

FINANCIAL AID
HUMBOLDT STATE UNIVERSITY

Audit Report 10-41
October 6, 2010

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ABBREVIATIONS

CSU	California State University
FSA	Federal Student (Financial) Aid
IS	Information Security
OUA	Office of the University Auditor

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2009, the Board of Trustees, at its January 2010 meeting, directed that *Financial Aid* be reviewed. *Financial Aid* was previously audited in 2002.

We visited the Humboldt State University campus from April 5, 2010, through April 30, 2010, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on financial aid activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls for financial aid activities in effect as of April 30, 2010, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

GENERAL ENVIRONMENT [6]

Access controls for the financial aid systems needed improvement. For example, access to the financial aid modules of the PeopleSoft and Banner Legacy systems was not always removed in a timely manner upon employee termination or change in job duties. Physical access to confidential financial aid records was not adequately restricted, nor were policies and procedures developed to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties. In addition, the financial aid office did not develop a risk assessment policy, nor did it conduct a formal risk assessment of its information security program.

INTRODUCTION

BACKGROUND

Financial aid programs provide support for students to help meet the costs of obtaining a college education. The federal government, state governments, colleges and schools, and a variety of other public and private sources provide funding for financial aid programs. There are two main categories of financial aid, differentiated primarily by the basis upon which they are awarded, as follows:

Achievement-based aid is awarded to students who have a special characteristic, skill, talent, or ability. Typically, achievement-based aid is in the form of scholarships.

Need-based aid is provided to students who demonstrate financial need. Most financial aid, particularly publicly funded aid, is awarded on the basis of financial need determined through the application process and in accordance with a prescribed federal formula.

Financial aid is available in four basic types of programs as follows:

Scholarships are “gift aid” and do not have to be repaid. Scholarships typically include criteria such as academic performance or special talents.

Grants are “gift aid” and generally do not include criteria other than financial need.

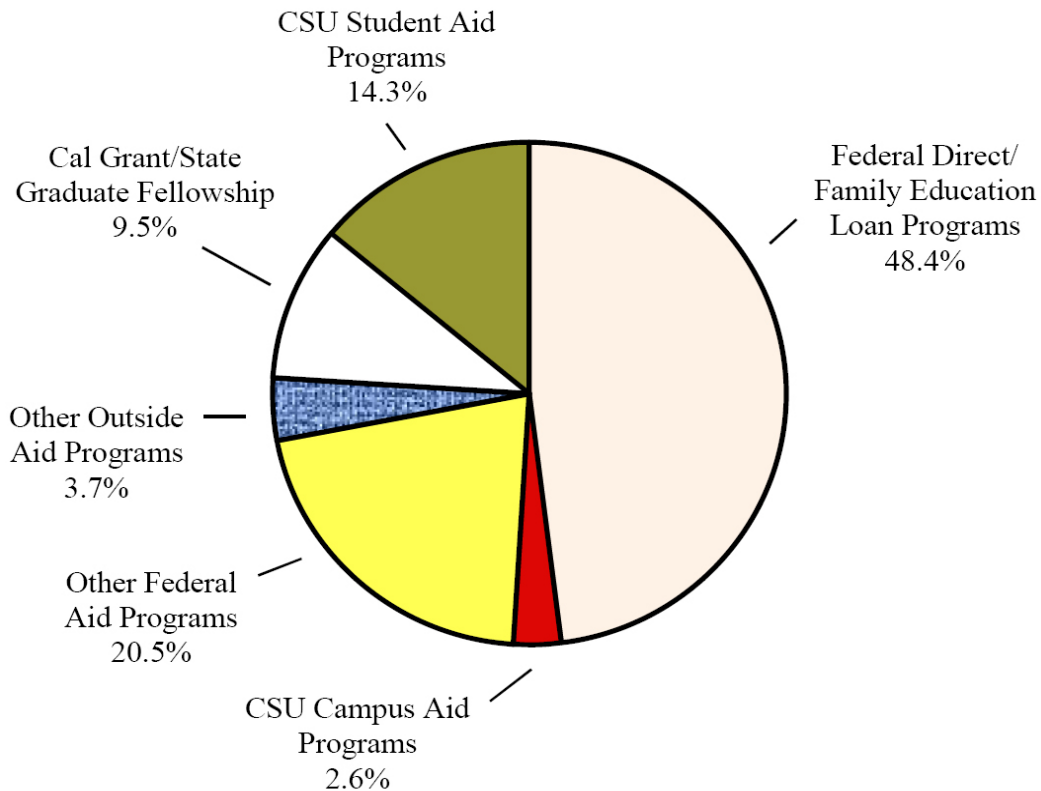
Work-study is a “self-help” program in the form of part-time employment during the student’s college career.

Loans are a form of “self-help” since they represent borrowed money that must be paid back over a period of time, typically after the student leaves school.

Federal financial aid programs provide almost 69 percent of the funding currently available for student financial aid. On an annual basis, federal financial aid programs are audited as part of the California State University (CSU) Single Audit as required by the Office of Management and Budget Circular A-133. As of June 30, 2009, the student financial assistance cluster in the Single Audit Report by KPMG included:

PROGRAM	AMOUNT
Federal Supplemental Educational Opportunity Grants	\$11,400,683
Federal Family Educational Loans	\$636,997,465
Federal Work Study	\$15,596,904
Federal Perkins Loan – Federal Capital Contributions	\$15,778,922
Federal Pell Grants	\$423,149,456
Federal (William Ford) Direct Loans	\$498,770,599
Academic Competitiveness Grants	\$12,410,868
National Science and Mathematics Grants	\$7,196,104
TEACH Grants, Nursing Loans, and Disadvantaged Student Loans	\$653,568
Total Student Financial Assistance:	\$1,621,954,569

Non-federal financial aid programs include mainly those funded by the state through the California Student Aid Commission, programs administered by the CSU, and campus-administered funds. The state administers Cal Grants and certain loan assumption programs, and the CSU provides need-based assistance through state university grants and educational opportunity program grants. Certain other funds, such as local scholarships, are available through the campuses. In the CSU Statistical Abstract for fiscal year 2007/08, financial aid funds by source are graphically represented as follows:



For financial aid purposes, campuses establish standard student budgets or cost of attendance allowances that vary depending on where a student lives during the academic year (e.g., at home with parents or relatives, in university or campus housing such as residence halls, or off-campus in an apartment or other housing). Costs include fees and tuition, books and supplies, meals and housing, transportation, and other miscellaneous personal expenses. Students who are not classified as residents of the state of California must also pay non-resident tuition. Allowances for expenses, other than tuition and fees, are based largely on statewide survey data about the average expenses of students in California and information on the local or regional costs in the area served by particular campuses.

Beginning in calendar year 2010, the Office of the University Auditor (OUA) audit risk assessment methodology changed, based on a fiscal year 2009/10 systemwide risk assessment. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas in each campus. As a result of this change in risk assessment, financial aid was identified as an area for review.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to financial aid and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the audit objective, specific goals included determining whether:

- ▶ Campuses are administratively capable with regard to financial aid.
- ▶ Campuses have undertaken or completed initiatives to improve financial aid operations, maximize financial aid resources, and ensure compliance with federal regulatory requirements.
- ▶ Adequate consumer information on financial aid has been disclosed.
- ▶ Provisions have been made for securing financial aid data from inappropriate disclosures.
- ▶ Financial aid is supported by adequate automated recordkeeping systems.
- ▶ There is complete, correct, and consistent information circulated on financial aid.
- ▶ Other campus offices adequately coordinate with the financial aid office.
- ▶ Campuses avoid overcommitment or underutilization of financial aid resources.
- ▶ Financial aid operations are economical, efficient, and effective.
- ▶ Standard student budgets and cost of attendance are appropriately established.
- ▶ There is a process for validating the eligibility of financial aid applicants to receive assistance.
- ▶ The campus has complied with federal and state requirements and conditions stipulated by other financial aid resource providers.
- ▶ Financial aid is packaged in accordance with applicable policies and procedures.
- ▶ Financial aid decisions are made based on accurate verifications.
- ▶ Fee waivers have been factored into financial aid awards.
- ▶ Work-study program limits have not been exceeded.
- ▶ Separation of duties between awarding and disbursing is adequate.
- ▶ Disbursements are adequately controlled.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that financial aid includes the identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. The audit focused on procedures in effect for fiscal years 2008/09 and 2009/10. In instances wherein it was necessary to review annualized data, calendar years 2008 and 2009 were the periods reviewed.

A preliminary risk assessment of campus financial aid operations was used to select for our audit testing those areas or activities with highest risk. This assessment was based upon a systematic process using prior audits, management's feedback, and professional judgments on probable adverse conditions and other pertinent information, including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- ▶ The financial aid organization.
- ▶ Physical and logical security for sensitive financial aid information.
- ▶ Safeguarding financial aid automated systems.
- ▶ Recordkeeping for financial aid.
- ▶ Coordination between the financial aid department and other campus departments.
- ▶ Procedures used to avoid overcommitment or underutilization of financial aid resources.
- ▶ Establishing and calculating student budgets and cost of attendance.
- ▶ Establishing student eligibility for financial aid.
- ▶ Campus policies and professional judgment used for awarding of financial aid.
- ▶ Information verification procedures for financial aid applications.
- ▶ Work-study program payment compliance with federal regulations and campus guidelines.
- ▶ Appropriate separation of duties for awarding and disbursing financial aid.
- ▶ Disbursement procedures for financial aid payments.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

AUTOMATED RECORDKEEPING SYSTEM ACCESS

Access controls for the financial aid systems needed improvement.

We found that:

- ▶ Access to the financial aid modules of the PeopleSoft and Banner Legacy systems was not always removed in a timely manner upon employee termination or change in job duties. Our review disclosed that two former employees had access to the PeopleSoft system, and another two former employees had access to the Banner Legacy system.
- ▶ Procedures had not been developed to ensure the periodic review of access to the PeopleSoft and Banner Legacy systems.

State Administrative Manual §4842.2 states that appropriate risk management procedures should be implemented to provide termination practices that ensure that information assets are not accessible to former employees. Effective termination practices include removal of system access upon employee termination or transfer.

California State University *Information Security Policy*, dated April 19, 2010, states that campus policies and procedures should provide for:

- ▶ Individual unique user IDs/passwords (no shared IDs).
- ▶ Access privileges controlled on a need-to-know basis.
- ▶ Password security requirements.
- ▶ Assignment of responsibilities (access privileges granted).
- ▶ Reassignment of responsibilities (access privileges reviewed).
- ▶ Termination of employment (access privileges removed).

The director of financial aid stated that although it was department policy for an individual's system access to be removed or modified upon termination or change in job duties, there were no procedures in place to periodically verify that such action was taken in a timely manner.

Failure to adequately control user access to financial aid systems increases campus exposure to improper disclosure of private information or loss from inappropriate acts.

Recommendation 1

We recommend that the campus:

- a. Immediately remove system access for former employees.
- b. Develop procedures to ensure the periodic review of access to the PeopleSoft and Banner Legacy financial aid systems.

Campus Response

We concur.

- a. The campus will immediately remove system access for the former employees.
- b. The campus will develop procedures to ensure the periodic review of access to information systems.

Expected completion date: January 31, 2011

PHYSICAL SECURITY

Physical access to confidential federal student (financial) aid (FSA) records was not adequately restricted, nor were policies and procedures developed to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

We found that confidential records were stored on open file shelves in the financial aid office. Although the office was appropriately restricted to financial aid personnel during business hours, several members of the campus maintenance staff had access to the office, and therefore to the confidential files, after hours.

Code of Federal Regulations, Title 34, *Family Educational Rights and Privacy*, §99.31(a)(1)(ii), dated December 2005, states that an educational institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests. An educational institution that does not use physical or technological access controls must ensure that its administrative policy for controlling access to education records is effective and that it remains in compliance with legitimate educational interest requirements.

The director of financial aid stated that access to physical records was limited almost exclusively to financial aid staff. She further stated that the maintenance staff with access to the financial aid office and physical records were long-term, trustworthy employees of the campus with a need to access the financial aid office to perform their job duties.

Failure to adequately control physical access to confidential FSA records increases campus exposure to improper disclosure of private information or loss from inappropriate acts.

Recommendation 2

We recommend that the campus:

- a. Adequately restrict physical access to confidential FSA records to only those individuals who have appropriate authorization.
- b. Develop and implement policies and procedures to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

Campus Response

We concur.

- a. The campus will continue to restrict physical access to confidential FSA records to appropriate personnel. Procedures have been implemented to have custodial staff enter the financial aid area only during business hours when financial aid staff are present. In addition, access into the financial aid area is now obtained through key card access, which creates a record of who has entered the area. All employees, including the custodial staff, follow campus procedures relating to signing confidentiality agreements.
- b. The campus will develop procedures to identify which employees are able to access areas with sensitive data.

Expected completion date: January 31, 2011

INFORMATION SECURITY RISK ASSESSMENT

The financial aid office did not develop a risk assessment policy, nor did it conduct a formal risk assessment of its information security (IS) program.

The U.S. Department of Education, *Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions for Federally Funded Student Financial Aid Programs*, Chapter 12, dated July 2005, states that, in addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal controls or checks and balances. Internal control consists of five interrelated components derived from the way a school is managed, including risk assessment. Risk assessment is the identification and analysis of risks that have the potential to negatively affect a school's satisfactory management of the FSA programs, its strength, its public image, and the overall quality of its programs and services.

Federal Student Aid Handbook, Volume 2, *School Eligibility and Operations*, 2009-2010, states that the institution must identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and assess the sufficiency of

any safeguards in place to control these risks. At a minimum, the school's risk assessment should include consideration of risks in each relevant area of operations, including:

- ▶ Employee training and management.
- ▶ Information systems, including network and software design, as well as information processing, storage, transmission, and disposal.
- ▶ Detecting, preventing, and responding to attacks, intrusions, or other systems failures.

Executive Order 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the California State University risk management policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

The director of financial aid stated that the financial aid office informally evaluates IS risks but had not developed a formal process or documentation of results.

Failure to adequately assess and address financial aid IS risks increases the exposure to improper disclosure of private information or loss from inappropriate acts.

Recommendation 3

We recommend that the campus:

- a. Develop a financial aid office IS risk assessment policy.
- b. Conduct a formal IS risk assessment and document the results.

Campus Response

We concur.

- a. The campus will develop a financial aid office IS risk assessment policy.

Expected completion date: January 31, 2011

- b. The financial aid office will continue to evaluate IS risk and will develop a formal process and document the results.

Expected completion date: January 31, 2011

APPENDIX A: PERSONNEL CONTACTED

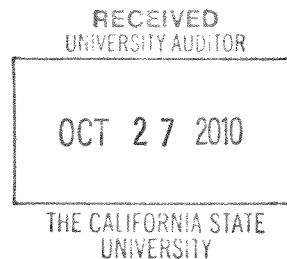
<u>Name</u>	<u>Title</u>
Rollin C. Richmond	President
Brendan Brisker	Systems Lead, Financial Aid
Patricia Carlson	Assistant Director of Operations, Financial Aid
Kim Coughlin-Lamphear	Director, Financial Aid
Emily Kupec	Financial Analyst, Financial Services
Peggy Metzger	Associate Director of Operations, Financial Aid
Gregory Moloney	Satisfactory Academic Progress/Systems, Financial Aid
Burt Nordstrom	Vice President, Administrative Affairs
Heather Parker	Federal Work Study Assistant, Financial Aid
Ann Plantin	Financial Aid Services Supervisor, Financial Aid
Glenda Rotherham	Disbursement Coordinator, Student Financial Services
Lynne Sandstrom	Director, Financial Services
Jay Schock	Financial Aid Counselor, Financial Aid
Carol Terry	Associate Vice President, Business Services
Sandra Wieckowski	Financial Aid Accounting Supervisor, Student Financial Services



Vice President of Administrative Affairs

October 27, 2010

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210



Audit Report 10-41 – Financial Aid

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to Audit Report 10-41 – Financial Aid, findings #1 through #3.

Please review the information and let us know if there are any questions, concerns, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened.

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Burt Nordstrom
Vice President

cc: Rollin C. Richmond, President (w/o enclosures)
Carol Terry, Associate Vice President of Business Services (w/o enclosures)

FINANCIAL AID
HUMBOLDT STATE UNIVERSITY
Report Number 10-41

GENERAL ENVIRONMENT

AUTOMATED RECORDKEEPING SYSTEM ACCESS

Recommendation 1

We recommend that the campus:

- a. Immediately remove system access for former employees.
- b. Develop procedures to ensure the periodic review of access to the PeopleSoft and Banner Legacy financial aid systems.

Campus Response

- a. We concur. The campus will immediately remove system access for the former employees.
- b. We concur. The campus will develop procedures to ensure the periodic review of access to information systems.

Expected completion date: January 31, 2011

PHYSICAL SECURITY

Recommendation 2

We recommend that the campus:

- a. Adequately restrict physical access to confidential FSA records to only those individuals who have appropriate authorization.
- b. Develop and implement policies and procedures to define which non-financial aid employees should be allowed access to the financial aid file location based on their job duties.

Campus Response

- a. We concur. The campus will continue to restrict physical access to confidential FSA records to appropriate personnel. Procedures have been implemented to have custodial staff enter the financial aid area only during business hours when financial aid staff are present. In addition, access into the financial aid area is now obtained through key card access, which creates a record of who has entered the area. All employees, including the custodial staff, follow campus procedures relating to signing confidentiality agreements.
- b. We concur. The campus will develop procedures to identify which employees are able to access areas with sensitive data.

Expected completion date: January 31, 2011

INFORMATION SECURITY RISK ASSESSMENT

Recommendation 3

We recommend that the campus:

- a. Develop a financial aid office IS risk assessment policy.
- b. Conduct a formal IS risk assessment and document the results.

Campus Response

- a. We concur. The campus will develop a financial aid office IS risk assessment policy.

Expected completion date: January 31, 2011

- b. We concur. The financial aid office will continue to evaluate IS risk and will develop a formal process and document the results.

Expected completion date: January 31, 2011

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 22, 2010

CHICO

MEMORANDUM

DOMINGUEZ HILLS

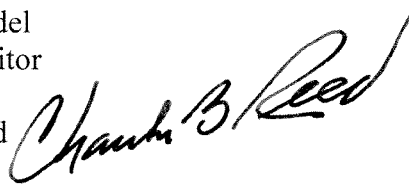
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-41 on *Financial Aid*,
Humboldt State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 22, 2010, I accept the response as submitted with the draft final report on *Financial Aid*, Humboldt State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS