COMMISSION'S ADMINISTRATION
OF MAJOR STUDENT AID PROGRAMS

APRIL 1982



California Legislature

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Joint Legislative Audit Committee

925 L STREET, SUITE 750
 SACRAMENTO, CALIFORNIA 95814
 (916) 445-0371

WALTER M. INGALLS
 CHAIRMAN

April 27, 1982

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The Honorable President pro Tempore of the Senate
 The Honorable Speaker of the Assembly
 The Honorable Members of the Senate and the
 Assembly of the Legislature of California

Members of the Legislature:

The Joint Legislative Audit Committee respectfully submits the Auditor General's report on the Student Aid Commission's Administration of Major Student Aid Programs. This audit was performed as required by special control language of the 1980 budget.

Though this audit does not reveal major deficiencies in the Student Aid Commission's administration of these programs, it does point out areas where program administration is weak and where management improvements can and should be expected.

The current level of management performance should be considered minimal in light of the increasing competition for student aid and the increased diligence which should be expected of program administrators.

Respectfully submitted,

WALTER M. INGALLS
 Chairman, Joint Legislative
 Audit Committee

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TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
CHAPTER	
I <u>THE STUDENT AID COMMISSION CAN IMPROVE ITS MANAGEMENT OF THE CAL GRANT PROGRAMS</u>	7
INACCURATE CERTIFICATION OF ENROLLMENT RESULTED IN SOME OVERPAYMENTS BY THE COMMISSION	7
THE COMMISSION DID NOT CONSIDER LABOR-SHORT OCCUPATIONS WHEN SELECTING CAL GRANT C AWARD RECIPIENTS	19
CONCLUSION	23
RECOMMENDATION	24
II <u>THE STUDENT AID COMMISSION CAN IMPROVE ITS SYSTEM FOR ENSURING COMPLIANCE WITH THE REQUIREMENTS OF THE CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM</u>	26
THE COMMISSION'S SYSTEM TO ENSURE THAT INFORMATION ON STUDENTS' ENROLLMENT STATUS IS ACCURATE AND CURRENT COULD BE MORE EFFECTIVE	28
CONCLUSION	38
RECOMMENDATION	39
III <u>OTHER PERTINENT INFORMATION</u>	41
PROGRESS ON ENSURING THAT INSURANCE PREMIUMS RECEIVED ARE ACCURATE	41

TABLE OF CONTENTS (Continued)

	<u>Page</u>
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Student Aid Commission	43
AUDITOR GENERAL'S COMMENTS ON THE STUDENT AID COMMISSION'S RESPONSE	60
APPENDICES	
A SITES VISITED	A-1
B CAL GRANT B SUBSISTENCE ALLOWANCE OVERPAYMENTS: ERROR RATES FOR SCHOOL SAMPLES	B-1
C CAL GRANT A TUITION AND FEES: ERROR RATES FOR SCHOOL SAMPLES	C-1

SUMMARY

The Student Aid Commission (commission) administers financial aid programs providing assistance to financially needy and academically able California students. Among these programs are the Cal Grant program series and the California Guaranteed Student Loan Program. Although our review of a sample of students showed that the commission's administration of the Cal Grant programs and the California Guaranteed Student Loan Program is for the most part adequate, we identified several conditions that demonstrate a need for improvement in the operation of individual programs.

First, we determined that the commission did not monitor schools to ensure accurate certification of students' enrollment status. Inaccurate certifications by schools resulted in overpayments of Cal Grant B subsistence allowances, Cal Grant C educational expenses, and tuition and fees for some students in each of the Cal Grant programs. At schools with a large number of Cal Grant B students, we found that as many as 21.8 percent of the recipients at one school were overpaid for subsistence allowances. Overall, more than 9 percent of the Cal Grant B students we reviewed received overpayments for subsistence allowances. For Cal Grant C, the overall rate of

overpayments for educational expenses was 7.6 percent. We found that at least 25 percent of the Cal Grant C sample students at each of the community colleges in our sample were overpaid.

We found considerably lower rates of overpayments for tuition and fees at the schools in our samples. We determined that the commission overpaid tuition and fees for 1.2 percent of the Cal Grant A recipients, 1.0 percent of the Cal Grant B recipients, and 1.6 percent of the Cal Grant C recipients.

In addition, contrary to statutory requirements, the commission did not consider labor-short occupations when selecting Cal Grant C award recipients.

In our review of the California Guaranteed Student Loan Program, we found that the commission used a system of verifying students' enrollment status that resulted in loans being disbursed to unqualified students. At the schools we sampled, 3.2 percent of the students we reviewed had received loans inappropriately. The rate was over 16 percent at one of the proprietary schools we visited. In addition, the system currently used by the commission provided inaccurate information on students' enrollment status and resulted in overpayments by the Federal Government for loan interest and special allowances to lenders.

Finally, we identified inaccuracies in the monthly financial reports provided to the commission by its California Guaranteed Student Loan Program servicer. Because of these inaccuracies, the commission cannot be certain that it received the correct amount of insurance premiums for loans.

To minimize overpayments of Cal Grant subsistence allowances and educational expenses, we recommend that the commission require schools to verify students' actual unit workload before disbursing checks for subsistence allowances and educational expenses. The commission should subsequently monitor those verifications. We also recommend that the commission collect overpayments from students.

To reduce the potential for overpayment of Cal Grant tuition and fees, we recommend that the commission monitor enrollment certifications and refunds provided by schools. In addition, it should collect for overpayments of tuition and fees.

To bring the commission into compliance with the legislation authorizing the Cal Grant C Program, we recommend that the commission use information on labor-short occupations in selecting Cal Grant C award recipients.

To improve the operation of the California Guaranteed Student Loan Program, we recommend that the commission consider revising the system for verifying students' enrollment status. Finally, the commission should increase the size of its compliance review unit and increase the number of schools monitored each academic year. These increases can be accomplished at no net cost to the State.

INTRODUCTION

In response to Chapter 510, Statutes of 1980 (Assembly Bill 2020), and a request by the Joint Legislative Audit Committee, we reviewed the California Student Aid Commission's administration of the Cal Grant programs and the California Guaranteed Student Loan Program for fiscal year 1979-80. We conducted our review under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

Background

The Legislature created the State Scholarship Commission in 1955 to award competitive scholarships to needy students of good citizenship and high moral character who are dedicated to American ideals. Known today as the Student Aid Commission, this entity administers a number of financial aid programs. One major program series, Cal Grant, consists of three grant programs.

The first program in this series, Cal Grant A, is a scholarship program to help low- and middle-income California students meet tuition and fee costs at public and private institutions. The commission selects Cal Grant A award winners on the basis of financial need and academic ability.

After financial need has been determined, Cal Grant A applicants are ranked by grade point average and then awarded grants based upon these averages. Each year, 14,900 new grants are authorized. In academic year 1979-80, approximately 39,000 grants (new and renewals) totaling over \$53 million were awarded. Individual awards ranged from \$200 to \$2,900 per year.

The second program, Cal Grant B, is designed to enable high-potential students from minority and low-income families to attend postsecondary schools or colleges. Award recipients are selected on the basis of the applicant's low income, disadvantaged background, and grades, as well as the applicant's assessment of his or her life goals.

The Cal Grant B award for the first year is usually limited to a subsistence allowance, which ranges from \$500 to \$1,100 per student per year. When renewed, the award may also help to cover tuition costs. The commission was authorized to

award 6,825 new Cal Grant B awards in fiscal year 1979-80. The commission awarded more than 20,000 grants (new and renewals) totaling nearly \$23 million during 1979-80.

The third program, Cal Grant C, was designed to assist vocationally-oriented students in acquiring marketable job skills in occupations designated by the commission as being labor short. Training funded under the Cal Grant C Program must lead to a recognized occupational goal such as a diploma, an associate degree, a license, or a certificate that indicates at least an entry level job skill.

Cal Grant C recipients are to be selected on the basis of financial need, vocational interest in labor-short occupational areas, and ability. These awards pay tuition and fees of up to \$2,000 per calendar year and provide up to \$500 per year for educational expenses such as required tools, special clothing, books, equipment, supplies, and local transportation. In fiscal year 1979-80, the commission awarded an estimated 2,435 grants totaling \$2.3 million.

Another major program that the commission administers is the federally reinsured California Guaranteed Student Loan Program (CGSLP). This program aids students in obtaining low-interest loans for educational expenses. The commission

guarantees these loans, while the Federal Government reinsures them. Over 73,000 loans worth approximately \$168 million were disbursed during academic year 1979-80. The day-to-day operation of the CGSLP is performed by United Student Aid Funds, an agency under contract with the commission. Among its responsibilities, United Student Aid Funds processes loan guarantees and maintains student records.

Under the CGSLP, borrowers pay loan insurance premiums to the commission. These premiums are used to purchase defaulted loans and to help cover the administrative costs of the program. These premiums are to be deposited in the State Guaranteed Loan Reserve Fund, and the State Treasurer is to invest surplus reserve fund monies to accrue additional revenue to the Reserve Fund.

In addition to the Cal Grant programs and the CGSLP, the commission also has other responsibilities for program administration and research. For example, it administers other financial aid programs that provide assistance to specific groups of students, such as graduate students and those preparing to be bilingual teachers. Finally, the commission is responsible for researching statistical information regarding student financial aid in California. The commission reports this information to the Legislature, the Governor, and the postsecondary educational institutions.

Scope and Methodology

We interviewed staff and reviewed records at the commission, at six of the lending institutions participating in the California Guaranteed Student Loan Program, at United Student Aid Funds, and at 21 postsecondary educational institutions. Appendix A provides a list of the schools, lenders, and servicers we contacted during our review.

At the postsecondary educational institutions, we reviewed the financial aid records of 3,882 Cal Grant recipients and 1,361 CGSLP recipients. However, because more than 500 schools participated in the Cal Grant programs and over 900 schools participated in the CGSLP, we could not visit a sufficient number of schools to enable us to statistically project improper payments in these programs. Therefore, we selected the majority of our sample schools on the basis of two criteria: high projected dollar volume in Cal Grant A for fiscal year 1979-80, and postsecondary educational segment represented. These segments included four-year private schools, four-year public schools, community colleges, and proprietary schools. Similarly, because there was a large number of lenders participating in the CGSLP, we selected those with the highest level of participation during 1979-80. Finally, some schools in our sample were involved because commission staff felt that the schools had weak procedures for

controlling student financial aid programs. We also included some schools in our sample because commission staff believed that the schools had strong control systems.

We conducted our review of the sample schools by using the following methodology:

- We drew and reviewed statistically valid samples of students at the schools;
- We determined the propriety of payments at the schools; and
- We determined the total number and dollar value of improper payments for each sample school.

We also interviewed personnel at the Employment Development Department, the State Treasurer's Office, the State Controller's Office, and the State Department of Education. Finally, we spoke with vocational education officials of the City and County of San Diego, Los Angeles County, the City of Vallejo, and the Student Financial Assistance Office of the U.S. Department of Education.

CHAPTER I

THE STUDENT AID COMMISSION CAN IMPROVE ITS MANAGEMENT OF THE CAL GRANT PROGRAMS

In our review, we found that because the commission did not receive and maintain accurate enrollment information on students in the Cal Grant programs, it overpaid students for Cal Grant B subsistence allowances and Cal Grant C educational expenses. Further, it overpaid schools for tuition and fees for all three programs. From our review of 21 schools, we determined overall rates of student overpayment of 9.4 percent in subsistence allowances, 7.6 percent in educational expenses, and 1.2 percent for tuition and fees. Additionally, because the commission did not identify those occupations experiencing a shortage of labor, it did not select Cal Grant C award winners in conformance with authorizing legislation.

INACCURATE CERTIFICATION OF ENROLLMENT RESULTED IN OVERPAYMENTS BY THE COMMISSION

For the 1979-80 fiscal year, the Student Aid Commission disbursed approximately \$78 million on behalf of approximately 61,400 students in the three Cal Grant programs. Although most of these funds were disbursed properly, we determined, for our sample of 3,882 students, that the

commission made 172 overpayments, totaling more than \$35,800, for subsistence allowances, educational expenses, and tuition and fees. The overpayments occurred because the commission did not monitor schools to ensure that school personnel and students provided accurate information on enrollment and because the commission was inconsistent in adjusting its student records to reflect changes in information on enrollment provided by schools and students. Although the commission had the authority to adopt rules and regulations appropriate to operating these programs, it did not establish a system to monitor schools for compliance with program procedures.

The commission provides tuition and fee payments to schools on behalf of grant recipients in all three Cal Grant programs. Additionally, the commission provides a monthly stipend for living expenses, called a subsistence allowance, to students in the Cal Grant B Program, and a once-per-term payment for educational expenses, which include living expenses, books, tools, and equipment, to students in the Cal Grant C Program.

Overpayments of Subsistence Allowances and Educational Expenses in Cal Grants B and C

In our sample of 21 schools, we found that the commission's overpayments to 111 students (from a sample of 1,181) for Cal Grant B subsistence allowances exceeded \$11,600; its overpayments to 16 of 210 sample students for Cal Grant C educational expenses exceeded \$2,500. These overpayments resulted in student overpayment rates of 9.4 percent and 7.6 percent, respectively.

The overpayments for both subsistence allowance and educational expense awards occurred because of inaccurate verification of students' enrollment status, which resulted because the commission did not monitor schools. This lack of monitoring became even more significant when we discovered that students frequently misrepresented their unit workloads. Additionally, we found that the commission's frequent failure to adjust its records to reflect changes in students' unit workload also contributed to overpayments of Cal Grant B subsistence allowance awards.

Payments for subsistence allowances and educational expenses are generally based upon the enrollment status of the student. A student enrolled full time receives 100 percent of

the award. A student enrolled three-quarter time receives three-quarters of the full-time student's award, and a student enrolled half time receives one-half of the full-time student's award. A student who is enrolled less than half time is not entitled to an award.

Schools may release checks for subsistence allowances and educational expenses only to students who are enrolled at least half time. For the Cal Grant C Program, payment is based upon enrollment status verified by both the school and the student. However, for Cal Grant B, payment is based solely upon enrollment status certified by the student, not by the school.

Each month, the commission sends checks and student lists for Cal Grant B subsistence allowances to about 300 participating schools. After students indicate their unit workload and schools disburse the checks, the schools return the lists and the unclaimed checks to the commission. The only method the commission has for verifying the accuracy of the information on Cal Grant B student enrollment is to require that each student submit an official transcript at the end of the academic year.

Under the current system of disbursing Cal Grant C educational expense payments, the commission sends enrollment verification forms to the schools twice each academic period. At the beginning of the term, students must indicate their unit workload and sign the verification form. Then, at the time the educational expense checks are disbursed, students verify their unit workload and again sign the form.

In our review, we identified both subsistence allowance and educational expense overpayments in the sample schools. We found that schools released checks to students who were enrolled less than half time and that students received more money than was warranted by their actual enrollment status. For the Cal Grant B sample, 9.4 percent of the students received subsistence allowance overpayments; for the Cal Grant C sample, 7.6 percent of the students received educational expense overpayments.

Table 1 presents, by type of school, the Cal Grant B subsistence allowance overpayments we identified in our sample reviews.

TABLE 1

CAL GRANT B SUBSISTENCE ALLOWANCE
OVERPAYMENTS IN SAMPLE SCHOOLS

<u>Type of School</u>	<u>Students Overpaid</u>	<u>Students in Sample</u>	<u>Error Rate</u>	<u>Value of Overpayments</u>	<u>Average Overpayment</u>
Four-year private	22	379	5.8%	\$1,817	\$ 82.59
Four-year public	51	549	9.3%	4,987	97.78
Community colleges	31	187	16.6%	2,645	85.32
Proprietary	<u>7</u>	<u>66</u>	10.6%	<u>2,164</u>	309.14
Total	<u>111</u>	<u>1,181</u>	9.4%	<u>\$11,613</u>	\$104.62

As the table indicates, the community college segment has the highest rate of student overpayments for Cal Grant B subsistence allowances in our sample. We also determined that 8 of the 16 schools whose Cal Grant B subsistence allowance programs we reviewed had student overpayment rates of over 10 percent. Appendix B shows the Cal Grant B subsistence allowance overpayments we identified during our review.

Our review of Cal Grant C educational expense overpayments identified 13 overpaid students in our sample of 39 community college students, or 33.3 percent of the recipients. These overpayments totaled \$1,937.50 and averaged \$149.04. The highest error rate for an individual school was 46.7 percent.

While the rates of Cal Grant C educational expense overpayments at community colleges were high, the overpayment rates at the proprietary schools were low. Of the 171 proprietary school students we reviewed, we identified three who were overpaid; this resulted in an error rate of 1.8 percent. These three overpayments totaled \$624.50, for an average overpayment of \$208.17. The highest error rate among proprietary schools was 5.0 percent, which we found at two of the schools in our sample.

During our review, we found that overpayments occurred because students misrepresented their unit workloads. Despite the requirement that students sign claim forms and certify the number of units for which they are registered before they can receive their checks, we found that students were certifying higher unit workloads than they were actually carrying. Table 2, on the following page, shows the overpayments stemming from misrepresented unit workloads that we identified in our sample of 1,181 Cal Grant B subsistence allowance awards and 210 Cal Grant C educational expense awards.

TABLE 2

SUBSISTENCE ALLOWANCE AND EDUCATIONAL
EXPENSE OVERPAYMENTS RESULTING FROM STUDENTS'
MISREPRESENTATION OF UNIT WORKLOAD

<u>Type of Overpayment</u>	<u>Cal Grant B Students (1,181 Students)</u>	<u>Cal Grant C Students (210 Students)</u>
Less-than-full-time students receiving full-time payments	56	10
Less-than-half-time students receiving payments	12	4
Unenrolled students receiving payments	<u>14</u>	<u>2</u>
Total overpaid students	<u>82</u>	<u>16</u>

Under the current system, schools are only responsible for verifying the half-time status of students before releasing checks. Those instances in which students received payments while enrolled less than half time or while not enrolled at all indicate that schools are not meeting this requirement for verifying enrollment.

An additional factor contributing to the overpayment of Cal Grant B subsistence allowances is that the commission does not consistently adjust its records of payments to reflect changes in the enrollment information submitted by students. If a student indicates a change of enrollment status on a subsistence claim form, the commission should adjust its subsequent payments to reflect the changes in the student's

unit workload. In our review, we found instances in which enrollment information indicating decreased unit workload was not incorporated into student records at the commission. These changes should have subsequently resulted in decreased payments for subsistence allowances to certain students. Additionally, the commission should have requested reimbursements from those students who were overpaid and from the students who were no longer enrolled.

Overpayments for Tuition and Fees in the Cal Grant Programs

We determined that the overpayment rates for tuition and fees were significantly lower than the overpayment rates for subsistence allowances and educational expenses. For 13 of the 18 schools charging tuition and fees, we found that because of inaccurate enrollment information, the commission made approximately \$21,680 in tuition and fee overpayments on behalf of 43 students (from our sample of 3,865) for the 1979-80 fiscal year. These figures compute to an overall rate of overpayment of only 1.1 percent. While this rate is relatively low, we found that some of these overpaid amounts could have been refunded if schools had observed the commission's refund policies.

Under the Cal Grant programs, schools receive tuition and fee payments based upon the enrollment information they provide to the commission. Schools that receive payments on behalf of Cal Grant recipients are directed to certify the number of units for which each Cal Grant student is enrolled. Although the commission has provided guidelines to the schools for certifying enrollment, it has not monitored the schools to ensure that they observe these guidelines. As a result, the commission cannot be certain that schools provide accurate information. We found that inaccurate certifications of student enrollment submitted by schools resulted in overpayments of tuition and fees at 13 of the 18 tuition- and fee-charging schools we visited.

We identified 27 students who were overpaid for Cal Grant A tuition and fees at 10 of the 18 tuition- and fee-charging schools we reviewed. Table 3 below displays the Cal Grant A tuition and fee overpayments we identified, presented by type of school.

TABLE 3

TUITION AND FEE OVERPAYMENTS
IN SAMPLE SCHOOLS:
CAL GRANT A

<u>Type of School</u>	<u>Students Overpaid</u>	<u>Students in Sample</u>	<u>Error Rate</u>	<u>Value of Overpayments</u>	<u>Average Overpayment</u>
Four-year private	8	1,374	0.9%	\$ 7,100	\$ 887.50
Four-year public	12	809	1.5%	841	70.08
Proprietary	<u>7</u>	<u>143</u>	4.9%	<u>7,315</u>	1,045.00
Total	<u>27</u>	<u>2,326</u>	1.3%	<u>\$15,256</u>	\$ 565.04

Appendix C provides a detailed listing of the Cal Grant A tuition and fee overpayments we identified.

For Cal Grant B, we identified 13 overpayments for tuition and fees from our sample of 1,346 students. These overpayments, totaling \$3,674, occurred at 5 of the 18 tuition- and fee-charging schools we visited. Table 4 presents the overpayments we found in the Cal Grant B program.

TABLE 4
TUIITION AND FEE OVERPAYMENTS
IN SAMPLE SCHOOLS:
CAL GRANT B

<u>Type of School</u>	<u>Students Overpaid</u>	<u>Students in Sample</u>	<u>Error Rate</u>	<u>Value of Overpayments</u>	<u>Average Overpayment</u>
Four-year private	2	581	0.3%	\$1,483	\$741.50
Four-year public	9	699	1.3%	590	65.56
Proprietary	<u>2</u>	<u>66</u>	3.0%	<u>1,601</u>	800.50
Total	<u>13</u>	<u>1,346</u>	1.0%	<u>\$3,674</u>	\$282.62

Finally, we reviewed Cal Grant C tuition and fee payments at five schools. From a sample of 171 students, we found three overpayments, totaling \$2,750, at two institutions, both proprietary schools. These three overpayments, averaging \$916.67, resulted in an overpayment rate of 1.8 percent for proprietary schools.

Some of the tuition and fee overpayments we found might have been refunded to the commission if schools had observed the commission's pro-rata and refund policies. The commission prorates payments to those schools that have prorated tuition and fees for students who withdraw or who reduce their unit workload before the refund deadline.

As an example of the need for compliance monitoring, we found that one of the schools in our review had avoided the commission's system of prorating and refunding tuition. This school was aware of the commission's pro-rata and refund policies, but it advised its students to wait until after the refund deadline before they decreased their unit workloads. In this way, the students avoided reductions in their awards, and the school retained its full share of payments for tuition and fees. This school's policy of circumventing refunds due the commission and other schools' failure to comply with the commission's refund policy indicate that there are unidentified tuition and fee refunds due the commission.

Overpayments of tuition and fees, while relatively low, also indicate a need for monitoring by the commission. Monitoring the payments for subsistence allowances, educational expenses, and tuition and fees could help reduce the total number and dollar amounts of overpayments in all three Cal Grant programs.

THE COMMISSION DID NOT CONSIDER
LABOR-SHORT OCCUPATIONS WHEN
SELECTING CAL GRANT C AWARD RECIPIENTS

The legislation authorizing the Cal Grant C Program requires that the commission award these grants to students seeking training in occupations where there is a shortage of labor, known as areas of manpower need. But the commission did not use this criterion in the Cal Grant C award process because it stated that accurate, pertinent employment data do not exist. We have found, however, that reliable and useful data are available and are used by city and county governments. Because the commission did not identify those occupations experiencing labor shortages, eligible applicants for training in areas needing personnel were denied grants, while applicants who desired training in areas of little or no labor need received awards.

Requirement of Authorizing
Legislation Has Not Been Met

Section 69543 of the Education Code states that

Grants for occupational or technical training shall be awarded in areas of manpower need as determined by the commission after consultation with appropriate state and federal agencies.

The purpose of this legislation is to provide vocational training in occupations experiencing a shortage of labor. However, the commission conducted the Cal Grant C selection process without considering which occupations may have been experiencing such a shortage. Although there were occupational data available, the commission did not make use of them. The commission also did not consult its advisory committee to identify labor-short occupations and to award grants to those students interested in such occupations.

The commission did not use occupational information to identify understaffed occupations because it states that reliable information did not exist. Several years ago, the commission contacted the Vocational Education Unit of the Department of Education to obtain occupational data. The commission then listed labor-short occupations on the grant application form; however, it did not use this information in the selection process. The commission made no further attempts to acquire occupational information.

We have determined, however, that occupational data published by the Employment Data and Research Division (ED&R) of the Employment Development Department are used by city and county governments as well as by vocational educators to identify occupations that are labor short. The ED&R publishes

information on labor market need on both statewide and regional bases. Officials using these data have indicated that the data were reliable and useful.

In our review, we identified city and county agencies that use the occupational information available from the ED&R. For example, the Regional Career Guidance Center of the San Diego County Department of Education uses ED&R data as one tool in determining the need for vocational courses in understaffed occupations within its own Regional Occupational Program. Also, the City of San Diego Regional Employment and Training Consortium and the Vallejo/Fairfield/Napa Standard Metropolitan Statistical Area both use ED&R data to determine which areas are in need of personnel in order to plan and design their employment and training programs.

Finally, a major user of ED&R data is Los Angeles County's California Regional Career Guidance Center. The center, which reports to the County Superintendent of Schools, is required to provide information on local occupational needs and to train school vocational guidance counselors in interpreting and using this information to identify labor-short occupations for career counseling purposes.

In addition to the information available from the ED&R, there are members of the program advisory committee who are knowledgeable in occupational and technical education and training. Although legislation established the committee to aid and advise the commission, committee members indicated that the commission has not drawn upon their expertise to help identify occupations experiencing a shortage of labor. In addition, because the advisory committee meets only once per year, after the selection of the new Cal Grant C award recipients, it cannot assist the commission in the selection process.

Effects of Failure to Consider Available Occupational Data

Because the commission did not consider information on labor-short occupations when selecting Cal Grant C recipients, awards were granted to students who requested training in areas of little or no labor need. To determine the effects of the commission's method of selecting Cal Grant C recipients, we reviewed the occupational goals expressed by a sample of 1979-80 applicants. The sample was composed of applicants who were selected as award recipients as well as eligible applicants who were denied awards. Table 5 presents the results of our review.

TABLE 5

OCCUPATIONAL GOALS OF 132 SAMPLE APPLICANTS
ELIGIBLE FOR 1979-80 CAL GRANT C AWARDS

	<u>Awards Granted</u>	<u>Awards Denied</u>
Applicants Seeking Training in Labor-Short Occupations	15	50
Applicants Not Seeking Training in Labor-Short Occupations	<u>18</u>	<u>49</u>
	<u>33</u>	<u>99</u>

As the table shows, over half of the 1979-80 recipients in our sample sought careers in occupations where there was little or no shortage of personnel. At the same time, over half of the applicants in our sample who did not receive grants indicated interest in labor-short occupations.

Based upon our review, we conclude that grants under the Cal Grant C Program were awarded to applicants seeking training in occupations that were not experiencing a shortage of labor, while eligible applicants desiring training in these occupations were denied grants.

CONCLUSION

We reviewed the Student Aid Commission's Cal Grant programs and found that 172 overpayments, totaling more than \$35,800, were made for subsistence allowances, educational expenses, and tuition and fees in our sample of 3,882 students. These

overpayments by the commission resulted from the commission's failure to ensure that schools and students provided accurate enrollment information and because it frequently failed to adjust student records to reflect changes in enrollment information submitted to the commission.

Additionally, for the 1979-80 academic year, we found that students who desired training in occupations that were not understaffed received Cal Grant C awards, while students desiring training in occupations experiencing labor shortages were denied grants.

RECOMMENDATION

To minimize the possibility of overpayments for subsistence allowances and educational expenses, the Student Aid Commission should do as follows:

- Require schools to determine students' actual unit workload before disbursing checks for Cal Grant B subsistence allowances and Cal Grant C educational expenses. The commission should also monitor schools' records for these disbursements to ensure that it has been advised

of all changes in the enrollment status of Cal Grant B and Cal Grant C recipients.

- Collect overpayments for subsistence allowances and educational expenses from identified students.

To reduce the potential for overpayments of tuition and fees, we recommend that the commission do the following:

- Monitor enrollment certifications and check refunds made by schools to ensure that schools observe prescribed procedures and submit accurate enrollment information.
- Collect tuition and fee overpayments from schools for identified students.

In addition, we recommend that the commission obtain available statewide and regional occupational information and, in consultation with the appropriate state and federal officials, identify those occupations experiencing significant shortages of personnel. We also recommend that the commission review and revise this information annually and use it as a primary consideration in selecting Cal Grant C recipients.

CHAPTER II

THE STUDENT AID COMMISSION CAN IMPROVE ITS SYSTEM FOR ENSURING COMPLIANCE WITH THE REQUIREMENTS OF THE CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM

The Student Aid Commission can improve its system of monitoring participants in the California Guaranteed Student Loan Program in order to ensure their compliance with program requirements. We found that there are deficiencies in the commission's system for ensuring that information on student enrollment status is accurate and current. As a result, students who did not meet enrollment requirements received loans, the commission's records of student enrollment status were inaccurate, and the Federal Government overpaid interest and special allowances on loans that students should have been repaying.

During our audit, we reviewed a sample of 1,361 student loans and found that most of these loans were disbursed properly. However, we determined that 3.2 percent of these (44 loans) were disbursed to students who did not meet enrollment requirements. Although we cannot estimate the total dollar amounts, we recognize that these loans resulted in overpayments by the Federal Government to lenders for interest and special

allowances. Because students are responsible for reimbursing overpayments of interest and special allowances, there is no potential liability to the State for these overpayments.

Background

Student loans disbursed under the California Guaranteed Student Loan Program (CGSLP) are guaranteed by the commission and reinsured by the Federal Government. While students are in school and for up to nine months after they leave school, the Federal Government pays interest and special allowances to lenders. The special allowance is 3.5 percent below the interest rate of 91-day treasury bills. When a student begins to repay a loan, the federal interest payments stop, but the special allowance payments continue.

Students pay lenders an insurance premium once each time a loan is issued. The commission uses these premiums to purchase defaulted loans and to help cover the administrative costs of the CGSLP. United Student Aid Funds (USAF), under contract with the commission, processes loan guarantees and maintains records on student borrowers for the CGSLP. USAF also receives the insurance premiums from lenders, applies them against a net transfer formula (which considers premiums received and refunded, defaults, collections, and the USAF service contract fee), and sends the balance to the commission.

THE COMMISSION'S SYSTEM TO
ENSURE THAT INFORMATION ON STUDENTS'
ENROLLMENT STATUS IS ACCURATE AND
CURRENT COULD BE MORE EFFECTIVE

The commission's system to ensure that schools and USAF maintain accurate student records could be more effective. Despite reporting and control mechanisms prescribed by both the Federal Government and the commission, we found that some school personnel did not properly verify students' enrollment status before releasing loan checks. As a result, we found that 3.2 percent of the loans in our sample of 1,361 loans were disbursed to students who did not meet enrollment requirements. Additionally, most school personnel did not routinely notify lenders of changes in the enrollment status of loan recipients. These conditions resulted from the commission's failure to ensure that schools participating in the CGSLP complied with federal and commission regulations. Furthermore, USAF did not adequately verify the enrollment status of students receiving loans under the CGSLP. This was the result of USAF's inability to meet the terms of its contract with the commission.

Because of these deficiencies in the commission's system for maintaining accurate information on students' enrollment status, the loans disbursed to students who did not meet enrollment requirements or who left school subsequent to receiving their loans resulted in overpayments by the Federal

Government to lenders for interest and special allowances. We believe that it is possible for the commission to increase the efficiency of the program and reduce the potential for federal overpayments of interest and special allowances by enlarging its compliance review staff and increasing the number of schools monitored; this can be accomplished at no net cost to the State.

Schools Not Meeting Enrollment and Reporting Requirements

Both federal regulations and commission procedures require students to be accepted for enrollment or enrolled on at least a half-time basis at the time that loan checks are disbursed. While neither regulations nor procedures specify who determines compliance with this eligibility requirement, the Federal Department of Education (DOE) holds schools responsible for verifying enrollment status before releasing loan checks to students. DOE staff cited Federal Regulation 177.607(b) [4] as the authority establishing such responsibility. This regulation states that, in general, schools may only release checks to students who have enrolled on at least a half-time basis. Regulations and procedures further require schools to notify lenders or the commission when students leave school or fail to enroll at least half time.

We found in our review, however, that schools are not routinely observing these requirements for verifying and reporting students' enrollment status. Five of the twelve schools in our sample failed to conduct proper enrollment verifications before disbursing loan checks; consequently, three of these five schools released loan checks to unqualified students. Even though the remaining seven schools did conduct proper verifications, all but one still released loan checks to students who did not meet the required enrollment standards.

From our review of 1,361 loan recipients, we identified 44 apparent improper disbursements, for an overall error rate of 3.2 percent. While we found no improper loan disbursements at three of the schools we reviewed, we found from 1.6 percent to 16.1 percent of the loans were improperly disbursed at the remaining schools. The records at one school did not enable us to draw a sample of loan recipients comparable to the samples at the eleven other schools. We did not, therefore, make any statistical overpayment projections for that school. Table 6 shows the number of improper disbursements by type of school.

TABLE 6
IMPROPER LOAN DISBURSEMENTS
AT SAMPLE SCHOOLS

<u>Type of School</u>	<u>Improper Disbursements</u>	<u>Students in Sample</u>	<u>Error Rate (%)</u>
<u>Four-Year Private</u>			
A	2	127	1.6%
B	4	148	2.7%
C	5	131	3.8%
D	<u>5</u>	<u>165</u>	3.0%
	<u>16</u>	<u>571</u>	2.8% ^a
<u>Four-Year Public</u>			
E	4	144	2.8%
F	<u>0</u>	<u>155</u>	0.0%
	<u>4</u>	<u>299</u>	1.3% ^a
<u>Community Colleges</u>			
G	8	180	4.4%
H	<u>0</u>	<u>93</u>	0.0%
	<u>8</u>	<u>273</u>	2.9% ^a
<u>Proprietary</u>			
I	14	87	16.1%
J	0	90	0.0%
K	<u>2</u>	<u>41</u>	4.9%
	<u>16</u>	<u>218</u>	7.3% ^a
Totals	<u>44</u>	<u>1,361</u>	3.2%

^a Segmental average error rate.

In addition, only three of the twelve schools in our sample notified lenders of changes in the enrollment status of loan recipients. Two schools routinely reviewed grade reports at the end of the semester and notified lenders of students who changed enrollment status during the semester. However, the systems used by these schools do not meet the requirement that schools promptly notify lenders of changes in students' enrollment status.

Only one school in our review met the reporting requirements specified by the regulations. Under this school's system, the registrar automatically reported all changes in students' enrollment status to the financial aid office. If a review of financial aid records indicated that students in question were CGSLP students, the school immediately notified the appropriate lenders of the changes in enrollment status.

We found that schools generally failed to verify or report changes in students' enrollment status because they either were unaware of the regulations or had neither the staff nor the time to comply with them. In addition, because some of the financial aid offices in our sample were unaware of changes in students' enrollment status, they did not notify lenders of these changes.

USAF Not Conducting Enrollment Verifications as Required

The contract between the commission and United Student Aid Funds requires USAF to conduct two specific types of enrollment verifications each year. The first type requires schools to review lists of student borrowers provided by USAF and to certify the enrollment status of these borrowers. These lists, known as Student Status Confirmation Reports (SSCRs), must be sent to each school participating in the CGSLP twice each academic year at the specific times designated by the schools.

In the second type of enrollment verification, students are required to complete student status letters provided by USAF. On these letters, students indicate their own enrollment status and at the same time verify or correct such information as address, anticipated graduation date, lender, and school attended. This type of verification must also be conducted twice each academic year.

In spite of these contractual requirements, USAF conducted only one verification of each type during 1979-80. The SSCRs, for loans disbursed as of September 30, 1979, were sent to the schools in December 1979. Schools, therefore, did not receive SSCRs for students who became loan recipients after

September 30, 1979. Since loans issued after that date accounted for approximately 81.5 percent of all loans for the 1979-80 academic year, there were no SSCRs covering more than four-fifths of the total number of 1979-80 loan recipients. In addition, because 15 schools did not return completed SSCRs to USAF, the enrollment verifications for 1979-80 covered only 16 percent of the total number of loans for that academic year.

Similarly, USAF sent out only one set of student status letters during 1979-80. These letters were sent to students in January 1980. This was contrary to USAF's contract agreement, which states that the student confirmation system used by USAF will generate the status letters as of October 31 and March 31 of each academic year. The April 1980 mailing of the student status letters was cancelled to reduce the potential lack of response.

USAF failed to conduct the required verifications of enrollment status because its existing information system was not designed to meet the requirements contained in its contract with the commission. According to its contractual commitment, USAF indicated that its system would be operational for the California program by September 11, 1978; as of that date, USAF would be able to process loans and fulfill all of its obligations as required. USAF expected the computer hardware

necessary to perform the required functions by August 1978. However, delays in implementing the new system resulted in continued use of the old information system, which was not capable of meeting the contract requirements. The new information system finally became operational on September 1, 1981, three years after the date that it was supposed to be implemented.

Effects of Inaccurate Records

In our review, we found that USAF and many of the schools in our sample failed to verify students' enrollment status as required. We also found that most schools failed to notify lenders of changes in the enrollment status of loan recipients. We found that 133 students in our sample had either failed to enroll properly or left school subsequent to receiving their loan checks. The records at USAF, however, incorrectly showed that these students were still enrolled properly. We contacted the lenders to confirm the loan status of those 133 students. We obtained information for 103 of the 133 students and found that not all students were in the active status even though USAF's records indicated that they were. We found the following: 53 students were active, 27 were repaying

or had completed payment of their loans, 15 had defaulted on their loans, and 3 had had their loans cancelled. In addition, lenders had no record of 5 students who were listed by USAF as having received loans.

Consequently, students who should have been repaying loans had not begun to do so, and the Federal Government continued to pay interest and special allowances for these outstanding loans.

Because the Federal Government pays lenders interest and special allowances for loans while recipients are in school, delays in reporting decreased courseloads, withdrawals, and graduations mean that the Federal Government is overpaying lenders. For the loans in our sample, we estimate that the Federal Government made overpayments ranging between \$50.46 and \$708.32 per student per loan for interest and special allowances. The average estimated overpayment was \$260.31 per loan. Overpayments will continue as long as changes in students' enrollment status are not reported to lenders or to the commission.

The Commission's Compliance
Reviews of Schools

Under federal regulations, the commission is responsible for ensuring that the CGSLP meets specified requirements. The commission uses compliance monitoring of participating educational institutions as a way of meeting this obligation. Over 900 schools participated in the CGSLP in 1979-80, but as of early September 1981, the commission, using a staff of two, had conducted compliance reviews at only 66 schools.

CGSLP administration costs are covered primarily by insurance premiums (paid by students) and an administrative cost allowance (paid by the Federal Government); advances from the State are reimbursed from the Reserve Fund, and the program operates at no net cost to the State. It is possible, therefore, that the commission could increase the size of its compliance review staff, increase the number of schools reviewed, increase the efficiency of the program, and reduce the potential for federal overpayments of interest and special allowances at no net cost to the State.

CONCLUSION

The Student Aid Commission's failure to ensure that schools and USAF comply with regulations, procedures, and contractual requirements has resulted in inaccurate information on students' enrollment status. Because of these inaccuracies, lenders disbursed loans to ineligible students. We determined that 3.2 percent of the students in our sample did not meet enrollment requirements when the loans were disbursed. Both situations resulted in Federal Government overpayments to lenders for interest and special allowances for 1979-80 loans. It is possible for the commission to increase the efficiency of its compliance review process at no net cost to the State.

RECOMMENDATION

To ensure compliance with regulations and contractual requirements, we recommend that the Student Aid Commission do the following:

- Provide schools with specific guidelines for verifying students' enrollment status before disbursing loan checks. In addition, we recommend that the commission consider applying sanctions to schools that release checks to unqualified students.
- Revise its mechanism for reporting enrollment information. The commission should consider eliminating the Student Status Confirmation Report and use only the student status letter to obtain enrollment verification. Students would be required to have the school verify their enrollment status and return the letters to USAF by a predetermined date. If students failed to meet this requirement, they could be required to begin repaying the loan.
- Work with schools to develop and implement a method by which the schools can promptly report changes in students' enrollment status to lenders.

- Augment the size of its compliance review unit and increase the monitoring of schools to ensure that they comply with the requirements for verifying enrollment status and notifying lenders of enrollment changes.

CHAPTER III
OTHER PERTINENT INFORMATION

PROGRESS ON ENSURING THAT INSURANCE
PREMIUMS RECEIVED ARE ACCURATE


Our financial division examined the 1979-80 financial statements of the California Guaranteed Student Loan Program. In a February 1981 letter to the commission's director, we stated that the commission had little assurance that it received the correct amount of insurance premiums. We recommended that the commission amend its contract with its loan servicer, United Student Aid Funds (USAF), to ensure that it received the correct amount of insurance premiums.

The commission's director commented in a March 27, 1981, letter to our office that the commission was taking action to ensure that it received the correct amount of insurance premiums from USAF. In August 1981, the commission and USAF agreed that the annual independent audit of USAF would specifically examine the completeness and accuracy of the information on amounts of insurance premiums that were collected from lenders by USAF and remitted to the commission.

To test the accuracy and completeness of insurance premium records, we attempted to reconcile lender's ledgers with the premium amounts reported by USAF in its monthly financial reports to the commission. From the records supplied to us by USAF, we determined that through November 1980, USAF had reported and remitted to the commission over \$138,000 more than it actually received from lenders.

Currently, USAF's monthly financial report presents information in summary format, as permitted by its contract with the commission. However, the monthly financial report does not provide the commission with enough detail to verify the accuracy of the information nor does it provide an audit trail. We believe that this situation illustrates the need for the commission to make additional improvements in the premium reporting system so that it will receive accurate, informative monthly financial reports from USAF.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: April 22, 1982

Staff: Harold L. Turner, Audit Manager
Allison G. Sprader
Michael R. Tritz
Hermelinda Rendon

CALIFORNIA STUDENT AID COMMISSION

1410 FIFTH STREET
SACRAMENTO 95814 (916)445-0880



March 8, 1982

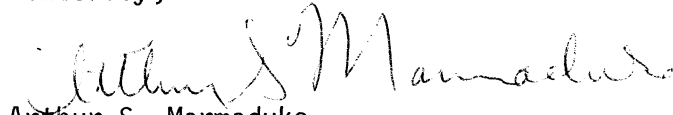
Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

Attached is our response to your draft report entitled "A Review of the Student Aid Commission Administration of Major Student Aid Programs".

I would be pleased to discuss your draft report and our response with you.

Sincerely,


Arthur S. Marmaduke
Director

Attachment

cc: Mary Noble
Allison Sprader
Hal Turner

STUDENT AID COMMISSION
RESPONSE TO THE AUDITOR GENERAL'S DRAFT REPORT OF March, 1982

The Student Aid Commission appreciates the concern and effort expended in the preparation of the Auditor General's draft report on the administration of student financial assistance programs.

We are grateful for constructive suggestions for improvement, however, we are concerned that some of the observations and conclusions described in the draft report are based upon inaccurate findings and a lack of understanding about the history and overall structure of student financial aid programs.

General Information

There are multiple sources of student aid and many different organizations share responsibility for the exceedingly complex student financial aid delivery system.

The National Task Force on Student Financial Aid Problems, organized by Francis Keppel in 1974, saw the management problem as a federal-state-institutions-student partnership with all parties coordinating their efforts toward the efficient and equitable distribution of aid to students.

In the role of providers of service, private organizations may join the partnership as representatives of federal, state or institutional partners. In the Guaranteed Student Loan Program, commercial lending institutions participate in the management partnership.

The role of the Student Aid Commission in monitoring* the programs that it administers must be reviewed within this conceptual framework for student financial aid administration, as described by the National Task Force and subscribed to by all student aid administrators.

The History of the Commission's Monitoring Function

A Commission staff-managed audit or monitoring system has never been established for the agency's grant programs. Instead, by decision of the Department of Finance and the Commission, this function has been the responsibility of a state audit agency.

In its budget request of October 1975, for the 1976-77 fiscal year, the Student Aid Commission asked for funds to permit the employment of an auditor and supporting staff to commence an audit or monitoring review of student aid claims, and to monitor coordination decisions in institutionally-administered student financial aid.

The budget request noted that with the advent of the Pell Grant program, the coordination of awards was more important, more subject to inaccurate

*In the Auditor's draft report, the term "monitor" is frequently used, although never defined. For the purposes of our response, we are assuming that it means an audit or some physical inspection of primary records at the institution that the student is attending.

reporting, and that it would be proper to visit college campuses to inspect registration and student institutional financial aid records.

However, this request was rejected by the Department of Finance and there was subsequent agreement between that department and the Student Aid Commission that an appropriate monitoring system could be conducted through periodic audits by the Audits Division of the State Department of Finance. As a result, on December 1, 1975, the Commission's Director requested an audit of Commission programs at the institutional level by the Department of Finance.

In his memorandum to the Department of Finance, the Director stated, "Our special interest is in assuring ourselves that the information that we receive from institutions, such as student registration, grade point averages, and other financial assistance is consistent with information reported to the Commission." The memorandum also noted that this was the first time that there had been any review by state auditors of institutional records.

In a memorandum to those colleges that were in the sample to be audited by the Department of Finance Division of Audits, the Director stated, "The Division of Audits will be checking for:

- 1) Grade point averages reported to the Commission.
- 2) College-administered awards reported to the Commission.
- 3) Outside noncollege-administered awards reported to the Commission by colleges.
- 4) Accuracy of information concerning registration and the number of units undertaken.
- 5) Accuracy of tuition and other fees placed on tuition and fee claims by the colleges."

The audit was conducted, along with the Commission's regular fiscal audit. A draft report was prepared but never released. The draft report contained no significant findings or problems related to institutional reporting to the Commission. It would be accurate to say that the attitude of institutions and the Department of Finance was that the Commission staff was unnecessarily concerned about institutional reporting and that time and money had been wasted because no problems of significance were found.

In summary, it may be said that the audit or monitoring system for the Commission's programs, by the determination of the Commission and the Department of Finance, has not been established within the Commission staff but has continued to be a function of periodic audits by a state auditing agency. Since the audit conducted in 1976-77 of the 1975-76 fiscal year contained no significant findings concerning problems in institutional reporting, there was no rush to conduct another audit and none was conducted until the 1979-80 fiscal year.

When the Guaranteed Student Loan program was established in 1979, the policy concerning monitoring was modified to some extent: the Commission

established a program compliance unit to review the performance of the institutions that are participants in the management of the loan program.

Monitoring Policy - What Should it be?

The Auditor General's draft report makes certain assumptions regarding monitoring responsibilities with no apparent recognition of state policy decisions made in prior years that concern the monitoring of institutional practices in the Cal Grant program. Consequently, the draft report does not address the primary issue: Should the monitoring system for reviewing institutional practices in Commission programs

- 1) be the responsibility of the Commission with an appropriate auditing staff?
- 2) be the responsibility of the Commission through a contract with another state agency for auditing services?
- 3) be the responsibility of the Auditor General as the audit agency at the request of the Commission?
- 4) or, be the sole responsibility of the Auditor General without Commission input or direction?

Such a discussion should also be concerned with the extent to which auditing expenditures would be justified on a cost benefit basis. The dollar error rate, for example, in the Cal Grant A Program as portrayed by the draft report, (believed by the Student Aid Commission to be overstated) is only 0.4%, indicating that monitoring can be only marginally productive at best.

In any event, the unexamined assumption of the Auditor General's draft report that the Student Aid Commission should assume or has assumed monitoring responsibility runs all the way through the report and provides an uncertain premise for the entire review of the Commission's grant programs.

It would be helpful if the report were augmented and/or rewritten to examine each of the findings in view of their relationship to the policy issue.

Sampling Techniques

Unfortunately, the sample used in reviewing both the grants and the loan program is not random nor scientifically structured.

The report states that sample schools were selected on the basis of two criteria:

"high projected dollar volume in the Cal Grant A program"

"postsecondary educational segment represented."

In and of themselves, these criteria prevent a simple random sample.

Commission staff had suggested that four schools be included in the review by the Auditor General's office, because the Commission was developing reservations about the management skills of those schools as well as their ability to process claims correctly. In fact, the Commission had already been working with the U.S. Department of Education in a review of one of these schools.

Forty-eight percent of the identified overpayments in the Cal Grant A program occurred at two schools, both of which had been nominated by the Commission staff for audit study. It is also significant that three schools in the sample enrolled 25 percent of all Cal Grant A recipients, and yet there was only one overaward identified for all three schools.

Regarding the Grant Programs

Error Rate Data

The data in the report concerning the error rate gives a somewhat distorted view. The attached charts portray the numbers and dollars of errors in a more descriptive way.

The report should make it clear that the error rates are in terms of numbers of students, not in dollars. It is quite possible that a reader of the report would assume that the error rates refer to dollars when they actually refer to students. The dollar rates are considerably lower. It could be quite misleading to read that the Cal Grant B subsistence overpayment rate is 9.4 percent when there is no designation that this is the percentage of students, not the percentage of dollars, which is 1.2 percent. We would urge the inclusion of the dollar error rate in the report.

A statement concerning the number of students involved is inaccurate. For example, the report states that 31 Cal Grant A students enrolled at eleven institutions had overpayments. We believe the correct figure is 27,*not 31, as shown by transcripts in our files recently received from institutions.

It should also be pointed out that in the Cal Grant B program, 27 percent of the errors in payments for subsistence occurred during the month of May or the last month of the academic year and 63 percent of the errors are in the \$10 - \$100 range. It would not be cost effective to pursue refunds of many within this range for students who have dropped out. The Commission staff does receive Cal Grant B transcripts at the end of the academic year, reviews them, and when overpaid students re-enroll in subsequent years, adjusts their awards downward, a fact overlooked in the draft audit report.

The Commission also has an established procedure regarding the collection of overpayments. This policy says that: "as soon as an overpayment is determined in fact to be an accounts receivable and the student is so advised in writing, a copy of the letter should be sent to the Commission's accounting office to establish the accounts receivable. If subsequent information is received that either adjusts or eliminates the accounts receivable, advise the Accounting Section either with a copy of an adjusting letter sent to the student or by memo." For example, as of this month, the Commission accounting

* Report changed based on supplemental information provided by the commission.
See report, page 16.

staff has established 223 General fund accounts receivable: 127 for Cal Grant A, 63 for Cal Grant B, 15 for Cal Grant C, 17 for the Bilingual Teacher Grant program, and one for the Graduate Fellowship program.

Specific Comments

Certain statements in the draft report require comment:

°The Commission does require schools to verify students' actual unit workload before disbursing the checks for subsistence allowance and educational expenses, contrary to the statement on page iii. It is clear that some schools need to be monitored. The Commission also collects for overpayments from students, contrary to the statement on this page. Exceptions are for amounts where it is not feasible to pursue collection.

°We would agree that the size of the compliance review staff and the number of schools monitored each year should be increased (page iv). However, the Legislative Analyst in his 1982-83 report has recommended against an addition to the Commission's staff for this purpose.

°We question the statement on page 8 that the Commission was inconsistent in adjusting its student records to reflect changes in information on enrollment provided by schools and students. Our questioning applies to this statement as it appears on other pages in the report.

°The statement on page 10 that in Cal Grant B, payment is based solely upon enrollment status certified by the student and not by the school is inaccurate (see CGB 79.1 attached).

It should also be pointed out that in Cal Grant C, schools are told to verify enrollment before disbursing checks (see statement on page 11).

The statement (page 14) that schools are not meeting their requirement for verifying enrollment should at least be modified to say that some schools are not meeting the requirement.

°The statements on pages 19 through 22 do not represent an accurate historical summary of Commission deliberations concerning the use of labor-short occupations in selecting Cal Grant C recipients. We would also suggest that the data the auditor believes are valid and reliable, may be no different than the data which the Commission, with the advice of several distinguished labor and education economists, has rejected as not useable. We doubt the statement on page 23 that 50 applicants seeking training in labor-short occupations were denied a Cal Grant C as a result of the Commission failing to select recipients based on "labor-short" considerations. Many were low-score students in the Cal Grant C competition, poorly qualified and would not have received a grant even if they were in a labor-short area, however defined. However, we would agree that it is timely for the Commission to review ~~that~~ *what* data may be available on labor-short occupations.

Conclusions Concerning Cal Grant Programs

As indicated elsewhere in this response, we believe that the conclusions on pages 23 and 24 of the draft report are inaccurate.

Recommendations Concerning Cal Grant Programs

With regard to the recommendations on pages 24 and 25 of the draft report, we respond as follows:

- (1) Require schools to determine students' actual unit workload before disbursing checks for Cal Grant B subsistence allowances and Cal Grant C educational expenses:

This is current and historical Commission policy and practice.

- (2) The Commission should also monitor schools' records for these disbursements to ensure that it has been advised of all changes in the enrollment status of Cal Grant B and Cal Grant C recipients:

This is a policy question concerning responsibility for monitoring as stated earlier.

- (3) Collect overpayments for subsistence allowances and educational expenses from identified students.

This is current and historical Commission policy and practice.

- (4) Monitor enrollment certifications and check refunds made by schools to ensure that schools observe prescribed procedures and submit accurate enrollment information.

This is a policy question concerning responsibility for monitoring.

- (5) Collect tuition and fee overpayments from schools for identified students.

This is current and historical Commission policy and practice.

- (6) In addition, we recommend that the Commission obtain available statewide and regional occupational information and, in consultation with the appropriate state and federal officials, identify those occupations experiencing significant shortages of personnel. We also recommend that the Commission review and revise this information annually and use it as a primary consideration in selecting Cal Grant C recipients.

We agree it is timely to review the data to ascertain if the state of the art of forecasting occupational shortages has sufficiently improved to the point of being useful for Cal Grant C purposes.

Regarding the Guaranteed Student Loan Program

Five areas of concern addressed in the Auditor General's draft report are discussed here in detail.

(1) Participating schools are not meeting enrollment verification and status change reporting requirements:

Under the California Guaranteed Student Loan (CGSLP) Program, schools are required by regulation to verify that a student borrower is enrolled on at least a half-time basis before the school releases the check to the student. However, schools are not required by either Federal or State regulations to notify the lender or the guarantee agency of changes in the borrower's enrollment status after the loan check is released to the student. Federal Regulations (177.612 (a)(2)) state that the school should report such changes. The Commission strongly urges schools to report such changes and the Commission provides the schools with a form (CGSLP 210) to be used to report such changes. However, given the Federal regulations, the Commission does not require that this reporting be done.

The compliance section of the CGSLP staff does check the school's procedures for verifying enrollment prior to releasing checks. The Commission staff obtained from several of the schools included in the Auditor's report detailed transcript and enrollment status information for the subject students used in the Auditor's analysis. On the basis of this rechecking, it appears that the 47*students cited in the Auditor's report were in fact enrolled at least half-time at the time the check was released.

The difficulty in trying to verify enrollment one year or more after the fact is that many schools backdate withdrawals and other records such as transcripts, and attendance records may not accurately reflect what was known by the financial aid office or the record office at the school at the time the check was released.

For example, very early in the academic period, the records at the school may indicate that a student is enrolled but a month later it might be determined that the student had withdrawn. During that month, however, the student may have received the loan check. Obviously, this type of activity should be minimized but to some extent it will continue to occur regardless of the actions taken by the school and the Commission.

(2) The Commission's records do not accurately reflect the status of a borrower's loan:

The Auditor General's staff obtained a listing of a sample of CGSLP borrowers in February 1981. This list indicated that all of the borrowers were still in an enrollment status. It is not clear as to exactly how this request was made to the Commission's servicer, USAF, and the actual point in time the information was to reflect. Timing is extremely critical in analyzing this information.

Students who obtained loans during October - December of 1979 and who subsequently left school would not be reported to the Commission for almost a year. The flow of information is as follows: first, the lender must be notified by either the student or the school; second, the borrower has a nine-month grace period after leaving school before the loan is converted from promissory status to repayment status; third, the lender must report this conversion to the Commission on the Lender's Manifest. With the nine-month grace period and a 1 to 2 month reporting lag from student or school to the lender and a 1 to 2 month reporting lag from the

* Report changed from 47 to 44 students based on supplemental information provided by the commission. See report, page 26.

lender to the Commission, it is reasonable to expect that a year can elapse between the time a student leaves school and the Commission's records indicate that the loan is in repayment.

These lags, however, do not mean that the Federal Government is paying interest for a period longer than that allowed in Federal regulations. The Federal Government continues to pay interest during the nine-month grace period and the reporting lags are obviously not included when the lender bills the Federal Government for the interest.

The Commission staff checked the records at USAF for the 131 borrowers identified in the auditor's draft report and found the following status information:

Converted to repayment	43
Loans cancelled	4
Loans paid-in-full	1
Defaulted loans	14
Extensions given to loans	16
Additional loans to borrowers	26
Borrowers still in school	<u>27</u>
Total	131

Most of this information was entered into USAF's system during the January-March 1981 period. This information matches very closely with the information the auditors found at the lending institutions.

(3) The Commission did not conduct all of the enrollment verifications that were required:

The student mailer that was scheduled for fall 1979 was delayed until January 1980 due to a paper shortage. The Commission's servicer experienced the same problem the State of California had at that time in obtaining adequate supplies of paper. Since that mailer was delayed, the Commission decided not to do a second mailing which was originally scheduled for March/April of 1980. It was decided that the confusion it would cause would not be offset by the additional status information that may be received.

The fall 1979 enrollment status confirmation report was sent to schools on time. However, since this was the first year of operation for the CGSLP, the response by many schools was extremely slow and, by the time the next scheduled report was to be sent to schools, responses were still due from many schools. To minimize confusion, the Commission decided not to send out the second report.

USAF's system definitely had the capability to generate and mail out all of the required reports, but, due to the problem cited above, the Commission decided on the action described above. For the 1980-81 year, all reports were sent out on schedule.

(4) The Commission's compliance section is not adequately staffed:

At the present time, the compliance section consists of one supervisor and three specialists which is an increase from the time the

auditor's did their review. The Commission plans to continue increasing the staffing of this section as the program grows to ensure compliance on the part of schools and lenders.

The auditor's draft report indicate that the staffing of this section can be increased at no cost to the State. That is true since the entire program does not receive any funding from the State's General Fund. However, a major portion of the administrative expenses for the CGSLP are paid for from the insurance premiums collected from students. The Commission, therefore, must carefully weigh the cost effectiveness of all of its administrative activities so that students are not required to pay an amount that is excessive.

(5) There are inaccuracies in the monthly financial reports provided to the Commission by its servicer:

To ensure that the financial reports received by the Commission from USAF are accurate, the Commission has taken two actions:

- (1) The Commission has requested that USAF's auditors, Arthur Young and Company, specifically examine the insurance premiums collected by USAF and remitted to the Commission and the fee charged to the Commission as to their accuracy. This request has been agreed to by USAF and its auditors.
- (2) The Commission is now receiving detailed statements on the actual amounts of insurance premiums received by each lender along with student by student itemization.

Both of these procedures provide the Commission with detailed information to ensure that the insurance premium fees received by the Commission are accurate.

In summary and in response to the draft report conclusions on page 38, the Commission has determined that USAF is in compliance with contractual requirements since the student status verifications that were not sent out were due to circumstances beyond USAF's control and the verifications were cancelled by Commission decisions. Also, upon rechecking the enrollment verification by subject schools prior to release of loan checks, it was found that the schools were verifying enrollment to the best of their ability given information available at that time.

In response to the draft report's recommendation on pages 39, 40 and 42, the Commission takes the following positions:

- (1) Provide schools with specific guidelines for verifying students' enrollment status before disbursing loan checks. In addition, we recommend that the commission consider applying sanctions to schools that release checks to unqualified students.

The Commission does provide schools with specific guidelines for verifying enrollment status before releasing loan checks. Schools that do not verify status are subject to limitation or suspension actions as part of our compliance system.

- (2) Revise its mechanism for reporting enrollment information. The commission should consider eliminating the Student Status Confirmation Report and use only the student status letter to obtain enrollment verification. Students would be required to have the school verify their enrollment status and return the letters to USAF by a predetermined date. If students failed to meet this requirement, they could be required to begin repaying the loan.

The dual approach of determining enrollment status currently used by the Commission should not be changed. The borrowers lists sent to schools twice a year are required by Federal regulations. The Commission strongly feels that the student mailers are an extremely useful add-on to this approach. The procedure proposed by the draft report would be extremely difficult for the schools to handle administratively.

- (3) Work with schools to develop and implement a method by which the schools can promptly report changes in students' enrollment status to lenders.

The Commission staff does work with schools to enable them to promptly report enrollment changes. The form CGSLP 210 was designed and implemented solely for this purpose.

- (4) Augment the size of its compliance review unit and increase the monitoring of schools to ensure that they comply with the requirements for verifying enrollment status and notifying lenders of enrollment changes.

The Commission has increased the number of its compliance positions since the time of the audit and will continue to do so as the program grows.

- (5) We believe that this situation illustrates the need for the commission to make additional improvements in the premium reporting system so that it will receive accurate, informative monthly financial reports from USAF.

The Commission has taken steps to improve the insurance premium reporting system so that we are assured of receiving the proper amount of funds.

CAL GRANT A TUITION AND FEE PAYMENTS
1979-80 Academic YearCSAC Research
3/8/82

SCHOOL	TOTAL RECIPIENTS AND AWARD AMOUNTS AT INSTITUTIONS		RECIPIENTS AND AWARD AMOUNTS SAMPLED		NUMBERS OF OVERPAID RECIPIENTS, THEIR TOTAL AWARDS AND AMOUNTS OF DOLLARS OVERPAID			PERCENT OF RECIPIENTS AND DOLLARS OVERPAID	
	NUMBER OF RECIPIENTS AT SCHOOL	TOTAL* AMOUNT OF AWARDS	NUMBER OF RECIPIENTS IN SAMPLE	TOTAL AWARDS OF RECIPIENTS IN SAMPLE	NUMBER OF RECIPIENTS IN SAMPLE OVERPAID	TOTAL AWARDS OF OVERPAID RECIPIENTS	DOLLARS OVERPAID	PERCENT OF RECIPIENTS OVERPAID	PERCENT OF DOLLARS OVERPAID
<u>Four-Year Independent</u>									
A	728	\$ 1,734,600	150	\$ 317,624	0	\$ 0	0	0.0%	0.0%
B	546	1,305,000	140	310,010	0	0	0	0.0%	0.0%
C	596	1,674,300	142	358,985	3	7,700	3,420	2.1%	1.0%
D	880	2,344,790	155	329,167	0	0	0	0.0%	0.0%
E	4,206	10,676,300	180	400,075	1	2,900	1,450	0.6%	0.4%
F	1,044	2,755,000	160	381,044	1	2,900	580	0.6%	0.2%
G	557	1,449,600	143	337,532	2	5,400	1,391	1.4%	0.4%
H	507	1,201,700	140	266,468	1	2,700	359	0.7%	0.1%
I	1,299	3,297,200	164	404,454	0	0	0	0.0%	0.0%
Subtotal	10,363	\$26,438,490	1,374	\$3,105,359	8	\$ 21,600	\$ 7,200	0.6%	0.2%
<u>Four-Year Public</u>									
J	644	\$ 114,900	145	\$ 23,291	2	\$ 400	\$ 146	1.4%	0.6%
K	1,108	695,500	162	88,416	2	1,400	100	1.2%	0.1%
L	666	114,231	148	21,700	8	1,616	595	5.4%	2.7%
M	3,232	2,089,900	177	100,634	0	0	0	0.0%	0.0%
N	3,021	1,921,800	177	100,261	0	0	0	0.0%	0.0%
Subtotal	8,671	\$ 4,936,331	809	\$ 334,302	12	\$ 3,416	\$ 841	1.5%	0.3%
<u>Proprietary</u>									
O	3	\$ 10,100	3	\$ 2,550	0	\$ 0	\$ 0	0.0%	0.0%
P	47	105,300	47	93,456	5	13,100	6,440	10.6%	6.9%
Q	141	335,800	83	158,471	0	0	0	0.0%	0.0%
R	10	19,100	10	7,050	2	3,500	875	20.0%	12.4%
Subtotal	201	\$ 470,300	143	\$ 261,527	7	\$ 16,600	\$ 7,315	4.9%	2.8%
TOTAL	19,235	\$31,845,121	2,326	\$3,701,188	27	\$ 41,616	\$ 15,356	1.2%	0.4%

*From CSAC 1979 October Agenda.

CAL GRANT B TUITION AND FEE PAYMENTS
1979-80 Academic Year

SCHOOL	TOTAL RECIPIENTS AND AWARD AMOUNTS AT INSTITUTIONS		RECIPIENTS AND AWARD AMOUNTS SAMPLED		NUMBERS OF OVERPAID RECIPIENTS, THEIR TOTAL AWARDS AND AMOUNTS, DOLLARS OVERPAID			PERCENT OF RECIPIENTS AND DOLLARS OVERPAID	
	NUMBER OF RECIPIENTS AT SCHOOL	TOTAL** AMOUNT OF AWARDS	NUMBER OF RECIPIENTS IN SAMPLE	TOTAL AWARDS OF RECIPIENTS IN SAMPLE	NUMBER OF RECIPIENTS IN SAMPLE OVERPAID	TOTAL AWARDS OF OVERPAID RECIPIENTS	DOLLARS OVERPAID	PERCENT OF RECIPIENTS OVERPAID	PERCENT OF DOLLARS OVERPAID
<u>Four-Year Private</u>									
A	26	\$ 39,950	26	\$ 37,450	0	\$ 0	\$ 0	0.0%	0.0%
A.1	47	111,592	47	111,592	1	2,500	233	2.1	0.2%
A.2	60	136,588	60	115,234	0	0	0	0.0	0.0
A.3	142	330,427	65	147,359	0	0	0	0.0	0.0
A.4	30	74,434	30	73,634	0	0	0	0.0	0.0
B	71	131,350	71	127,800	1	2,500	1,250	1.4	1.0%
C	62	105,064	62	98,307	0	0	0	0.0	0.0%
D	403	714,336	132	223,205	0	0	0	0.0	0.0%
E	117	158,400	88	118,410	0	0	0	0.0	0.0%
Subtotal	958	\$1,802,141	581	\$1,052,991	2	\$ 5,000	\$ 1,483	0.3%	0.1%
<u>Four-Year Public</u>									
F	334	\$ 37,499	122	\$ 24,400*	0	\$ 0	\$ 0	0.0%	0.0%
G	311	142,957	122	49,629	0	0	0	0.0	0.0%
H	861	110,763	155	17,310	9	1,800	590	5.8	3.4%
I	740	333,198	150	56,905	0	0	0	0.0	0.0%
I.1	704	407,903	150	89,065	0	0	0	0.0	0.0
Subtotal	2,950	\$1,032,320	699	\$ 237,309	9	\$ 1,800	\$ 590	1.3%	0.2%
<u>Proprietary</u>									
M	3	\$ 899	3	\$ 0	0	\$ 0	\$ 0	0.0%	0.0%
N	9	16,250	9	16,250	0	0	0	0.0	0.0%
O	39	55,907	39	34,218	1	2,500	834	2.6	2.4%
P	15	5,950	15	10,150	1	2,300	767	6.7	7.6%
Subtotal	66	\$ 79,006	66	\$ 60,618	2	\$ 4,800	\$ 1,601	3.0%	2.6%
TOTAL	3,974	\$2,913,467	1,346	\$1,350,918	13	\$ 11,600	\$ 3,674	1.0%	0.3%

*Estimated
**Total tuition and fees paid through May 1979-80 academic year.

CAL GRANT B SUBSISTENCE PAYMENTS
1979-80 Academic Year

SCHOOL	TOTAL RECIPIENTS AND AWARD AMOUNTS AT INSTITUTIONS		RECIPIENTS AND AWARD AMOUNTS SAMPLED		NUMBERS OF OVERPAID RECIPIENTS, THEIR TOTAL AWARDS AND AMOUNTS OF DOLLARS OVERPAID			PERCENT OF RECIPIENTS AND DOLLARS OVERPAID	
	NUMBER OF RECIPIENTS AT SCHOOL	TOTAL AMOUNT OF AWARDS	NUMBER OF RECIPIENTS IN SAMPLE	TOTAL AWARDS OF RECIPIENTS IN SAMPLE	NUMBER OF RECIPIENTS IN SAMPLE OVERPAID	TOTAL AWARDS OF RECIPIENTS OVERPAID	DOLLARS OVERPAID	PERCENT OF RECIPIENTS OVERPAID	PERCENT OF DOLLARS OVERPAID
<u>Four-Year Private</u>									
A	31	\$ 49,328	26	\$ 24,239	4	\$ 4,400	\$ 163	15.4%	0.7%
B	76	132,813	71	63,807	4	2,688	403	5.6%	0.6%
C	73	62,688	62	52,804	3	3,300	161	4.8%	0.3%
D	443	748,162	132	121,123	3	2,134	278	2.3%	0.2%
E	114	186,263	88	86,878	8	8,800	812	9.1%	0.9%
Subtotal	737	\$1,179,254	379	\$ 348,851	22	\$ 21,322	\$ 1,817	5.8%	0.5%
<u>Four-Year Public</u>									
F	363	\$ 297,407	122	\$ 94,165	10	\$ 9,391	\$ 555	8.2%	0.6%
G	328	288,003	122	100,982	14	13,592	1,362	11.5%	1.3%
H	922	717,010	155	110,344	18	15,278	2,014	11.6%	1.8%
I	722	707,959	150	117,077	9	9,636	1,056	6.0%	0.9%
Subtotal	2,335	\$2,010,379	549	\$ 422,568	51	\$ 47,897	\$ 4,987	9.3%	1.2%
<u>Community Colleges</u>									
J	59	\$ 53,524	55	\$ 50,960	12	\$ 12,109	\$ 1,167	21.8%	2.3%
K	79	52,719	67	47,071	11	9,655	742	16.4%	1.6%
L	101	75,422	65	43,941	8	7,787	736	12.3%	1.7%
Subtotal	239	\$ 181,665	187	\$ 141,972	31	\$ 29,551	\$ 2,645	16.6%	1.9%
<u>Proprietary</u>									
M	3	\$ 488	3	\$ 488	1	\$ 0	\$ 122	33.3%	25.0%
N	9	16,820	9	6,414	0	0	0	0.0%	0.0%
O	43	29,699	39	24,256	2	1,240	210	5.1%	0.9%
P	17	19,289	15	9,496	4	2,686	1,832	26.7%	19.3%
Subtotal	72	\$ 66,296	66	\$ 40,654	7	\$ 3,926	\$ 2,164	10.6%	5.3%
TOTAL	3,383	\$3,437,594	1,181	\$ 954,045	111	\$ 102,696	\$ 11,613	9.4%	1.2%

CAL GRANT C TUITION AND FEE PAYMENTS

SCHOOL	TOTAL RECIPIENTS AND AWARD AMOUNTS AT INSTITUTIONS		RECIPIENTS AND AWARD AMOUNTS SAMPLED		NUMBERS OF OVERPAID RECIPIENTS, THEIR TOTAL AWARDS AND AMOUNTS OF DOLLARS OVERPAID			PERCENT OF RECIPIENTS AND DOLLARS OVERPAID	
	NUMBER OF RECIPIENTS AT SCHOOL	TOTAL AMOUNT OF AWARDS	NUMBER OF RECIPIENTS IN SAMPLE	TOTAL AWARDS OF RECIPIENTS IN SAMPLE	NUMBER OF RECIPIENTS IN SAMPLE OVERPAID	TOTAL AWARDS OF RECIPIENTS OVERPAID	DOLLARS OVERPAID	PERCENT OF RECIPIENTS OVERPAID	PERCENT OF DOLLARS OVERPAID
<u>Proprietary</u>									
A	40	\$ 50,580	40	\$ 50,580	2	\$ 4,000	\$ 750	5.0%	1.5%
B	20	27,510	20	27,510	1	2,000	2,000	5.0%	7.3%
C	213	273,482*	107	137,383	0	0	0	0.0%	0.0%
D	4	4,657	4	4,657	0	0	0	0.0%	0.0%
Subtotal	277	\$ 356,229	171	\$ 220,130	3	\$ 6,000	\$ 2,750	1.8%	1.2%
<u>Independent</u>									
E	22	\$ 29,114	22	\$ 29,114	0	\$ 0	\$ 0	0.0%	0.0%
TOTAL	299	\$ 385,343	193	\$ 249,244	3	\$ 6,000	\$ 2,750	1.6%	1.1%

*Estimated

CAL GRANT C EDUCATIONAL EXPENSE PAYMENTS
1979-80 Academic Year

SCHOOL	TOTAL RECIPIENTS AND AWARD AMOUNTS AT INSTITUTIONS		RECIPIENTS AND AWARD AMOUNTS SAMPLED		NUMBERS OF OVERPAID RECIPIENTS, THEIR TOTAL AWARDS AND AMOUNTS OF DOLLARS OVERPAID			PERCENT OF RECIPIENTS AND DOLLARS OVERPAID	
	NUMBER OF RECIPIENTS AT SCHOOL	TOTAL AMOUNT OF AWARDS	NUMBER OF RECIPIENTS IN SAMPLE	TOTAL AWARDS OF RECIPIENTS IN SAMPLE	NUMBER OF RECIPIENTS IN SAMPLE OVERPAID	TOTAL AWARDS OF OVERPAID RECIPIENTS	DOLLARS OVERPAID	PERCENT OF RECIPIENTS OVERPAID	PERCENT OF DOLLARS OVERPAID
<u>Proprietary</u>									
A	40	\$ 11,251	40	\$ 11,251	2	\$ 1,000	\$ 187	5.0%	1.7%
B	20	5,440	20	5,440	1	437	437	5.0%	8.0%
C	213	57,012*	107	28,640	0	0	0	0.0%	0.0%
D	4	723	4	723	0	0	0	0.0%	0.0%
Subtotal	277	\$ 74,426	171	\$ 46,054	3	\$ 1,437	\$ 624	1.8%	1.4%
<u>Community Colleges</u>									
F	16	\$ 5,075	16	\$ 5,075	4	\$ 2,000	\$ 500	25.0%	9.9%
G	8	2,825	8	2,825	2	1,000	187	25.0%	6.6%
H	15	6,500	15	6,500	7	3,000	1,250	46.7%	19.2%
Subtotal	39	\$ 14,400	39	\$ 14,400	13	\$ 6,000	\$ 1,937	33.3%	13.5%
TOTAL	316	\$ 88,826	210	\$ 60,454	16	\$ 7,437	\$ 2,561	7.6%	4.2%

*Estimated

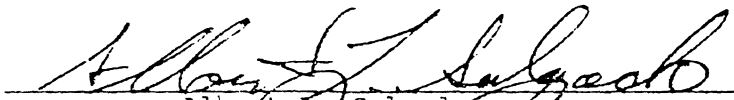
CALIFORNIA STUDENT AID COMMISSION
CAL GRANT B DISBURSEMENT RECORD

SAMPLE

SECTION A

TO BE COMPLETED BY STATE OFFICIALS ONLY

The following students have been awarded a Cal Grant B for the academic year _____ for tuition and fees, living expenses, transportation, supplies and books, at _____ (College or Institution). The individual student's check is in the amount and for the period shown on the attached pages numbered _____ through _____.


Albert L. Salgado
Cal Grant B Program Manager
California Student Aid Commission

SECTION B

TO BE COMPLETED BY THE DESIGNATED OFFICIAL AT THE COLLEGE, INSTITUTION

I hereby certify that the students on the accompanying list claiming a Cal Grant B are regularly enrolled students for the semester, quarter or term which begins on _____ and ends on _____. ~~School will inform the Commission of withdrawal, academic failure or other factors resulting in a student's termination or change in attendance.~~

Signed: _____ Title: _____

Phone No. _____ Area Code _____

* * * DO NOT RELEASE CHECKS UNTIL YOU READ THE FOLLOWING INSTRUCTIONS: * * *

1. An official designated by the institution should supply the information and signature requested in Section B above.
2. Checks must not be released to any student who is enrolled for fewer than 6 units; these checks must be returned to the Cal Grant B office.
3. Do not release a check to a student whose name is crossed off the claim. Return the check to the Cal Grant B office.
4. Make certain each student signs the pink schedule copy and indicates total number of units he/she is presently enrolled in before releasing checks.
5. Please mail this cover sheet signed by the Financial Aid Officer or designated official, and the completed pink copy of the schedule along with any unclaimed checks to our office by the 25th of the month.
6. If a student's check is being returned, please indicate whether or not the student is still enrolled; and, if so, indicate the number of units he/she is carrying.

DO NOT WRITE ON THE CHECK!

AUDITOR GENERAL'S COMMENTS ON THE
STUDENT AID COMMISSION'S RESPONSE

We are providing comments on the Student Aid Commission's response in order to provide clarity and perspective in light of the commission's taking exception to the findings and conclusions of our report. We organized our comments into two general sections. The first section discusses monitoring as a control function of management and a responsibility of the Student Aid Commission. The second section deals with statements made by the commission regarding matters of technical accuracy or perspective in our report.

Monitoring: A Control Function of Management

In its response to our report, the commission poses several different options that give various organizations the responsibility for monitoring the institutional procedures and controls over commission programs. Monitoring is a control function of management, and it is the commission that is responsible for the management and administration of the Cal Grant and Guaranteed Student Loan programs. That management responsibility includes establishing a process to ensure that schools and students receive only those state and federal funds to which they are entitled. Who should monitor begs the question; it is the commission's responsibility to assure that the control mechanism is in place, because the responsibility for the results of the commission's program administration rests with the commission, not with some outside entity.

The commission refers to an agreement with the Department of Finance by which the department would conduct periodic audits, or monitorings, for the commission and apparently relieve the commission of this responsibility. We contacted both the department's audits unit as well as the department's budget analyst for the commission. Neither the audits unit nor any of the budget analysts who had had responsibility for the commission budget were aware of or could recall any such agreement. Upon closer scrutiny, the commission's response refers not to an agreement with, but to a memorandum from the commission to the Department of Finance that was dated over six years ago and that at best, resulted in an audit report that was "never released."

Matters of Technical Accuracy or Perspective in Our Report

The commission takes issue with our use of the rate of occurrence of overpayments in presenting our findings. According to the commission, the dollar rate of error would be a less distorted measure. We chose to present the effects of overpayments in terms of the number of overpaid students, and we clearly identified the error rates as such in our report because we believe that the number of students overpaid is a better indicator of the effectiveness of the commission's system to detect and prevent overpayments. For example, in terms of judging the failure of a system to detect and prevent overpayments, 40 overpayments of \$25 each are far more significant than 1 overpayment of \$1,000. While each system allowed overpayments totaling \$1,000, clearly the first system is less effective. We believe that the commission needs to place more emphasis on assuring that educational institutions properly disburse both grants and loans.

The commission states that 63 percent of the Cal Grant B subsistence overpayments that we identified were in the \$10 to \$100 range, and that it would not be economical to collect on many of these overpayments. In fact, according to the commission's own collection policy, the commission should attempt to collect all 16 of the Cal Grant C expense overpayments and all but one of the 111 Cal Grant B subsistence overpayments that we identified. The commission's collection policy also requires that, when identified, overpayments should be established as accounts receivable. At that point, the account can be written off if it is less than \$25. The commission is required to make some effort to collect accounts from \$25 to \$100; in these cases, the commission may send a letter or make a telephone call to the students. Accounts over \$100 are to receive more extensive collection efforts. Less than 1 percent of the Cal Grant B subsistence overpayments we identified (1 overpayment) fell into the \$0 to less than \$25 category; 65 percent (72 overpayments) ranged from \$25 to \$100; and 34 percent (38 overpayments) were between \$101 and \$612. None of these overpayments had been identified by the commission before we conducted our audit.

The fact that 9.4 percent of the Cal Grant B students receiving subsistence allowances and 7.6 percent of the Cal Grant C students receiving educational expenses were overpaid, and the fact that over 99 percent of these overpayments fall within the commission's range of collectibles indicates that the commission can establish better guidelines and controls to ensure that grants and loans are properly disbursed.

While we recommended that the commission increase its monitoring of educational institutions, the commission states that the Legislative Analyst recommended against increasing its review and monitoring staff for that purpose. Our contact with the Legislative Analyst indicates that he recommended against additional management positions but favored the addition of the two specialist positions that the commission had requested to handle the increased workload in administering the Guaranteed Student Loan Program.

In responding to our concerns over the accuracy of commission records on student enrollment status, the commission states that "schools are not required by either federal or state regulations to notify the lender or the guarantee agency of changes in the borrower's enrollment status after the loan check is released to the student." Yet, the commission's own procedures manual states "by Federal Regulation, schools are required to notify the SAC within 30 days of such changes." While the commission may choose not to enforce its own regulation, it must observe Section 69761.5(c) of the Education Code which states: "Participating educational institutions shall notify lenders and the commission of participating students enrollment status changes and current address." (emphasis added). Clearly, both statutes and regulations require schools to report changes in students' enrollment status.

Finally, we state in our report that the commission does not consider information on labor-short occupations when selecting Cal Grant C recipients. The commission responded that it may be timely to review occupational data to see if it might be useful to the Cal Grant C program. The point is that consideration of labor-short occupations in awarding the grants is required by law. We identified several government agencies that use and subscribe to the validity of the available data on labor-short occupations. In our opinion, it is the responsibility of the Student Aid Commission to ensure that the Cal Grant C funds are awarded in accordance with the intent of the legislation that created the program. We found, however, that these funds are not being awarded according to that intent.

SITES VISITED

Postsecondary Educational Institutions

Private Four-Year Institutions

Pacific Union College
University of San Francisco
Stanford University
University of the Pacific
University of San Diego
Loyola Marymount College
Occidental College
Loma Linda University
University of Southern California

Public Four-Year Institutions

California Polytechnic State University, Pomona
California State University, Los Angeles
University of California, Berkeley
University of California, Los Angeles
University of California, San Diego

California Community Colleges

Yuba College
American River College
San Diego Mesa College

Proprietary Schools

Empire College
Bauder College
Southland College
Fashion Institute of Merchandise and Design, Los Angeles

California Guaranteed Student Loan Program

Lenders

Bank of America
California First Bank
Home Federal Savings and Loan Association
Security Pacific National Bank
United California Bank
Wells Fargo Bank

Servicers

United Student Aid Funds, San Francisco, California
United Student Aid Funds, Indianapolis, Indiana

CAL GRANT B SUBSISTENCE ALLOWANCE OVERPAYMENTS:
ERROR RATES FOR SCHOOL SAMPLES

<u>School</u> ^a	<u>Sample Size</u>	<u>Overpaid Students</u>	<u>Error Rate (%)</u> ^c	<u>Overpayments Identified</u>
<u>Four-Year Private</u>				
A	26 ^b	4	15.4%	163
B	71 ^b	4	5.6%	403
C	62 ^b	3	4.8%	161
D	132	3	2.3%	278
E	88	8	9.1%	812
<u>Four-Year Public</u>				
F	122	10	8.2%	555
G	122	14	11.5%	1,362
H	155	18	11.6%	2,014
I	150	9	6.0%	1,056
<u>Community Colleges</u>				
J	55 ^b	12	21.8%	1,167
K	67 ^b	11	16.4%	742
L	65	8	12.3%	736
<u>Proprietary</u>				
M	3 ^b	1	33.3%	122
N	9 ^b	0	0%	0
O	39 ^b	2	5.1%	210
P	15 ^b	4	26.7%	1,832
	<u>1,181</u>	<u>111</u>	9.4%	<u>\$11,613</u>

^a The order of presentation of schools in this appendix does not correspond to the order of presentation in Appendix A.

^b Sample consisted of 100 percent of Cal Grant B subsistence recipients.

^c Error rate computed by dividing number of overpaid students by total number of students in sample.

CAL GRANT A TUITION AND FEES:
ERROR RATES FOR SCHOOL SAMPLES

<u>School</u> ^a	<u>Sample Size</u>	<u>Overpaid Students</u>	<u>Error Rate (%)</u> ^c	<u>Overpayments Identified</u>
<u>Four-Year Private</u>				
A	150	0	0.0%	\$ 0
B	140	0	0.0%	0
C	142	3	2.1%	3,320
D	155	0	0.0%	0
E	180	1	0.6%	1,450
F	160	1	0.6%	580
G	143	2	1.4%	1,391
H	140	1	0.7%	359
I	164	0	0.0%	0
<u>Four-Year Public</u>				
J	145	2	1.4%	146
K	162	2	1.2%	100
L	148	8	5.4%	595
M	177	0	0.0%	0
N	177	0	0.0%	0
<u>Proprietary</u>				
O	3 ^b	0	0.0%	0
P	47	5	10.6%	6,440
Q	83 ^b	0	0.0%	0
R	10 ^b	2	20.0%	875
	<u>2,326</u>	<u>27</u>	1.2%	<u>\$15,256</u>

^a The order of presentation of schools in this appendix does not correspond to the order of presentation in Appendix A.

^b Sample consisted of 100 percent of Cal Grant A recipients.

^c Error rate computed by dividing number of overpaid students by a total number of students in sample.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps