

CALIFORNIA STUDENT AID COMMISSION

LEGAL AND AUDIT SERVICES DIVISION

August 22, 2016



Dr. John MacArthur
President
The Master's College
21726 Placerita Canyon Road
Santa Clarita, CA 91321

RE: Program Compliance Review ID#91600122000

Dear Dr. MacArthur:

The following is the **revised** final report of our program compliance review of your institution's participation in the California Student Aid Commission's (Commission) grant programs.

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

If I, or any member of my staff, can be of further assistance to you, please feel free to call us.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melanie Wong".

Melanie Wong, Acting Manager
Program Compliance Office

Enclosure

c. Gary Edwards, Director of Financial Aid
Program Review File



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

2013-14 Award Year

**The Master's College
Program Review ID #91600122000**

**21726 Placerita Canyon Road
Santa Clarita, CA 91321-1200**

Program Review Dates:

February 8 – 12, 2016

Auditor:

Del Pyles

Report Approved by:

Melanie Wong, Acting Manager
Program Compliance Office

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AUDITOR'S REPORT

SUMMARY

We reviewed The Master's College's administration of California Student Aid Commission (Commission) programs for the 2013-14 award year.

The Institution's records disclosed the following deficiencies:

- Eligible Cal Grant awardee not paid
- Cal Grant funds not deposited and maintained in an interest bearing account

BACKGROUND

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

Cal Grants

A and B

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

A. Institution

- Type of Organization: Private Non-Profit Institution of Higher Education
- President: Dr. John MacArthur
- Accrediting Body: Western Association of Schools & Colleges

B. Institutional Persons Contacted

- Gary Edwards: Director of Financial Aid

C. Financial Aid

- Date of Prior Commission Program Review: September 2007
- Branches: None
- Financial Aid Programs: Federal: Pell, SEOG, Direct Loans, and Work-Study
State: Cal Grant A and B
- Financial Aid Consultant: None

AUDITOR'S REPORT (continued)

OBJECTIVES, SCOPE AND METHODOLOGY

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

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

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

The specific objectives of the review were to determine that:

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

The procedures performed in conducting this review included:

- Evaluating the current administrative procedures through interviews and reviews of student records, forms and procedures.
- Evaluating the current payment procedures through interviews and reviews of student records, forms and procedures.
- Reviewing the records and grant payment transactions from a sample of 40 students who received a total of 33 Cal Grant A awards and 7 Cal Grant B awards within the review period. The program review sample was randomly selected from the total population of 211 Cal Grant recipients.
- Reviewing the records of unpaid Cal Grant recipients from a sample of 19 students who appeared on the Institution's roster but were not paid for the award year. The sample was selected to include all unpaid students.

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

AUDITOR'S REPORT (continued)

OBJECTIVES,
SCOPE AND
METHODOLOGY
(continued)

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

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

CONCLUSION

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

VIEWS OF
RESPONSIBLE
OFFICIALS

The findings were discussed with Institution representatives in an exit conference on March 17, 2016. The Institution staff concurred with all findings.

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

March 17, 2016

Melanie Wong, Acting Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

APPLICANT
ELIGIBILITY:

FINDING 1: Eligible Cal Grant awardee not paid

A review of 19 unpaid students disclosed one case where the student was eligible for Cal Grant A funds and did not receive payment.

DISCUSSION:

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

After reviewing the unpaid sample list, the Institution determined that student U1 was eligible for a Cal Grant A award for the 2013-14 award year. The student was originally enrolled in the Institution's traditional program and later transferred to a degree completion program. According to the Institution, a counselor removed the Cal Grant award when the student transferred programs, but did not evaluate the student's eligibility when the student re-enrolled in the Fall 2013 term.

According to the student's transcript, the student was enrolled full-time in the Fall 2013 term and half-time in the Spring 2014 term and was eligible for \$6,813 (\$4,542 Fall + \$2,271 Spring) for the 2013-14 award year.

Because the 2013-14 academic year has closed, the Institution cannot process a Cal Grant payment for the unpaid student. However, according to the National Student Loan Data System, the student has outstanding loan balances totaling \$9,001. Although the Commission cannot currently require the Institution to reimburse the student for the \$6,813 Cal Grant award that was not paid, the Institution's failure to process the award may have increased the amount of student loan debt undertaken by the student. As a result, the Institution may choose to reimburse the student's loans from its own funds in the amount that could have been awarded were it not for the error.

REFERENCES:

California Education Code 69436
Cal Grant Handbook, Chapter 13, 2/11/2016, Version 2.1

REQUIRED ACTION:

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

INSTITUTION RESPONSE:

"TMC has included a copy of our step-by-step procedure we currently utilize to ensure all possible eligible students will be reviewed and examined for Cal grant [sic] eligibility.

FINDINGS AND REQUIRED ACTIONS (continued)

TMC will explore the recommended possibility of reimbursing the student in question the amount of Cal grant [sic] fund for the term in question.”

COMMISSION REPLY:

The Institution’s response and procedures are deemed acceptable. No further action is required.

FISCAL
RESPONSIBILITY
FOR PROGRAM
FUNDS:

FINDING 2: Cal Grant funds not deposited and maintained in an interest bearing account

A review of documentation provided by the Institution revealed that the Cal Grant funds advanced by the Commission have not been deposited and maintained in an interest-bearing account.

DISCUSSION:

As indicated in the 2012-16 Institutional Participation Agreement signed by the institution’s Chief Executive Officer, institutions must maintain Cal Grant funds in an interest-bearing account or an investment account at a financial institution with a presence in California whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or secured by collateral of value reasonably equivalent to the amount of Cal Grant Program funds in the account. Furthermore, these funds must be identified as “State” funds and must be maintained in an interest-bearing account until the time they are paid to eligible students or returned to the Commission.

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

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

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

Cal Grant funds are deposited into a zero-balance non-interest bearing account at US Bank (account number ending in 0231). Bank statements showed Cal Grant funds are transferred out of the account on the same day as received.

FINDINGS AND REQUIRED ACTIONS (continued)

Generally, the Institution pays students from its own account prior to receiving Cal Grant advances from the Commission. However, the Institution's General Ledger Detail Financial Aid Restricted (MC2) report for the account 7100-3050 disclosed periods where the ledger showed positive balances, indicating that Cal Grant funds were maintained for a period of time before disbursing to students. The following tables show the positive balances as reported on the general ledger:

2013-14 Transactions			
Date	Transaction	Amount	Balance
10/11/2013	Cal Grant Funds Received	\$ 5,279	\$ 607
10/18/2013	Cal Grant Funds Received	4,005	4,612
11/13/2013	Cal Grant Awards Disbursed	-4,541	71
12/03/2013	Cal Grant Funds Received	904,313	-899,700

2014-15 Transactions			
Date	Transaction	Amount	Balance
2/28/2014	Cal Grant Funds Received	\$ 9,222	\$ 4,611
4/14/2014	Cal Grant Awards Disbursed	-2,618	1,993
5/14/2014	Cal Grant Awards Adjustments	6,861	8,854
6/30/2014	Student Aid Refund	-8,854	0

Therefore, there was a positive balance of Cal Grant funds retained by the Institution from October 11, 2013 to December 3, 2013 and between February 28, 2014 and June 30, 2014 in which interest would have been earned.

NOTE: The Institution has provided a letter from US Bank confirming that the bank account for deposit of Cal Grant funds is currently an interest bearing account.

REFERENCES:

Institutional Participation Agreement, Article III.D
Cal Grant Handbook, Chapter 14, 2/11/2016 – Version 2.1, page 128
Cal Grant Handbook, Chapter 16, 2/11/2016 – Version 2.1, pages 154-155
CSAC Operations Memo, GOM 2009-27, September 17, 2009
CSAC Special Alert, GSA 2013-30, November 6, 2013
CSAC Special Alert, GSA 2014-34, November 10, 2014

REQUIRED ACTIONS:

The Institution **must** determine the amount of interest earned on the specified time periods in the above tables and provide a spreadsheet supporting the amount of interest earned and the methodology used. The amount of interest the Institution will be required to return will be determined after this information has been reviewed by the Commission.

In addition, policies and procedures **must** be provided that ensure interest earned on Cal Grant funds is remitted to the Commission as required in the Institutional Participation Agreement.

FINDINGS AND REQUIRED ACTIONS (continued)

INSTITUTION RESPONSE:

“TMC has included a copy of the Cal grant [sic] processing procedure from the accounting office which ensures Cal grant [sic] funds are to be held in interest bearing account and will be remitted to the Commission as required in the Institutional Participation Agreement.”

COMMISSION REPLY:

The Institution’s response, procedures and submission of interest in the amount of \$1.09 (check No. 227953, dated 7/21/2016) are deemed acceptable. No further action is required.