



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
Region IX, Sacramento

August 23, 2007

Control Number
ED-OIG/A09H0013

Dr. Paul J. Zingg, President
California State University, Chico
Kendall Hall, Room 105
Chico, CA 95929-0001

Dear Dr. Zingg:

This **Final Audit Report**, entitled *California State University, Chico's Administration of the Federal Work-Study Program*, presents the results of our audit. The purpose of the audit was to determine if California State University, Chico (CSU-Chico) had policies and procedures that provided reasonable assurance that Federal Work-Study (FWS) Program funds were paid to eligible students for allowable employment and work performed. As part of our review of students' eligibility for FWS, we determined, for those students in our sample, if CSU-Chico completed and accurately reported the verification of applicant data to the U.S. Department of Education (Department) and complied with student financial aid award and packaging requirements. Our review covered the period July 1, 2005, through June 30, 2006 (award year 2005-06).

BACKGROUND

The FWS Program is a campus-based program that provides part-time employment to students attending institutions of higher education to help them meet the costs of postsecondary education. Funds for the FWS Program are authorized under the Higher Education Act of 1965, as amended (HEA), Title IV, Part C. Regulations for the administration of the FWS Program are provided in 34 C.F.R. Parts 668, 673, and 675.

Schools that participate in the FWS Program must make FWS jobs reasonably available to all eligible students, and to the extent practicable, provide FWS jobs that complement and reinforce the recipient's educational program or career goals. In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the

period of employment, the anticipated wage rate, and the amount of other assistance available to the student. FWS employment must be governed by the employment conditions, including pay, that are appropriate and reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable Federal, State, or local laws. FWS employers must pay students at least the Federal minimum wage in effect at the time of employment.

CSU-Chico is one of 23 institutions in the California State University system. The school had about 17,300 enrolled students and offered over 400 undergraduate and graduate programs. During award year 2005-06, 783 students earned a total of \$1,515,016 for work performed in FWS jobs, of which \$854,462 was paid with FWS funds and the remainder paid with funds from non-Federal sources. All FWS jobs were located on campus.

AUDIT RESULTS

CSU-Chico had policies and procedures in place for administering the FWS Program, but it needs to improve the procedures and monitor its staff's adherence to them, to ensure that FWS funds are paid to eligible students for allowable employment and work performed. CSU-Chico's procedures did not prevent, or ensure timely correction of, charges to the FWS Program that exceeded students' FWS awards; ensure that its staff prepared and maintained adequate FWS job descriptions; or ensure that supervisors properly certified student timesheets. Procedural weaknesses were also identified in CSU-Chico's procedures for releasing FWS warrants. For the students in our sample, CSU-Chico appropriately completed and accurately reported verification of applicant data to the Department. We also found that CSU-Chico packaged student financial aid for the sampled students in accordance with the applicable Federal regulations and Department guidance.

In its comments on the draft report, CSU-Chico concurred with our finding and recommendations. The comments are summarized at the end of the finding and the text of the comments is included as an attachment to the report.

FINDING — CSU-Chico's Procedures for Administration of the FWS Program Need Improvement

Our review of 33 FWS payments for award year 2005-06, which were made to 33 separate students, found that 2 payments resulted in charges to the FWS Program that exceeded students' FWS awards. CSU-Chico staff subsequently detected the excess charges, but did not reimburse the FWS Program. For 6 of the 33 payments, CSU-Chico staff did not prepare adequate job descriptions or the job descriptions were missing. We also found that supervisors did not record the date of their certification of student timesheets for 13 payments and that CSU-Chico staff released FWS warrants without requiring identification documents to confirm the recipient's identity.

CSU-Chico's Procedures Did Not Prevent, or Provide for Timely Correction of, Charges to the FWS Program in Excess of Students' FWS Awards

The CSU-Chico campus employers are responsible for noting the amount of students' FWS awards and monitoring the payments to students to ensure that payments funded by the FWS Program do not exceed the FWS awards. While processing the monthly payroll, CSU-Chico runs a Work Study Holds list that identifies potential charges to the FWS Program in excess of students' FWS awards. When a charge in excess of a student's FWS award is identified, CSU-Chico staff notifies the campus employer to prevent further improper charges to the FWS Program by either terminating the student's employment or paying the student with funds from other sources. CSU-Chico then proceeds with the processing of the payroll, since a change in funding source can take up to 8 weeks to process. We found that CSU-Chico procedures did not prevent, in our sample of 33 FWS payments, charges of \$937 and \$640 that were in excess of students' FWS awards. While we found evidence that CSU-Chico staff contacted the respective campus employers regarding the charges, the charges were not corrected; that is, the funding source for the \$937 and \$640 was not changed.

According to 34 C.F.R. § 673.5(a)(2), "An institution may only award FWS employment to a student if the award, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need." However, 34 C.F.R. § 673.5(e)(2) states, "[A]n institution may provide additional FWS funding to a student whose need has been met until that student's cumulative earnings from all need-based employment occurring subsequent to the time his or her financial need has been met exceed \$300."

Thus, the two charges we identified of \$937 and \$640, that were in excess of the students' FWS awards, resulted in the improper use of \$637 and \$340 of FWS funds, respectively, for award year 2005-06. Since CSU-Chico's procedures did not prevent or provide for the timely correction of the two charges in excess of the FWS awards identified in the 33 payments we reviewed, other such charges may have occurred and not been corrected in award years 2005-06 and 2006-07.

CSU-Chico Staff Did Not Prepare and Maintain Adequate Job Descriptions

CSU-Chico had written procedures for posting job information to its online campus job referral system that included the job description elements specified by the Department in the *Federal Student Aid Handbook 2005-2006 (FSA Handbook)*. However, the school's staff did not follow the written procedures. For the 33 payments in our sample, the job descriptions for 4 payments were not provided to us, and job descriptions for 2 other payments did not contain all the specified elements.¹

¹ The two inadequate job descriptions contained job duties, but did not include other required elements such as the address of the student's employer, purpose of the student's job, job qualifications, wage rate or range, length of the student's employment (beginning and ending dates), and name of the student's supervisor.

Under 34 C.F.R. § 668.24(a)(3), an institution must maintain “program records that document . . . [i]ts administration of the title IV, HEA programs in accordance with all applicable requirements” To ensure that a student’s job qualifies under the FWS Program, an institution should maintain a job description. Also, a job description helps the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need. It also establishes a written record, for both student and employer, of the job's duties and responsibilities so that there will be no misunderstandings.

Volume 6, Chapter 1, of the *FSA Handbook* lists the elements that should be included in a job description: the name and address of the student's employer; the purpose of the student's job; the student's duties and responsibilities; the job qualifications; the job's wage rate or range; the length of the student's employment (beginning and ending dates); and the name of the student's supervisor.

CSU-Chico was either unable to provide job descriptions or provided inadequate job descriptions for 6 of the 33 payments in our sample. Through interviews with students, we were able to obtain sufficient information to conclude that the students worked in allowable assignments for 5 of these 6 payments. We were unable to contact the remaining student. However, additional information provided by CSU-Chico was sufficient to confirm that the student worked in an allowable assignment.

CSU-Chico Staff Did Not Properly Certify Student Timesheets

To receive payments for FWS employment, CSU-Chico requires its student employees to prepare monthly timesheets to document the hours worked by the student. The timesheets provide space for the supervisor’s signature and date. CSU-Chico’s Student Employment Office reviews the timesheets before submitting them to payroll. The review confirms that the timesheets include a supervisor’s signature, but does not confirm that the supervisor dated the form. We found that supervisors signed the timesheets for all 33 of the payments we reviewed, but that supervisors did not provide a date on the timesheets for 13 of the payments.

Under 34 C.F.R. § 675.19(b)(2)(i), an institution must establish and maintain program and fiscal records that “[i]nclude a certification by the student’s supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid.” Without including a signature date, the supervisor’s certification is incomplete. It does not provide evidence that the supervisor signed the timesheet after the work was completed.

Except for the missing signature dates, the 13 timesheets were mathematically accurate and were prepared in a manner consistent with the other timesheets we reviewed. Nothing came to our attention during the audit to indicate that the students did not work on their FWS assignments during the hours reflected on the timesheets.

CSU-Chico Staff Did Not Adequately Identify Students When Releasing FWS Warrants

CSU-Chico's Cashiering Office was responsible for distributing the FWS warrants (i.e., payroll checks) issued by the California State Controller's Office. Before releasing warrants to students, cashiering staff required the students to provide their names and the last three digits of their social security numbers. The cashiering staff would release a warrant to a third party only if the third party could provide a written authorization from the student and the last three digits of the student's social security number. Neither the students nor the third parties were required to provide proof of identification, and the Cashiering Office did not maintain a log of the warrants with recipient signatures confirming the receipt of the warrant.

Under 34 C.F.R. § 668.163(e), "An institution must exercise the level of care and diligence required of a fiduciary with regard to maintaining and investing title IV, HEA program funds." According to 34 C.F.R. § 668.82(b)(1), "In the capacity of a fiduciary . . . [a] participating institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs" Volume 4, Chapter 3 of the *FSA Handbook* states, "A school has a fiduciary responsibility to . . . safeguard FSA funds [and] ensure FSA funds are used only for the purposes intended"

Not requiring proper identification could result in the improper negotiation of the warrant. There is also a risk that third parties may improperly use a student's personal identifying information. Requiring students and third parties to provide identification that includes a picture and to sign and date a warrant disbursement log would provide CSU-Chico with a record of the warrant's release and of the individual receiving the warrant.

Recommendations:

We recommend that the Chief Operating Officer for Federal Student Aid require CSU-Chico to—

- 1.1 Return \$977 (\$637 + \$340) of FWS funds that were improperly used for award year 2005-06 to the FWS Program.
- 1.2 Review its records and identify any other charges to the FWS Program in excess of students' FWS awards for award year 2005-2006 to the present and return the appropriate amount to the FWS Program.
- 1.3 Improve its procedures for monitoring payments charged to individual student FWS award balances and, when charges in excess of students' FWS awards occur, promptly return funds to the FWS Program.
- 1.4 Implement procedures to ensure that staff prepare job descriptions for FWS employment in accordance with its written procedures and maintain the job descriptions in the school's files.
- 1.5 Revise the Student Employment Office's procedures for reviewing monthly timesheets to include confirmation that a supervisor signed and dated the timesheet after the student's work hours were completed and recorded on the timesheet.

- 1.6 Develop procedures to ensure that FWS warrants are delivered to the intended students (for example, by requiring the recipient or third party to provide identification that includes a picture) and to document the delivery of the warrants (for example, in a log that requires the signature of the recipient or the third party to whom the warrant is delivered).

CSU-Chico's Comments

CSU-Chico concurred with the finding and recommendations. In its comments to the draft report, CSU-Chico addressed each of the recommendations and described the corrective actions taken and planned to address each condition. CSU-Chico stated that a review of its database identified three additional overpayments, revised reports and new procedures have been developed to ensure corrective action when students receive FWS funds in excess of their awards, and new student employment software was implemented that will ensure that job description are properly prepared and maintained. CSU-Chico also stated that it has implemented a new electronic process for recording and certifying student timesheets, it has implemented a requirement for picture identification for release of warrants, and it is developing procedures for a warrant log.

OIG Response

The actions described in CSU-Chico's comments, if properly designed and implemented, should correct the deficiencies noted in our audit finding. The draft report included a recommendation that CSU-Chico provide documentation to support that a student in our sample worked in an allowable job assignment or return the FWS funds paid to the student. As part of its comments on the draft report, CSU-Chico provided sufficient documentation to support that the student worked on an allowable assignment. Thus, we removed the recommendation in this final report and renumbered the remaining recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine if CSU-Chico had policies and procedures that provided reasonable assurance that FWS funds were paid to eligible students for allowable employment and work performed. As part of our review of student eligibility, we also determined if CSU-Chico completed and accurately reported the verification of applicant data to the Department and complied with student financial aid award and packaging requirements for students who received FWS funds. The audit covered the award year 2005-06. To accomplish our objective, we —

- Gained an understanding of applicable laws, regulations, the *FSA Handbook*, and *The Blue Book*.
- Reviewed the California State University's Single Audit Report prepared by its independent public accountant for the fiscal year ended June 30, 2006.

- Reviewed fiscal and program information in the Department's Postsecondary Education Participants System (PEPS) School Catalog Report and fiscal and statistical information reported to the Department by CSU-Chico in the Fiscal Operations Report and Application to Participate (FISAP) for the award year 2005-06.
- Gained an understanding of CSU-Chico's system of internal controls for verification of application data, student aid packaging, and payment of FWS funds by 1) reviewing written policies and procedures, 2) obtaining information on applicable manual and electronic processes through interviews and reviews of written documentation of the processes, and 3) interviewing school staff from human resources, financial aid, financial services, and student employment.

To evaluate CSU-Chico's procedures and compliance with Federal requirements, we reviewed student financial aid documentation, FWS job descriptions, and student timesheets for a sample of 33 FWS payments made during the award year 2005-06.

To identify the sample of 33 FWS payments, we relied on an Excel file provided by CSU-Chico's Accounting Department. The file contained a total of 4,714 FWS payroll transactions totaling \$1,515,016 that were made from July 19, 2005, through June 30, 2006, to 783 students employed during award year 2005-06. From this file, we identified the 2,008 payments made to the 217 students who each received over \$2,500 in total FWS funds for the award year. We considered payments to students who received over \$2,500 to be of higher risk for an improper payment for the FWS Program.² From the 2,008 FWS payments, we—

- Randomly selected 30 payments for inclusion in our sample.
- Judgmentally selected an additional three payments for review for students employed in CSU-Chico's Athletic Department. During the planning of the audit, we had concerns that FWS payments to students employed in a school athletic department might have higher risk than payments made to other students. Since the 30 randomly selected payments did not include any such students, we selected one payment made to each of the three students employed in the Athletic Department for inclusion in our sample.³

To assess the completeness of the provided Excel file, we confirmed the total FWS payments in the file to the FWS payment totals reported on the Department's FISAP and PEPS reports for award year 2005-06. We concluded that the Excel file was sufficiently reliable for use in selecting the sample of FWS payments reviewed in the audit.

We performed our fieldwork at CSU-Chico in Chico, California. We held an exit briefing with CSU-Chico officials on May 15, 2007. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

² The school's financial aid staff advised us that \$2,500 is the typical FWS award made to individual full-time students.

³ Our review of the school's documentation did not identify any deficiencies or other issues for the three payments.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Lawrence A. Warder
Acting Chief Operating Officer
Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112G1
830 First Street, NE
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/ for Beverly Dalman
Gloria Pilotti
Regional Inspector General for Audit

Attachment

Attachment

CSU-Chico's Comments On the Draft Audit Report

ED-OIG Notes:

1. Recommendation 1.4 in the draft report was deleted in the final report. Therefore, the recommendation numbers used in the CSU-Chico comments do not all correspond to the recommendation numbers in the final report.
2. Where appropriate, we have redacted certain personally identifiable information from CSU-Chico's comments. We did not include Attachments A & B, but they are available upon request.

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August 8, 2007

Gloria Pilotti
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, CA 95814



Subject: Draft Audit Report
Control Number ED-OIG/A09H0013

Dear Ms. Pilotti:

Enclosed is CSU, Chico's responses to the findings noted in the draft audit report for administration of the Federal Work-Study Program.

If you have any questions or require additional information, please contact Beverly Delker Gentry, Director of Strategic Planning for Business and Finance, at bgentry@csuchico.edu or (530) 898-6231.

Sincerely,

/s/

Dennis C. Graham
Vice President for Business and Finance

Attachments

cc: Paul Zingg, President
Drew Calandrella, Vice President for Student Affairs
George Wellman, Interim Associate Vice President, Financial Services
Meredith Kelley, Director of Financial Aid and Scholarships
Beverly Delker Gentry, Director, Strategic Planning for Business and Finance

CALIFORNIA STATE UNIVERSITY, CHICO
FINANCIAL AID AND SCHOLARSHIP OFFICE
FEDERAL WORK-STUDY PROGRAM

RESPONSE TO DRAFT AUDIT REPORT
U.S. DEPT. OF EDUCATION
OFFICE OF THE INSPECTOR GENERAL
SACRAMENTO AUDIT REGION

Control Number
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**FINDING — CSU-Chico's Procedures for Administration of the FWS
Program Need Improvement**

**CSU-Chico's Procedures Did Not Prevent, or Provide for Timely Correction of,
Charges to the FWS Program in Excess of Students' FWS Awards**

We concur. The year for which we were audited was the first year in a new software program, and since then, we have implemented additional safeguards to prevent overpayments, and to ensure timely return of funds to the FWS program.

- 1.1 Return \$977 (\$637 + \$340) of FWS funds that were improperly used for award year 2005-06 to the FWS Program.

We concur. Payment will be sent upon receipt of billing as a result of the Final Audit Determination Letter.

- 1.2 Review its records and identify any other charges to the FWS Program in excess of students' FWS awards for award year 2005-2006 to the present and return the appropriate amount to the FWS Program.

We concur. We have reviewed our database for any additional overpayments for award year 2005-06 and 2006-07. We have found three additional overpayments for 05/06. Two students were paid from work-study who had not applied for aid (\$156 and \$422.63) and one student was not eligible for need-based aid (\$253.03). Payment will be sent with payment from 1.1. We were able to correct overawards discovered for 06/07.

- 1.3 Improve its procedures for monitoring payments charged to individual student FWS award balances and, when charges in excess of students' FWS awards occur, promptly return funds to the FWS Program.

We concur. We have revised the reports that we use to monitor overawards in the federal work-study program. These revised reports were utilized in the 2006/07 year and we identified and corrected additional student overawards.

In addition, the Financial Aid & Scholarship Office has developed a new procedure in conjunction with the payroll office to initiate expenditure transfers from departments' federal work-study accounts to the non-federal student assistant accounts when a student becomes over-awarded. In the past, the FASO has notified the department when a student over-earned, and it was the responsibility of the department to take corrective action. Under the new process, the FASO will notify the employing department and the payroll office that the student is no longer eligible for work-study. Payroll will terminate the work-study position and trigger action by the department to transfer the student into a position funded by non-federal campus student assistant dollars.

This process will be in place with the implementation of the new Student Time and Labor module, scheduled to go live in October. Training of campus staff on the new process will be conducted in a series of workshops to be held in August and September. Training includes how to monitor individual student awards through our integrated software system.

CSU-Chico Staff Did Not Prepare and Maintain Adequate Job Descriptions

- 1.4 Document the actual duties and responsibilities of the student we identified during our audit, to support that the student worked in an allowable job assignment, or return the \$3,171 to the FWS Program.

We concur. *The student* was employed as a FWS student employee in the Office of Academic Advising Programs during the 2005-2006 academic year as an Advising Intern. Attached is the job description for Advising Interns which covers the duties performed by *the student* while employed as a FWS student during the 2005-2006 academic year. This documentation supports that the student worked in an allowable job assignment. [Attachment A.]

- 1.5 Implement procedures to ensure that staff prepare job descriptions for FWS employment in accordance with its written procedures and maintain the job descriptions in the school's files.

We concur. CSU, Chico purchased new student employment software in June, 2005. Conversion of existing job descriptions has now been completed, and any jobs renewed since that time have been stored in the database, which is specifically designed to capture required job descriptions for both federal work-study positions and general student assistant positions. A job cannot be posted without the required job description elements. A sample of the job descriptions, as maintained in the new software, is attached. [Attachment B.]

CSU-Chico Staff Did Not Properly Certify Student Timesheets

- 1.6 Revise the Student Employment Office's procedures for reviewing monthly timesheets to include confirmation that a supervisor signed and dated the timesheet after the student's work hours were completed and recorded on the timesheet.

We concur. The entire process of recording and certifying student timesheets is being converted to an electronic process through the PeopleSoft Student Time and Labor module. Students will complete and submit their timesheets on line, the supervisor will approve the hours worked on line, and we will generate a series of monthly reports to identify problems such as time entered but not submitted, duplicate reporting of time when a student has two different jobs, and the reports we currently run to identify students who work over 20 hours and over 40 hours. This module will be live by October, 2007.

CSU-Chico Staff Did Not Adequately Identify Students When Releasing FWS Warrants

- 1.7 Develop procedures to ensure that FWS warrants are delivered to the intended students (for example, by requiring the recipient or third party to provide identification that includes a picture) and to document the delivery of the warrants (for example, in a log that requires the signature of the recipient or the third party to whom the warrant is delivered).

We concur. We have implemented the requirement for picture ID for release of pay warrant. Warrant log procedures are being developed and will implement effective August 1, 2007.