

**STATE OF FLORIDA
OFFICE OF THE AUDITOR GENERAL**



PERFORMANCE AUDIT

OF THE

**COMMUNITY COLLEGE
FINANCIAL AID PROGRAM**

ADMINISTERED BY THE

DEPARTMENT OF EDUCATION

JANUARY 13, 1992

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STATE OF FLORIDA

OFFICE OF THE AUDITOR GENERAL



CHARLES L. LESTER, C.P.A.
AUDITOR GENERAL

January 13, 1992

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

I have directed that a performance audit be made of the Community College Financial Aid Program administered by the Department of Education. The results of the audit are presented to you in this report. This audit was made in response to a request by the Joint Legislative Auditing Committee.

Respectfully yours,

A handwritten signature in cursive script that reads "Charles L. Lester".

Charles L. Lester
Auditor General

Audit supervised by:

Julie A. Ferris

Audit made by:

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PERFORMANCE AUDIT
 OF THE
 COMMUNITY COLLEGE FINANCIAL AID PROGRAM
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COMMUNITY COLLEGE FINANCIAL AID PROGRAM

Purpose and Scope

This audit reviews community colleges' use of Financial Aid Fee funds in meeting the needs of students with demonstrated financial needs. This audit was requested by the Joint Legislative Auditing Committee.

This audit focuses on answering the following questions regarding the Community College Financial Aid Program:

- How do community colleges use the Financial Aid Fee to meet the financial needs of (1) Pell Grant students and (2) Pell Grant students with academic merit?
- What effect do current community college Financial Aid Fee policies and practices have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?
- What effect do current state Financial Aid Fee policies, as established in statute, have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?

Similar issues for universities will be address in a separate audit.

Background

Financial Aid Fee

To help provide financial aid to postsecondary students, the Legislature established the Financial Aid Fee, which is partially used to assist community college students with financial need. Section 240.35(7)(a), F.S., authorizes community colleges to collect, for financial aid purposes, an additional amount up to, but not to exceed, 5% of the total student tuition or matriculation fees collected. Of the fees collected, community colleges upon their determination, may use up to 25% or \$125,000, whichever is greater, to assist students who demonstrate academic merit or who participate in athletics, public service, cultural arts, and other curricular programs. Of the balance of Financial Aid Fees collected, 50% shall be used to provide financial aid to students on the basis of absolute need. Community colleges are authorized to use the remainder of the funds for academic merit and other purposes approved by the district board of trustees.

Section 240.35(7)(c), F.S., requires the State Board of Community Colleges to develop criteria for making financial aid awards from the Financial Aid Fee. Section 240.35(7)(c), F.S., requires community colleges to report annually to the Florida Department of Education on the criteria used to make awards, the amount and number of awards for each criterion, and a delineation of the distribution of such awards. Additionally, s. 240.418, F.S., requires institutions to expend Financial Aid Fee funds, designated as need-based, with no preference given to students who also qualify for merit-based or other financial aid awards.

Pell Grant Students

To specifically address how community colleges use Financial Aid Fees to assist needy students, we selected Pell Grant recipients as our population of needy students.¹ The Pell Grant is a federal need-based grant that is considered the first source of financial aid for needy students. Pell Grant awards are limited by law to no more than 60% of the student's cost of education. Thus, the Pell Grant by itself is insufficient to meet a student's financial need. The remaining 40% of a student's cost of education can be met through other grants, loans, or employment. We selected Pell Grant recipients as our needy population because they are determined financially needy by the U.S. Department of Education using a standardized needs analysis methodology that is consistent across all institutions. Also, we defined Pell Grant students with a 3.00 or higher grade point average as our population of needy students with academic merit.

In 1989-90, community colleges awarded a total of \$5,945,999 in Financial Aid Fees. For that same academic year, community colleges reported to the Florida Department of Education that they awarded \$49.5 million in total grant aid including Financial Aid Fee funds and \$16.2 million in student loans to community college students.

The State Community College System of Florida consists of the State Board of Community Colleges, the Division of Community Colleges, and the 28 community colleges located throughout the State of Florida. The State community colleges consist of all public educational institutions operated by community college district boards of trustees which report directly to the Division of

¹ In this audit, Pell Grant students and Pell Grant recipients are used interchangeably and refer to those students who received the Pell Grant award.

Community Colleges within the Florida Department of Education. The State Board of Community Colleges serves as the director of the Division of Community Colleges, and shall be subject at all times to the overall supervision of the State Board of Education. As of January 1991, 28 community colleges had been established to serve the citizens of Florida by offering the first two years of a baccalaureate degree, vocational education, and adult continuing education. In 1989-90, community colleges collected and transferred ² a total of \$6,100,084 in Financial Aid Fee funds.

Results in Brief

Community colleges are generally complying with the provisions of s. 240.35(7), F.S.; in distributing a portion of their Financial Aid Fees to students with financial need. In awarding needy Pell Grant students, community colleges are also in compliance with s. 240.418, F.S., as they do not appear to give preference to meritorious over non-meritorious students.

In the absence of a systemwide Financial Aid Fee policy, community college Financial Aid Fee practices are largely driven by the minimum distribution requirements established in statute. We found that community colleges distribute Financial Aid Fee funds in a manner that satisfies minimum statutory distribution requirements. In so doing, they may have had some impact on the level of needy student loan indebtedness, since the receipt of any amount of grant aid influences the additional amount of money the

² Transfers are funds taken from the current general fund and transferred to the scholarship fund per s. 240.35(7)(a), F.S. The current general fund is used to account for those resources which may be used to accomplish the primary and supporting objectives of the college. The scholarship fund is used to account for resources available for awards to students, such as for grants and scholarships.

students needs to fulfill the cost of education. However, if community college policies and practices regarding the distribution of Financial Aid Fee funds were intended to primarily serve needy students, then this objective has not been met, since additional monies could have been directed to the needy.

The more grant aid distributed to needy students, the less loan assistance will be needed to help finance their educational cost. Current state policies established in the Florida Statutes influence the distribution of grants and loans to needy students in two ways. First, those community colleges collecting \$125,000 or less are not required to make awards to financially needy students. Secondly, the statutes do not indicate an acceptable level of loan indebtedness for needy students. Without state policy guidance on what the distribution of grants and loans should be, or what is an acceptable level of loan indebtedness for needy students, the community colleges are not able to assess whether more or less grant funds should be directed to students with financial need. State policy is especially important considering that changes proposed by the U.S. Department of Education to the Pell Grant Program could cause increased loan indebtedness for some needy community college students.

Findings

Some Financial Aid Fee Awards Were on the Basis of Financial Need

In distributing Financial Aid Fee funds to Pell Grant students and Pell Grant students with academic merit, we found that community college are generally complying with the statutory requirements for awarding a portion of their Financial Aid Fee funds on the basis of financial need. Each community college is allowed by statute to award the first \$125,000 of Financial Aid Fee funds to students who

demonstrate academic merit or participate in athletics, public service, or cultural arts, before awarding any portion of their Financial Aid Fee funds to students with financial need. We found that a majority (16 of 27) of the community colleges that collect Financial Aid Fees collect less than \$200,000 annually. Because community colleges are allowed to distribute the first \$125,000 of Financial Aid Fee collections on a non-need basis, we found that community colleges distribute a smaller portion of Financial Aid Fee funds to Pell Grant students than to non-Pell Grant students. The statutes direct community colleges to devote no less than 50% of amounts received in excess of \$125,000 to needy students. Therefore, community colleges are authorized to devote a larger portion of funds to needy students than the statutory minimum. Finally, we found that for Pell Grant students, community colleges are in compliance with s. 240.418, F.S., which requires that need based financial aid shall be based upon need and without regard to any other qualification a student may have.

**Community Colleges
Do Not Have
Systemwide Financial
Aid Fee Policies**

The State Board of Community Colleges has not established systemwide Financial Aid Fee policies. In the absence of such policy, we analyzed community colleges' expenditure of Financial Aid Fee funds to determine the effects of Financial Aid Fee practices on the distribution of grants and loans to needy students. We found that absent a systemwide policy, community college Financial Aid Fee practices are largely driven by the minimum distribution requirements established in statute. As a result, three factors influence the distribution of grants and loans to needy students. First, in compliance with the statutes, not all community colleges award Financial Aid Fee funds to needy students. Secondly, because of the provisions of s. 240.35(7), F.S., and the level of fees collected, community colleges devote more Financial Aid Fee funds

to non-need-based aid than need-based aid. In 1989-90, community colleges devoted approximately \$3.5 million to students on the basis of athletics, public service, cultural arts, merit, or other activities. For the same year, community colleges awarded approximately \$2.5 million on the basis of need. Thirdly, several community colleges award lower amounts, per student, to Pell Grant students than non-Pell Grant students.

**State Policies for the
Distribution of
Financial Aid Fees
Not Clear**

State Financial Aid Fee policies established in statute have not prevented Pell Grant students from receiving a larger percentage of loans than non-Pell Grant students. Current state policies influence this distribution of grants and loans to students in two ways. First, not all community colleges are required to award Financial Aid Fee funds to needy students. Secondly, the Florida Statutes do not indicate an acceptable level of loan indebtedness for needy students. Federal policies also influence the distribution of grants and loan for community college students. The U.S. Department of Education has proposed changes to the Pell Grant Program that could cause increased loan indebtedness for some needy community college students. State policy guidance concerning the use of Financial Aid Fee funds is especially important considering these proposed changes to the Pell Grant Program.

Recommendations

**Recommendations
to the Legislature**

According to s. 240.437(2), F.S., state policy provides that financial aid should be provided primarily on the basis of financial need. Because of the provisions of s. 240.435(7), F.S., and the level of fees collected, we found that community colleges award the majority of

Financial Aid Fee funds to non-needy students. If the Legislature wishes to ensure that financial aid is provided primarily on the basis of need, it may want to consider revising the Florida Statutes to change the distribution of Financial Aid Fee funds among needy and non-needy students. A shift of Financial Aid Fee funds could result in decreased loan indebtedness for needy students as more of their financial need is filled with grant aid rather than loans. However, increasing the amount of Financial Aid Fee funds awarded to needy students could also increase loan indebtedness for non-needy students. If community colleges devote a larger percentage of Financial Aid Fee funds to needy students, without increasing the overall level of Financial Aid Fee funds, institutions will have to award proportionately less money to non-needy students. With a decrease in grant aid to these non-needy students, loan indebtedness for this population may rise.

The Legislature should provide policy guidance to the Division of Community Colleges regarding an acceptable level of loan indebtedness for needy students.

Recommendations to the Department

In consultation with the Legislature, the Division of Community Colleges should develop systemwide policies regarding the Financial Aid Fee and its use in maintaining an acceptable level of loan indebtedness for needy students.

Agency Response

The Executive Director of the Community College System of the Florida State Board of Community Colleges disagreed with our recommendations to the Legislature regarding student loan indebtedness. He did not concur that Financial Aid Fees should be used to maintain a

EXECUTIVE SUMMARY

defined level of loan indebtedness. He also indicated that the Community College System supported the creation of the Financial Aid Fee, because a need existed for a source of funds that would allow them to make awards in areas that have been identified as important to their overall mission and their community.

CHAPTER I

Introduction: Purpose and Scope, Methodology

Purpose and Scope

The Auditor General conducts audits as part of the Legislature's oversight responsibility for public programs. The primary objective of performance audits is to provide information the Legislature can use to improve programs and allocate limited public resources.

This audit was requested by the Joint Legislative Auditing Committee. This audit focuses on answering the following questions regarding the Community College Financial Aid Program:

- How do community colleges use the Financial Aid Fee to meet the financial needs of (1) Pell Grants students and (2) Pell Grant students with academic merit?
- What effect do current community college Financial Aid Fee policies and practices have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?
- What effect do current state Financial Aid Fee policies, as established in statute, have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?

To answer these questions we defined our population of needy students as those receiving Pell Grants. The Pell Grant is a federal need-based grant that is considered the first

source of financial aid for needy students. We selected Pell Grant recipients as our needy population because:

- Pell Grant students have been determined financially needy by the U.S. Department of Education using a standardized needs analysis methodology that is consistent across all institutions;
- Pell Grant students can attend any chosen institution without losing eligibility. Therefore, Pell Grant student's eligibility is not dependent on the school attended;
- Community colleges in our sample maintain identifiable and accessible data on Pell Grant students in their financial aid data base;
- All institutions must regularly verify a portion of Pell Grant student financial data to the federal government. This required verification helps to ensure the validity of the data; and
- The determination of financial need for programs other than the Pell Grant Program can vary by institution since financial aid administrators are permitted to make adjustments to students' level of financial need based on their own analysis.

The minimum grade point average needed to qualify for State merit-based financial aid programs varies depending on the particular scholarship or grant program. Therefore, we defined students with a Pell Grant and a 3.00 or higher grade point average as needy students with academic merit. We selected this standard based on s. 240.35(7)(c), F.S., which stipulates that a Financial Aid Fee award for academic merit shall require a minimum overall grade point average of 3.00 on a 4.00 scale.

Methodology

This audit was made in accordance with generally accepted government auditing standards and accordingly included appropriate performance auditing and evaluation methods. Audit fieldwork was conducted from February through July 1991.

To determine how community colleges use Financial Aid Fee (FAF) funds to meet the financial needs of Pell Grant students and Pell Grant students with academic merit, we analyzed reports on the collection and expenditure of FAF funds submitted by community colleges to the Florida Department of Education (FDOE). When aggregate data was available from FDOE, we examined reports on all 28 community colleges. When aggregate data was not available, we used information from selected community colleges. We selected 14 community colleges for review of data tapes containing detailed student financial aid data for the Fall semester of 1990. To verify the accuracy of these data tapes, we matched a random sample of student financial aid files with the information contained on the data tapes. Through the verification process, we found that one of the institutions selected for review, Daytona Beach Community College, did not update the information in its student financial aid files when award amounts changed. Because we were unable to verify the accuracy of Daytona Beach's data tape information with student financial aid files, we did not include it in our data analysis, reducing the sample size to 13 community colleges. To assess the reliability of the student financial aid data analyzed, we screened for data errors and conducted normality distribution tests to identify abnormalities in the data. Additionally, we interviewed the financial aid directors of the selected institutions to determine how the FAF funds were used to meet the financial needs of students at their institution.

To determine what effect current community college FAF policies and practices have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients, we interviewed Division of Community College staff to determine what policies and procedures they have established regarding the FAF and its use. We also analyzed financial aid data from the community colleges in our sample to determine how community colleges use FAF funds and loans to assist community college students with financial need.

To determine what effect state FAF policies, as established in statute, have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients, we reviewed relevant sections of the Florida Statutes and the

Florida Administrative Code. We also analyzed aggregate loan data to determine the current level of loan indebtedness among community college students and to identify trends in the distribution of loans for Pell Grant and non-Pell Grant students. We also conducted a survey of 139 randomly selected needy students to determine their views on the distribution of grants and loans to needy students.

CHAPTER II

Background: Program Design and Organization

Program Design

Student financial aid comes in three basic forms: grants, loans, and employment. Grant aid requires students to meet eligibility requirements, but does not require repayment. Loans, on the other hand, must be repaid following college along with interest and, in some cases, loan processing fees as well. Employment includes working at federal, state, and institutional programs while enrolled in college for the purpose of financing college attendance costs.

School financial aid administrators are responsible for using available resources to give each student the best possible financial aid package. Financial aid packaging is the process of finding the best combination of aid that meets the students' financial need, given the constraints of available funds. In this audit we focused on the use of the Financial Aid Fee (FAF) in meeting the financial need of needy students.

To help provide financial aid to postsecondary students, the Legislature established the FAF, which is partially used to assist community college students with financial need. Section 240.35(7)(a), F.S., authorizes community colleges to collect for financial aid purposes an additional amount up to, but not to exceed, 5% of the total student tuition or matriculation fees collected. Of the fees collected, community colleges upon their determination, may use up to 25% or \$125,000, whichever is greater, to assist students who demonstrate academic merit or who participate in athletics, public service, cultural arts, and other curricular programs. Of the balance of the fees collected, 50% shall be used to provide financial aid to students on the basis of absolute need. Community colleges are authorized to use the remainder of the funds for academic merit and other financial aid purposes approved by the district board of trustees.

The Florida Statutes further establish requirements that the State Board of Community Colleges and individual community colleges must meet in the administration of FAF funds. Section 240.35(7)(c), F.S., requires the State Board of Community Colleges to develop criteria for making financial aid awards from the FAF. Section 240.35(7)(c), F.S., requires community colleges to report annually to the Florida Department of Education on the criteria used to make awards, the amount and number of awards for each criterion, and a delineation of the distribution of such awards. Additionally, s. 240.418, F.S., requires institutions to expend FAF funds, designated as need-based, with no preference given to students who also qualify for merit-based or other financial aid awards.

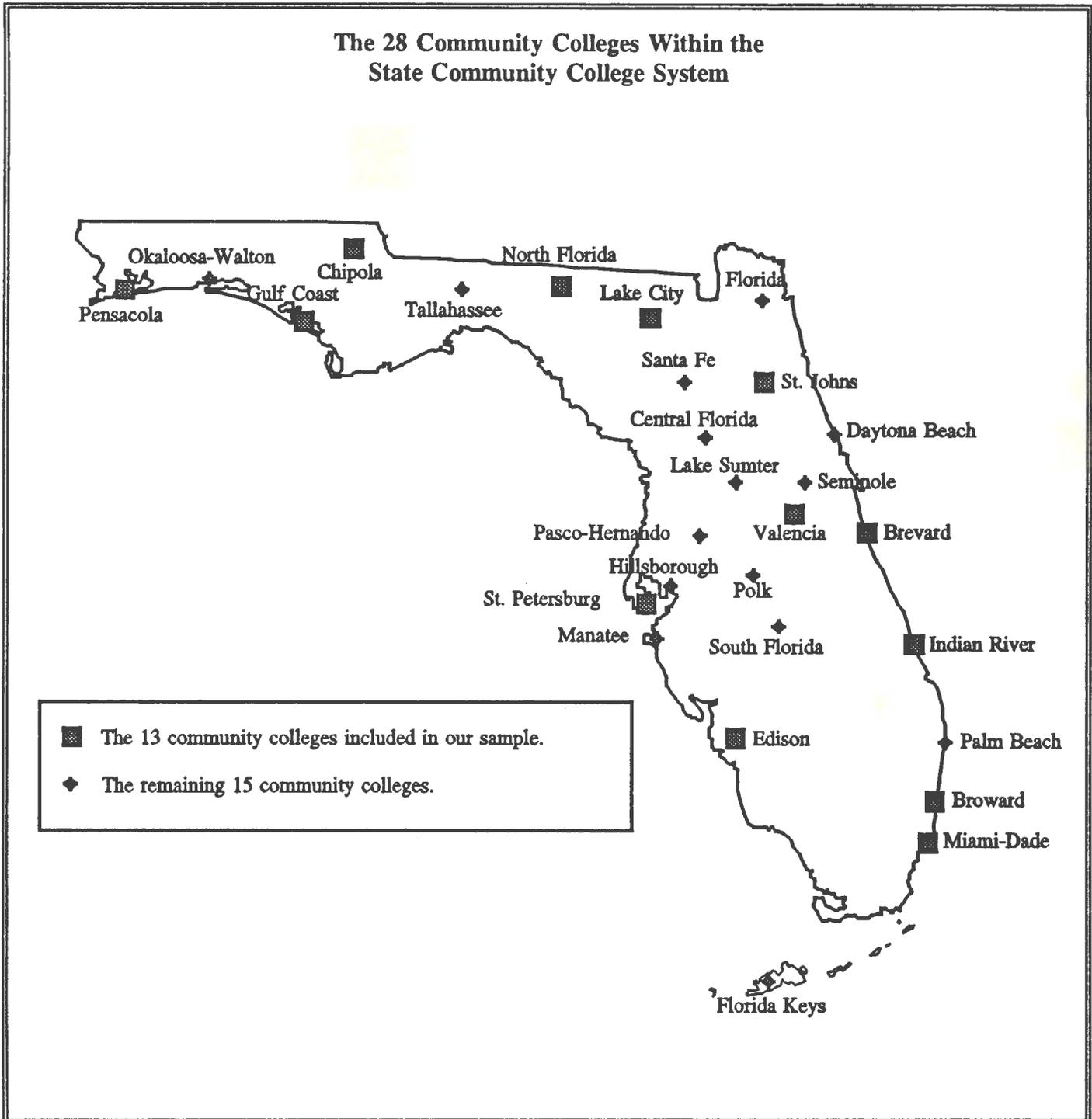
In 1989-90, community colleges awarded a total of \$5,945,999 in Financial Aid Fees. For that same academic year, community colleges reported to the Florida Department of Education that they awarded \$49.5 million in total grant aid including Financial Aid Fee funds and \$16.2 million in student loans to community college students.

Program Organization

The State Community College System of Florida consists of the State Board of Community Colleges, the Division of Community Colleges, and the 28 community colleges located throughout the State of Florida. (See Exhibit 1, page 7.) In the state organizational structure, the State community colleges consist of all public educational institutions operated by community college district boards of trustees which report directly to the Division of Community Colleges within the Department of Education. The State Board of Community Colleges serves as the director of the Division of Community Colleges, and shall be subject at all times to the overall supervision of the State Board of Education. The State Board of Community Colleges appointed Mr. Clark Maxwell, Jr., to serve as Executive Director of the State Community College System on March 12, 1984.

Exhibit 1

The 28 Community Colleges Within the State Community College System



Source: Developed by the Office of the Auditor General based on Florida Department of Education documents.

The State Board of Education approves all rules and policies adopted by the State Board of Community Colleges, and exercises overall supervision over the State Board of Community Colleges. The State Board of Education is the chief policy-making and coordinating body of public education in Florida, and consists of the Governor and the Cabinet. The Governor is chairman of the board, and the Commissioner of Education is its secretary and executive officer.

The State Board of Community Colleges was established in 1983 when it replaced the State Community College Coordinating Board. The State Board of Community Colleges is comprised of the Commissioner of Education, one student, and eleven lay citizens appointed by the Governor. It exercises responsibility for statewide leadership in overseeing and coordinating the individually governed public community colleges. The Board strives to continue the local autonomy in the governance and operation of individual community colleges, while at the same time establishing systemwide policies and coordination.

Community colleges are operated by local district boards of trustees. As of January 1991, 28 community colleges had been established to serve the citizens of Florida by offering the first two years of a baccalaureate degree, vocational education, and adult continuing education. The organization of the State Community College System is shown in Exhibit 2, page 9.

Exhibit 2

**State Community College System
Organization Chart**

State Board of Education

Chairman: *Governor*
Secretary: *Commissioner of Education*
Members: *Secretary of State*
Attorney General
Comptroller
Treasurer
Commissioner of Agriculture

State Board of Community Colleges

Comprised of the *Commissioner of Education*,
1 *student*, and 11 *lay citizens*

State Community College System

Executive Director

Division of Community Colleges

Local District Boards of Trustees

(for each of the following 28 community colleges)

Brevard Community College	Miami-Dade Community College
Broward Community College	North Florida Junior College
Central Florida Community College	Okaloosa-Walton Community College
Chipola Junior College	Palm Beach Community College
Daytona Beach Community College	Pasco-Hernando Community College
Edison Community College	Pensacola Junior College
Florida Community College at Jacksonville	Polk Community College
Florida Keys Community College	St. Johns River Community College
Gulf Coast Community College	St. Petersburg Junior College
Hillsborough Community College	Santa Fe Community College
Indian River Community College	Seminole Community College
Lake City Community College	South Florida Community College
Lake-Sumter Community College	Tallahassee Community College
Manatee Community College	Valencia Community College

Source: Developed by the Office of the Auditor General based on Department of Education documents and Florida Statutes.

Program Resources

Section 240.35(7)(a), F.S., authorizes community colleges to collect for financial aid purposes an additional amount up to, but not to exceed, 5% of the total student tuition or matriculation fees collected. The district board of trustees for each community college sets the tuition and fees for that institution. Since the tuition and matriculation fees can vary from one college to another, the charge per credit hour for the FAF can also vary. Section 240.35(7)(a), F.S., states that a community college that collects less than \$125,000 from the FAF may transfer from the current general fund to the scholarship fund an amount equal to the difference between \$125,000 and the amount generated by the FAF.¹ The Florida Statutes also limit the amount of FAF revenue that community colleges can carry forward unexpended from one fiscal year to the next to 40%. See Exhibit 3 for community college collection and expenditure of the FAF funds for the last three fiscal years.

Exhibit 3

Community College Financial Aid Fee Collection and Expenditures Between 1987-88 and 1989-90			
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Fees Collected	\$4,940,769	\$5,343,398	\$5,819,242
Transfers ¹	<u>180,449</u>	<u>275,340</u>	<u>280,842</u>
Available	<u>\$5,121,218</u>	<u>\$5,618,738</u>	<u>\$6,100,084</u>
Expenditures	<u>\$5,062,598</u>	<u>\$5,170,424</u>	<u>\$5,945,999</u>
Number of Awards	<u>13,270</u>	<u>14,476</u>	<u>16,114</u>

¹ Transfers are funds taken from the current general fund and transferred to the scholarship fund per s. 240.35(7)(a), F.S.

Source: Division of Community Colleges documents.

¹ The current general fund is used to account for those economic resources which may be used to accomplish the primary and supporting objectives of the college. The scholarship fund is used to account for resources available for awards to students which are not in payment for services to the college and will not require repayment to the college, such as for grants and scholarships.

CHAPTER III

Findings and Recommendations

Section 1

Grant Aid and Loans for Needy Students

A principal objective of federal and state grant aid programs is to provide low-income students, who can demonstrate financial need, the opportunity to attend a postsecondary institution. For these needy students, grant aid helps to remove some of the financial barriers to meeting the cost of higher education. Without grant aid, many needy students may not pursue postsecondary education because they cannot afford the cost. With minimal grant aid, many students may acquire additional loans in order to supplement their educational cost.

Grant aid and loans are closely linked. The amount of grant aid a student receives influences the additional amount of money the student will need to meet the cost of education. If the grant aid awarded is comparatively small in proportion to the cost of education, it increases the likelihood that the needy student will have to take out loans in order to supplement the cost of education. In short, the receipt of grant aid directly affects needy students' level of loan indebtedness as well as their chances of attending a postsecondary institution. As Mortenson (February 1990), of The American College Testing Program (ACT), noted of needy students:

When they encounter student loans in their financial aid package, this risk imposes cost-like considerations that reduce the prospect of net benefits of college enrollment for them . . . Unlike grant assistance, loan principal must be repaid to the lender, along with insurance and origination fees, plus interest on the

unpaid balance. A student who borrowed the maximum Stafford Student Loan ² (formerly called Guaranteed Student Loan) amount for four years could repay as much as \$19,948 in principal, interest, and fees after leaving school. If the student prolonged his studies and borrowed more, he could repay as much as \$25,970 after college . . . To the extent that the aims of student aid are to enhance higher educational opportunity for those with financial need to pay college attendance costs, loans have been counterproductive for some groups seeking the benefits of higher education in their lives.

Mortenson went on to state that in the late 1980's, the lowest income students not only had the highest growth in loan indebtedness, they also had the highest default rates on loan obligations after they left college. He noted that the high default rate was closely linked to their low income levels. In Florida in fiscal year 1990-91, postsecondary students, without regard to income background, defaulted on \$57.9 million in Stafford loans guaranteed by the Florida Department of Education. ³

Given the relationship between needy student grant aid and loan indebtedness, as well as the availability of analyzable data, we sought to answer the following questions:

- How do community colleges use the Financial Aid Fee to meet the financial needs of (1) Pell Grant students and (2) Pell Grant students with academic merit?
- What effect do current community college Financial Aid Fee policies and practices have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?
- What effect do current state Financial Aid Fee policies, as established in statute, have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?

² Stafford student loans are low interest loans made to students attending school at least half-time. Loans are made by a lender, such as a bank, credit union, or savings and loan, and are insured by the Federal government.

³ A student defaults on a loan when he fails to repay the loan according to the terms agreed to when the loan was taken. As the guarantee agency, the Florida Department of Education pays lenders for defaulted loans and is reimbursed by the federal government.

Question 1.1

How do community colleges use the Financial Aid Fee to meet the financial needs of (1) Pell Grant students and (2) Pell Grant students with academic merit?

In distributing Financial Aid Fee (FAF) funds to students with demonstrated financial needs and merit, we found that community colleges:

- Are generally in compliance with the statutory requirements for awarding a portion of their FAF funds on the basis of financial need;
- Distribute a greater portion of FAF funds to non-Pell Grant students than Pell Grant students; and
- Do not appear to give Pell Grant students with academic merit greater priority for need-based FAF funds.

Compliance With Statutory Requirements

Section 240.35(7)(c), F.S., requires community colleges collecting more than \$125,000 in FAF funds to award a portion of the excess to needy students. The statutes provide that community colleges may award up to 25% or \$125,000, whichever is greater, to students who demonstrate academic merit or participate in extracurricular programs as determined by the institution. Fifty percent of the balance in excess of \$125,000 must be used to provide financial aid for students with financial need. The remaining funds can be used to assist meritorious students or for any other financial aid purpose approved by the district boards of trustees. Section 240.418, F.S., further provides that institutions are to award need-based FAF funds with no preference given to students who also qualify for merit-based or other financial aid awards.

The statutes give broad flexibility to the community colleges in awarding FAF funds to students. Although those community colleges collecting more than \$125,000 are required to award a portion of their FAF funds received in excess of \$125,000 to needy students, institutions that collect less than \$125,000 are not required by the statutes to award any

of their FAF funds on the basis of need. As a result, all community colleges, regardless of the amount of FAF funds they collect, are allowed by statute to expend the first \$125,000 collected on financial aid for students with no financial need. Exhibit 4, page 15, shows the community colleges' expenditure of FAF funds by category for academic year 1989-90.

Most community colleges are complying with the requirements of s. 240.35(7)(c), F.S. We reviewed Division of Community College reports on the amount of FAF funds expended for need-based aid by the 28 community colleges.⁴ As shown in Exhibit 5, page 16, eight community colleges collecting \$125,000 or less awarded FAF funds to needy students although they were not statutorily required to do so. Collectively, the community colleges awarded \$2.5 million to needy students in academic year 1989-90. This amount exceeds the statutory minimum for need-based aid by approximately \$900,000. We found that for the 14 institutions required to award a portion of their FAF funds based on need, 9 reported awarding at least the statutory minimum for need-based aid. Five institutions, Daytona Beach, Edison, St. Petersburg, Seminole, and Valencia, reported expending less than the minimum amount required for need-based aid; however, the difference was small. The total required amount of funds the five institutions should have expended on need equaled \$356,305. The amount awarded was \$304,437, which is \$51,868 less than the amount of FAF funds that should have been awarded based upon need. Exhibit 5, page 16, also shows the amount of FAF funds available and the amount awarded based on need for each community college.

⁴ Community Colleges report to the Division of Community Colleges on the expenditure of FAF funds in various categories. Need-based funds are those funds awarded to students whom the institutions found to have financial need, not those we defined as needy (Pell Grant recipients).

Exhibit 4

Financial Aid Fee Expended by Category for Academic Year 1989-90

Community College	Academic Merit	Athletics	Public Service	Cultural Arts	Other Activities	Financial Need	Total
Broward	\$ 117,827	\$ 0	\$ 0	\$ 25,595	\$ 0	\$ 190,198	\$ 333,620
Brevard	127,010	63,889	28,538	13,320	0	241,079	473,836
Central Florida	17,347	65,730	0	27,665	13,177	1,081	125,000
Chipola	19,978	100,383	601	11,998	0	0	132,960
Daytona Beach	118,271	56,876	0	0	0	38,455	213,602
Edison	38,100	50,729	1,325	25,404	1,674	13,865	131,097
Florida (Jacksonville)	40,000	60,000	0	0	0	128,915	228,915
Florida Keys	16,921	0	0	0	23,481	6,925	47,327
Gulf Coast	0	94,918	0	0	0	0	94,918
Hillsborough	59,793	49,923	0	10,181	8,691	181,514	310,102
Indian River	19,794	56,421	0	48,785	0	29,409	154,409
Lake City	37,559	83,843	1,452	3,146	0	0	126,000
Lake Sumter	4,375	29,000	6,000	8,015	0	2,500	49,890
Manatee	7,590	43,950	0	19,124	2,601	5,762	79,027
Miami - Dade	0	221,154	124,903	5,998	0	924,433	1,276,488
North Florida	14,466	42,805	400	5,276	0	6,441	69,388
Okaloosa - Walton ¹	0	0	0	0	0	0	0
Palm Beach	89,718	60,530	0	0	0	190,367	340,615
Pasco - Hernando	5,633	34,185	0	0	14,203	29,036	83,057
Pensacola	76,947	59,346	0	0	24,542	67,406	228,241
Polk	43,754	45,155	22,791	11,376	0	11,089	134,165
St. Johns River	20,946	21,717	546	6,441	3,489	0	53,139
St. Petersburg	149,964	80,504	0	18,816	0	149,056	398,340
Santa Fe	71,211	103,594	0	11,824	9,582	90,493	286,704
Seminole	65,022	46,884	0	25,647	875	7,836	146,264
South Florida	37,789	20,965	0	15,572	280	50,394	125,000
Tallahassee ²	0	0	0	0	0	0	0
Valencia	120,370	28,270	37,839	22,191	0	95,225	303,895
Total	\$1,320,385	\$1,520,771	\$224,395	\$316,374	\$102,595	\$2,461,479	\$5,945,999
Percent of Total	22.2%	25.6%	3.8%	5.3%	1.7%	41.4%	

¹ As the collection of Financial Aid Fees is optional for community colleges, Okaloosa - Walton has opted not to collect the fee.

² Academic year 1989-90 was the first year Tallahassee Community College collected the Financial Aid Fee. They reported making no awards to students for that year.

Source: Division of Community College Report of Fees Collected for Financial Aid Purposes.

Exhibit 5

**Financial Aid Fee Funds by Community College and the
Amount Used to Aid Needy Students for
Academic Year 1989-90**

Community College	Financial Aid Fee Funds Collected and Transferred	Financial Aid Fee Funds Awarded to Needy¹	Financial Aid Fee Funds Required to Needy	Amount Not Awarded to Needy as Required
Brevard	\$ 333,621	\$ 190,198	\$ 104,311	
Broward	499,752	241,079	187,376	
Central Florida	125,000	1,081	—	
Chipola	94,916	—	—	
Daytona Beach	231,503	38,455	53,252	\$14,797
Edison	166,827	13,865	20,914	7,049
Florida (Jacksonville)	237,743	128,915	56,372	
Florida Keys	47,283	6,925	—	
Gulf Coast	89,522	—	—	
Hillsborough	335,191	181,514	105,096	
Indian River	160,504	29,409	17,752	
Lake City	125,000	—	—	
Lake-Sumter	49,761	2,500	—	
Manatee	80,646	5,762	—	
Miami-Dade	1,276,488	924,433	478,683	
North Florida	74,778	6,441	—	
Okaloosa-Walton	—	—	—	
Palm Beach	346,825	190,367	110,913	
Pasco-Hernando	80,728	29,036	—	
Pensacola	207,721	67,406	41,361	
Polk	120,835	11,089	—	
St. Johns River	53,546	—	—	
St. Petersburg	445,505	149,056	160,253	11,197
Santa Fe	267,423	90,493	71,212	
Seminole	141,394	7,836	8,197	361
South Florida	125,000	50,394	—	
Tallahassee	30,195	—	—	
Valencia	352,377	95,225	113,689	18,464
Total	\$6,100,084	\$2,461,479	\$1,529,381	\$51,868

¹ These funds were awarded to students who were identified by the institutions as having financial need rather than those students we defined as needy (Pell Grant students).

Source: Developed by the Office of the Auditor General based on Division of Community College documents.

Non-Pell Grant Students Receive a Greater Portion of Financial Aid Fee Funds

We were requested to specifically address how community colleges use FAF funds to assist needy students, therefore, we selected Pell Grant students as our needy population. The Pell Grant is a need-based federal grant program that is considered the first source of aid for needy students. In order to qualify for the Pell Grant, students must meet certain eligibility requirements and demonstrate need according to the Pell Grant formula. The Pell Grant formula uses student and parent information to arrive at the amount the family is expected to contribute to the student's cost of education.

Although we selected Pell Grant students as our needy population, we found some community colleges award a major portion of their need-based FAF funds to students who do not receive Pell Grants. We interviewed financial aid directors at 13 community colleges to determine if they awarded FAF funds on the basis of need. We also asked the directors what percentage of their need-based awardees were Pell Grant recipients. We found that four of the 13 institutions in our sample collect \$125,000 or less in FAF funds and do not make awards on the basis of need. Seven of the 13 institutions stated that they award the majority of their need-based FAF funds to Pell Grant recipients. The remaining two institutions, Miami-Dade and Valencia, indicated that in addition to awards made to Pell Grant recipients they award a major portion of the FAF funds to students who do not receive Pell Grants but demonstrate financial need. Miami-Dade reserves need-based FAF funds specifically for students who are not eligible for the Pell Grant because they are not United States citizens, are enrolled less than half-time, or have already received a bachelors degree.

Even though two institutions in our sample award needy students outside of the Pell Grant group, we feel that Pell Grant students best represent needy students for the purpose of our analysis. As mentioned earlier, Pell Grant recipients have been found to have financial need using a nationally accepted methodology. Individual schools may also determine students' financial need for certain financial aid programs; however, the determination of need can vary from school to school since financial aid administrators are permitted to adjust students' financial

information based on their professional judgement. Therefore, we selected Pell Grant recipients as our population of needy students since they represented the largest identifiable group of students who have been found needy using a standardized definition.

The 13 community colleges in our sample distributed a greater proportion of FAF funds to non-Pell Grant students than Pell Grant students. An analysis of Fall 1990 student financial aid data tapes for these institutions show that they awarded over half a million dollars in FAF funds to Pell Grant students and over \$1.1 million to non-Pell Grant students. Collectively, the 13 community colleges distributed 33% of the total FAF funds to Pell Grant students. As shown in Exhibit 6, the amount of FAF funds devoted to Pell Grant students varied by institution.

Exhibit 6

Total Amount of Financial Aid Fee Awarded by Selected Community Colleges for Fall 1990			
Community Colleges	Pell Grant Students	Non-Pell Grant Students	Total Financial Aid Fee Awarded
Brevard	\$ 8,591.00	\$ 61,315.00	\$ 69,906.00
Broward	116,586.89	182,654.64	299,241.53
Chipola ¹	25,856.78	38,694.34	64,551.12
Edison	22,629.59	26,648.92	49,278.51
Gulf Coast ¹	19,278.10	54,397.70	73,675.80
Indian River	5,858.00	5,493.00	11,351.00
Lake City ¹	16,700.00	35,603.00	52,303.00
Miami-Dade	61,395.47	405,159.59	466,555.06
North Florida ¹	1,981.00	6,836.00	8,817.00
Pensacola	77,095.98	71,838.88	148,934.86
St. Johns ¹	10,588.50	20,904.50	31,493.00
St. Pete	138,984.26	73,120.14	212,104.40
Valencia	44,715.10	155,057.55	199,772.65
Total	<u>\$550,260.67</u>	<u>\$1,137,723.26</u>	<u>\$1,687,983.93</u>

¹ Community colleges that collect \$125,000 or less in FAF funds are not required to make awards based on financial need.

Source: Compiled by the Office of the Auditor General from selected community colleges' student data tapes for Fall 1990.

By excluding from our analysis those institutions that award need-based FAF funds mainly to non-Pell Grant students, we found non-Pell Grant students still receive a greater portion of FAF funds. However, the difference between the two groups is markedly decreased. By excluding Miami-Dade and Valencia, the portion of funds that are distributed to Pell Grant and non-Pell Grant students is virtually equalized. As shown in Exhibit 7, 11 schools distributed a total of \$444,150.10 to Pell Grant students and \$577,506.12 to non-Pell Grant students. Collectively, these 11 community colleges distributed 43.5% of their total FAF funds to Pell Grant students.

Exhibit 7

**Total Amount of Financial Aid Fee Awarded
by Selected Community Colleges for Fall 1990
Excluding Miami-Dade and Valencia**

Community Colleges	Pell Grant Students	Non-Pell Grant Students	Total Financial Aid Fee Awarded
Brevard	\$ 8,591.00	\$ 61,315.00	\$ 69,906.00
Broward	116,586.89	182,654.64	299,241.53
Chipola ¹	25,856.78	38,694.34	64,551.12
Edison	22,629.59	26,648.92	49,278.51
Gulf Coast ¹	19,278.10	54,397.70	73,675.80
Indian River	5,858.00	5,493.00	11,351.00
Lake City ¹	16,700.00	35,603.00	52,303.00
North Florida ¹	1,981.00	6,836.00	8,817.00
Pensacola	77,095.98	71,838.88	148,934.86
St. Johns ¹	10,588.50	20,904.50	31,493.00
St. Pete	138,984.26	73,120.14	212,104.40
Total	<u>\$444,150.10</u>	<u>\$577,506.12</u>	<u>\$1,021,656.22</u>

¹ Community colleges that collect \$125,000 or less in FAF funds are not required to make awards based on financial need.

Source: Compiled by the Office of the Auditor General from selected community colleges' student data tapes for Fall 1990.

**Meritorious Students Not Given Greater Priority
for Need-Based Financial Aid Fee Funds**

When analyzed by grade point average, financial aid data suggest that meritorious Pell Grant students and non-meritorious Pell Grant students, as a group, receive approximately the same amount of FAF funds. Using the grade point average of 3.00 and above as an indicator of merit, we analyzed the student data tapes to see if Pell Grant students in this category received more FAF funds than Pell Grant students below a 3.00. As shown in Exhibit 8, the data indicate that Pell Grant students with grade point averages below 3.00 received \$259,840.16 in FAF funds, whereas those at or above the 3.00 mark received \$212,558.91. Additionally, when analyzed by average award, the data suggest that, on a per student basis, those below 3.00 received a larger award than those at or above a 3.00 grade point average. For needy Pell Grant students, the community colleges appear to be in compliance with s. 240.418, F.S., which require institutions to expend need-based FAF funds with no preference given to students who also qualify for merit-based aid.

Exhibit 8

Financial Aid Fee Awards for Pell Students by GPA for Fall 1990 ¹				
	GPA	Number of Students	Total Amount	Average Award Per Student
Meritorious	3.50 - 4.00	339	\$ 92,307.85	\$272.29
	3.00 - 3.49	430	120,251.06	279.65
		769	\$212,558.91	\$276.41
Non-Meritorious	2.50 - 2.99	353	\$106,944.41	\$302.96
	2.00 - 2.49	274	103,636.99	378.24
	Below 2.00	165	49,258.76	298.54
		792	\$259,840.16	\$328.08
Total		<u>1,561</u>	<u>\$472,399.07</u>	<u>\$302.63</u>

¹ Only 9 institutions among the 13 in our sample provided reliable grade point average information. The total number of students and total amount of Financial Aid Fee funds awarded are compiled from financial aid data provided by Brevard, Broward, Chipola, Edison, Gulf Coast, Miami-Dade, North Florida, Pensacola, and St. Petersburg.

Source: Compiled by the Office of the Auditor General from selected community colleges' student data tapes for Fall 1990.

Conclusion

In our review of community colleges' use of FAF funds to assist Pell grant students and Pell Grant students with merit, we found that community colleges are generally complying with statutory requirements for awarding need-based FAF funds. We also found that community colleges distribute a greater portion of FAF funds to non-Pell Grant students than Pell Grant students. Finally, we found that for needy Pell Grant students, community colleges, in compliance with s. 240.418, F.S., do not appear to give meritorious students higher priority for need-based FAF funds.

Question 1.2

What effect do current community college Financial Aid Fee policies and practices have on the distribution of grants and loans to community college students with demonstrated financial need, such as Pell Grant recipients?

The State Board of Community Colleges has not established systemwide Financial Aid Fee policies. In the absence of such policy, we analyzed community colleges' expenditure of FAF funds to determine the effects of FAF practices on the distribution of grants and loans to needy students. We found that community college FAF practices are largely driven by the minimum distribution requirements established in statute. As a result:

- Not all community colleges award FAF funds to needy students;
- Community colleges devote more FAF funds to non-need-based aid than to need-based aid; and
- Some community colleges distribute a lower average award amount to Pell Grant students than non-Pell Grant students.

Background

Although the State Board of Community Colleges (SBCC) has authorized the use of standardized needs tests when making FAF awards, they have not established a systemwide policy that directs community colleges on how to use FAF funds to assist needy students. Section 240.35(7)(c), F.S., requires the SBCC to develop criteria for making financial aid fee awards. To comply with the statutory requirements for developing criteria, SBCC has authorized the use of several standardized needs tests. According to the Florida Community College Systems Policies and Procedures Manual produced by SBCC, community colleges must use one of four nationally recognized standards when determining students' financial need for need-based FAF funds. The policies and procedures manual, however, does not indicate how FAF funds should be used to assist students with demonstrated financial needs. SBCC staff indicated that it was the responsibility of the local boards of trustees to develop policies and procedures relating to the use of FAF funds.

In the absence of a systemwide policy, some community colleges have developed their own policies and procedures governing the award of FAF funds. Five of the 13 community colleges in our sample developed their own written policies and procedures relating to the administration of FAF funds. These policies and procedures establish specific criteria for awarding FAF funds at each of the five institutions. Our review of the policies indicated that the criteria developed by the institutions is in compliance with the minimum requirements for distributing FAF funds established in statute.

In the absence of a statewide FAF policy, we analyzed community colleges' expenditure of FAF funds to determine the effect of community college FAF practices on the distribution of grants and loans to Pell Grant students. We found that community college FAF practices are largely driven by the minimum distribution requirements established in statute. As a result, three factors influence the distribution of grants and loans to needy students.

Not All Community Colleges Award FAF Funds to Needy Students

One reason community colleges may not be having a significant impact on needy student loans is that community colleges receiving less than \$125,000 are not required to award FAF funds to needy students. While s. 240.35(7)(c), F.S., requires community colleges collecting more than \$125,000 to award a portion of FAF funds to students with demonstrated financial need, those collecting \$125,000 or less are not required by statute to make awards to needy students. Although institutions collecting less than \$125,000 are not statutorily required to award FAF funds to needy students, nothing precludes them from making such awards. All institutions have the option of expending a greater portion for need than the minimum established in the statutes. We reviewed Division of Community College reports on the collection and expenditure of FAF funds for all 28 community colleges for fiscal year 1989-90. As shown in Exhibit 9, page 24, we found that 13 community colleges collected or collected and transferred \$125,000 or less; of these 13 institutions, 5 chose not to award FAF funds to students on the basis of financial need.

Exhibit 9

**Financial Aid Fee Funds Collected and Awarded to Needy Students
for Academic Year 1989-90**

Community College	Financial Aid Fee Funds Collected and Transferred In Aid	Financial Aid Fee Funds Awarded to Needy	Community College	Financial Aid Fee Funds Collected and Transferred in Aid	Financial Aid Fee Funds Awarded to Needy
Brevard	\$ 333,621	\$ 190,198	Miami-Dade	\$1,276,488	\$924,433
Broward	499,752	241,079	North Florida	74,778	6,441
Central Florida	125,000	1,081	Okaloosa-Walton ¹	—	—
Chipola	94,916	—	Palm Beach	346,825	190,367
Daytona Beach	231,503	38,455	Pasco-Hernando	80,728	29,036
Edison	166,827	13,865	Pensacola	207,721	67,406
Florida (Jacksonville)	237,743	128,915	Polk	120,835	11,089
Florida Keys	47,283	6,925	St. Johns River	53,546	—
Gulf Coast	89,522	—	St. Petersburg	445,505	149,056
Hillsborough	335,191	181,514	Santa Fe	267,423	90,493
Indian River	160,504	29,409	Seminole	141,394	7,836
Lake City	125,000	—	South Florida	125,000	50,394
Lake-Sumter	49,761	2,500	Tallahassee	30,195	—
Manatee	80,646	5,762	Valencia	352,377	95,225
Total				<u>\$6,100,084</u>	<u>\$2,461,479</u>

¹ As the collection of FAF funds is optional for community colleges, Okaloosa-Walton has opted not to collect the fee.

Source: Developed by the Office of the Auditor General based on Division of Community College documents.

**More Financial Aid Fee Funds Devoted to
Non-Need-Based Aid Than Need-Based Aid**

Another factor that may limit the impact FAF funds have on needy student loans is that pursuant to the distribution requirements established in s. 240.35(7)(c), F.S., community colleges devote more FAF funds to non-need-based aid than need-based aid. We analyzed the 1989-90 community college FAF collection and expenditure report for all 28 community colleges and found that 59% of the FAF funds awarded were distributed on a non-need basis. As shown in Exhibit 10, community colleges awarded approximately \$3.5 million in FAF funds on the basis of athletics, public service, cultural arts, merit, or other activities. For the same year the community colleges awarded approximately \$2.5 million on the basis of need.

Exhibit 10

Total Financial Aid Fee Awards by Category for Academic Year 1989-90	
<u>Award Category</u>	<u>Amount of FAF Awarded</u>
Non-Need-Based:	
Academic Merit	\$1,320,385
Athletic	1,520,771
Public Service	224,395
Cultural Arts	316,374
Other Activities	102,595
Total Non-Need-Based	\$3,484,520
Need Based:	
Financial Need	2,461,479
Total Financial Aid Fee Awards	<u>\$5,945,999</u>

Source: Developed by the Office of the Auditor General based on Division of Community College documents.

Some Schools Distribute Lower Award Amounts to Needy Pell Grant Students

A third reason community colleges may not be having a significant impact on loans is that some community colleges distribute a lower average FAF award amount to Pell Grant students than non-Pell Grant students. We analyzed the FAF awards distributed to students by the 13 community colleges in our sample, and as shown in Exhibit 11, page 27, 5 institutions distributed a lower average award amount to Pell Grant students than to the non-Pell Grant students. We also found that the average amount of FAF funds awarded to Pell Grant students by all 13 institutions for Fall of 1990 was \$308, while the average FAF award to non-Pell Grant students was \$336. By distributing a lower award amount to needy Pell Grant students, community colleges may contribute to increased levels of loan indebtedness for these students. As the General Accounting Office (1988) and U.S. Department of Education (1989) reported, more student loan defaulters are from low income families. Such being the case, many needy students from low income families have a greater probability than non-needy students of defaulting on their loan payments.

An analysis of the distribution of FAF funds to all students at the 13 institutions further indicates that the majority of awards range from \$100 to \$700 per semester, with few awards greater than \$700 (see Exhibit 12, page 28). With limited FAF funds, the community colleges could choose to award fewer students at higher award amounts or award more students at lower award amounts. As evidenced by the data, it appears the community colleges in our sample have chosen to serve more students by using an average award amount of approximately \$300 per semester. While lower award amounts allow the schools to award more students, these lower amounts do not serve to significantly fill a student's unmet need. If community colleges were to devote larger amounts of grant aid to the students with the greatest level of need, they may help reduce the neediest students' chance of incurring an increased level of debt.

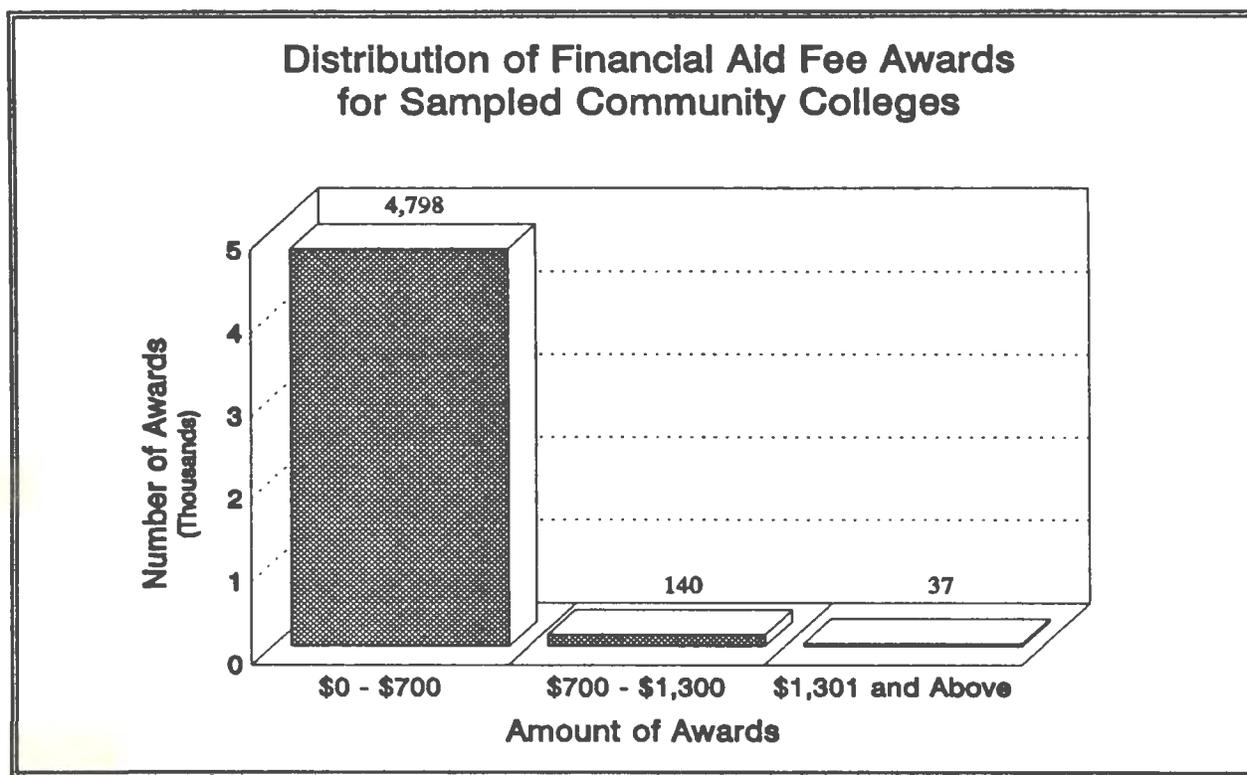
Exhibit 11

**Average Financial Aid Fee Award Amount for
Pell Students and Non-Pell Students
Fall 1990**

Community Colleges	Pell Grant			Non-Pell Grant		
	Number of Students	Financial Aid Fee Awarded	Average Award	Number of Students	Financial Aid Fee Awarded	Average Award
Brevard	24	\$ 8,591.00	\$357.96	198	\$ 61,315.00	\$309.67
Broward	398	116,586.89	292.93	593	182,654.64	308.02
Chipola	27	25,856.78	957.66	52	38,694.34	744.12
Edison	61	22,629.59	370.98	68	26,648.92	391.90
Gulf Coast	57	19,278.10	338.21	177	54,397.70	307.33
Indian River	54	5,858.00	108.48	17	5,493.00	323.12
Lake City	30	16,700.00	556.67	68	35,603.00	523.57
Miami-Dade	115	61,395.47	533.87	1,326	405,159.59	305.55
North Florida	7	1,981.00	283.00	26	6,836.00	262.92
Pensacola	243	77,095.98	317.27	189	71,838.88	380.10
St. Johns	32	10,588.50	330.89	64	20,904.50	326.63
St. Pete	629	138,984.26	220.96	181	73,120.14	403.98
Valencia	108	44,715.10	414.03	426	155,057.55	363.98
Total	<u>1,785</u>	<u>\$550,260.67</u>	<u>\$308.27</u>	<u>3,385</u>	<u>\$1,137,723.26</u>	<u>\$336.11</u>

Source: Compiled by the Office of the Auditor General from selected community colleges' student data tapes for Fall 1990.

Exhibit 12



Source: Developed by the Office of the Auditor General based on selected community colleges' student data tapes for Fall 1990.

Conclusion

Because the community colleges do not have a systemwide FAF policy, we examined their FAF practices and found the distribution of FAF funds is largely driven by statutory distribution requirements. As a result, that distribution influences grants and loans for needy students in three ways. First, not all community colleges award FAF funds to needy students. Secondly, community colleges devote more FAF funds to non-need-based aid than need-based aid. Thirdly, several community colleges award lower award amounts, per student, to Pell Grant students than non-Pell Grant students.

Question 1.3

What effect do current state Financial Aid Fee policies, as established in statute, have on the distribution of grants and loans for community college students with demonstrated financial need, such as Pell Grant recipients?

Current state FAF policies have not prevented Pell Grant students from receiving a larger percentage of loans than non-Pell Grant students. This is in part because:

- Not all institutions are required to award needy students; and
- State policies do not indicate an acceptable level of loan indebtedness.

Background

To determine what effect current state policies have had on the distribution of grants and loans, we analyzed 1989-90 community college financial aid data from the Florida Department of Education to identify the percentage of all grants and loans awarded to Pell Grant and non-Pell Grant students. Our analysis indicates that while needy community college students receive more grant aid than non-needy students, they also receive a larger percentage of loans. As shown in Exhibit 13, page 30, community colleges awarded \$43.9 million in total grant aid to Pell Grant students and \$5.6 million to non-Pell Grant students.⁵ For the same academic year, the community colleges awarded \$11.8 million in loan assistance to Pell Grant students and \$4.4 million in loan assistance to non-Pell Grant students.

⁵ These figures include all grant aid for 1989-90, not just FAF funds.

Exhibit 13

Total Grant and Loan Assistance Awarded to Community College Students for Academic Year 1989-90						
Type of Aid	Pell Grant			Non-Pell Grant		
	Number of Students	Total Dollars	Average Award	Number of Students	Total Dollars	Average Award
Grants	35,609	\$43,898,456	\$1,232.79	12,927	\$5,586,119	\$ 432.13
Loans	7,026	11,756,486	1,673.28	3,656	4,407,422	1,205.53

Source: Compiled by the Office of the Auditor General from the Division of Community Colleges' data base.

The average loan amount per student is higher for Pell Grant students than non-Pell Grant students. Exhibit 12 shows that 7,026 Pell Grant students received \$11,756,486 in loan assistance resulting in an average loan indebtedness of \$1,673.28 for the year. The 3,656 non-Pell Grant students were awarded \$4,407,422 in loans for an average loan indebtedness of \$1,205.53. The data suggest that Pell Grant students, on average, assumed a greater level of loan indebtedness than non-Pell Grant students. As we mentioned earlier, placing greater loan indebtedness on needy students increases the probability of raising the default rate.

Current state policies established in the Florida Statutes influence the distribution of grants and loans for needy students in two ways. First, the statutes exempt a major portion of the FAF funds from being used to assist students with demonstrated financial need. Secondly, the statutes do not indicate what effect the FAF funds should have on the level of indebtedness for needy students.

Not All Institutions Required to Award FAF Funds to Needy Students

The Florida Statutes do not require all institutions to award FAF funds to needy students. Section 240.35(7), F.S., requires community colleges collecting over \$125,000 in FAF funds to award a portion of these funds to needy students; however, the statutes do not require institutions under the \$125,000 level to award FAF funds on the basis of need. In addition, this section of law provides that institutions may devote \$125,000 to non-needy students before awarding FAF funds to students with financial need. Allowing institutions to devote grant moneys to non-needy students diminishes the grant aid available to assist needy students. If it is the intent of the Legislature that FAF funds be used to first serve needy students, this objective is not being met.

State Policies Do Not Indicate Acceptable Level of Loan Indebtedness

Although the statutes provide minimum requirements for awarding FAF funds to needy students, current state policies do not address what effect FAF funds should have on students with demonstrated financial need. While s. 240.35(7), F.S., authorizes community colleges to collect the financial aid fee and award a portion of the funds to needy students, the statutes do not address what community colleges should achieve with these funds, or what effect the funds should have on the level of loan indebtedness for needy students.

The total loan indebtedness assumed by a student will be greater than the amount of money borrowed due to interest on the loan. For example, Exhibit 14, page 32, shows the potential indebtedness a needy student is likely to incur if he borrows \$2,500, \$5,000, or \$10,000 over a 10-year period at a 9% interest rate. The total loan indebtedness in each case exceeds 50% of the amount borrowed.

Exhibit 14

Potential Loan Indebtedness Over a 10-Year Period at 9% Interest

<u>Loan Amount Borrowed</u>	<u>Total Interest Owed</u>	<u>Loan Indebtedness Incurred</u>
\$2,500	\$1,300	\$3,800
5,000	2,600	7,600
10,000	5,200	15,200

Source: Developed by Office of the Auditor General staff.

The level of indebtedness is likely to be slightly higher than what the above figures indicate since neither origination fees nor insurance are included in the calculation. For many needy students, loan indebtedness acts as a deterrent to the completion of college and increases their chances of defaulting on repayments. As reported in Mortenson, "Contrary to popular perception, the typical defaulter is not a 'deadbeat' who refuses to pay, but appears to be a dropout who is unable to pay."⁶ Similarly, the General Accounting Office (1988) found that most defaulters attend school for one year or less. Of the defaulters attending a higher education institution, 39% came from families with less than \$10,000 annual income.⁷

Without a statement of Legislative intent as to what is an acceptable distribution of grants and loans or an acceptable level of loan indebtedness, there is no means for assessing if the effect FAF funds are having on needy student loan indebtedness meets Legislative intent. Since Pell Grant students have a greater level of financial need, it is reasonable for that

⁶ Mortenson, Thomas G. (April 1989). Family Income, Children, and Student Financial Aid. ACT Student Financial Aid Research Report Series. Iowa City, Indiana: The American College Testing Program.

⁷ Family income figures used by GAO were at the time of loan application. For a dependent student, family income would include the student's income and assets as well as that of his or her parents and spouse. For an independent student, family income would include the student's income and assets plus that of his or her spouse.

population to have a greater percentage of grants and loans. Without state policy guidance on what the distribution of grants and loans should be, or what is an acceptable range of loan indebtedness for needy students, the community colleges are not able to assess whether more or less grant funds should be directed to students with demonstrated financial need.

Proposed Changes in the Pell Grant Program Likely to Affect Student Loan Indebtedness

State policy direction on expected outcomes for need-based FAF funds is especially important considering proposed changes to the Pell Grant program. The federal government has proposed changes in the Pell Grant program that would increase grants for families with incomes below \$20,000, but reduce or eliminate grants for families with earnings above that threshold. U.S. Department of Education officials estimate that the proposed changes will result in 627,000 students being dropped from the program. Department officials plan to compensate for the reduced availability of Pell Grants by increasing loan limits for the Stafford Student Loan Program.

Increasing Pell Grant award amounts for the neediest students should help reduce the likelihood that these students will assume loans. However, needy students who lose their eligibility for Pell Grant assistance under the proposed revisions will need to fill their unmet need with other sources of aid. If there is not additional grant aid available, these students may have to assume student loans or may be unable to pay for the cost of education.

The loss of grant aid could prevent some students from pursuing a college education. In a telephone survey of 139 needy community college students, 92 said they would not have attended college without financial aid grant assistance. Asked why they would not have attended college, 80 of these 92 students stated that they, nor their parents could afford to pay for the cost of education. Of the 139 students surveyed, 47 students stated they would have attended college without grant assistance. Of these, 32 stated that they would have had to take out a loan to pay for the cost of their education.

With a greater portion of Pell Grant dollars going to the neediest students, community colleges may need state policy guidance on what population of students should receive greater priority in the awarding of FAF funds. Such a state policy could consider the student's level of loan indebtedness and ability to repay the loan. With a state policy that considers the level of loan indebtedness, community colleges could focus their FAF funds on those students most in need of grant aid to prevent excessive levels of debt.

Conclusion

In determining what effect current state Financial Aid Fee policies have on the distribution of grants and loans, we found Pell Grant students receive a larger percentage of loans than non-Pell Grant students. Current state policies influence the distribution of grants and loans to students in two ways. First, not all community colleges are required to award FAF funds to needy students. Secondly, state policies do not indicate an acceptable level of loan indebtedness for needy students. State policy guidance is especially important considering proposed changes to the Pell Grant Program could cause increased loan indebtedness for some needy students.

Section 2

Recommendations

State policy provides that financial aid should be provided primarily on the basis of financial need. Section 240.437(2), F.S., provides that the objective of a state student financial aid program is to supplement a basic national program which will provide equal access to postsecondary education to citizens of the state who have the ability and motivation to benefit from a postsecondary education. In the development of a state program to achieve this objective, it shall be the policy that student financial aid be provided primarily on the basis of financial need.

If the Legislature wishes to ensure that financial aid is provided primarily on the basis of need, we recommend it consider revising the Florida Statutes to change the distribution of FAF funds among needy and non-needy students. As mentioned earlier, because of the provisions of s. 240.35(7), F.S., and the level of fees collected, we have found that community colleges award the majority of FAF funds to non-needy students. Requiring community colleges to award a greater portion of their FAF funds to needy students would increase the grant aid available to assist the financially needy population, thereby reducing the amount of loans required to fill unmet need. However, increasing the amount of FAF funds awarded to needy students could increase loan indebtedness for non-needy students. If community colleges devote a larger percentage of FAF funds to needy students, without increasing the overall level of FAF funds, institutions will have to award proportionately less money to non-needy students. With a decrease in grant aid to these non-needy students, loan indebtedness for this population may rise.

In order to assist the community colleges in distributing grant aid and loan assistance to needy students, we recommend the Legislature provide policy guidance to the Division of Community Colleges regarding an acceptable level of loan indebtedness. In addition, we recommend that the Division of Community Colleges develop systemwide policies

regarding the FAF and its use in maintaining a legislatively defined acceptable level of loan indebtedness for needy students.

Appendices

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Appendix A

Literature Reviewed

DeLoughry, Thomas J. (February 13, 1991).

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Fraas, Charlotte J. (July 31, 1989).

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Hansen, Janet S. (February 1987).

Student Loans: Are They Overburdening A Generation? The Washington Office of the College Board. New York: College Entrance Examination Board.

Mortenson, Thomas G. (February 1990).

The Impact of Increased Loan Utilization Among Low Family Income Students. ACT Student Financial Aid Research Report Series. Iowa City, IA: The American College Testing Program.

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United States General Accounting Office (June 1988).

Briefing Report to the Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives. Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters. Washington, D.C.: United States General Accounting Office, Human Resources Division.

- United States General Accounting Office (June 1988).
Briefing Report to the Ranking Minority Member, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives. Pell Grants: Who Receives Them and What Would Larger Grants Cost? Washington, D.C.: United States General Accounting Office, Human Resources Division.
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- United States General Accounting Office (July 1986).
Briefing Report to the Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives. Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures. Washington, D.C.: United States General Accounting Office, Human Resources Division.

Appendix B

Response From the Department of Education

In accordance with the provisions of s. 11.45(7)(d), F.S., a list of preliminary and tentative audit findings was submitted to the Executive Director of the Community College System of the Department of Education for his review and response.

The Executive Director's written response is reprinted herein beginning on page 41.



Executive Director
Community College System
Clark Maxwell, Jr.

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December 20, 1991

Mr. Charles L. Lester
Auditor General
Office of the Auditor General
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. Lester

We are in receipt of the preliminary and tentative audit report on the:

Community College Financial Aid Program Administered by the Department of Education

We were pleased that the audit found the colleges and the Division in compliance with the provisions in Section 240.35(7), Florida Statutes. The audit's purpose, however, was "focused on the use of the Financial Aid Fee in meeting the financial needs of needy students." As stated in the audit, this is a "performance audit" which is intended to provide information to the Legislature to "improve programs and allocate limited resources." Two recommendations were forthcoming:

Recommendation 1. The Legislature "consider revising the Florida Statutes to change the distribution of Financial Aid Fee funds among needy and non-needy students."

The Community College System is fully aware of the level of need demonstrated by students. However, it was not the intent of the Legislature in establishing the Financial Aid Fee that it be a grant whose sole or main purpose was to provide financial assistance to needy students.

The creation of this fee was necessitated by legislative abolition of fee waivers. The intent of creating this fee was to provide financial aid funds that would give the community colleges flexibility in making awards and to continue activities of local interest which had been formerly subsidized through fee waivers. Section 240.35(7)(a), Florida Statutes, reiterates the intent of flexibility by stating in part that the fees collected may be used "to assist students who demonstrate academic merit or who participate in athletics, public service, cultural arts, and other extra-curricular programs as determined by the institution." It continues by saying that

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Mr. Charles L. Lester
December 20, 1991
Page Two

"the remainder of the funds shall be used for academic merit purposes and other purposes approved by the district boards of trustees."

As your report states, the Division and the colleges have complied with the provisions established in Section 240.35(7)(a), Florida Statutes. The Division has provided community colleges with as much flexibility as possible in the implementation of this statute by providing systemwide coordination and criteria only where required and allowed under the law and the colleges have complied. The Division has provided guidelines for determining need and the colleges have followed the guidelines established.

Recommendations 2 and 3. "In order to assist the community colleges in distributing grant aid and loan assistance to needy students, we recommend the Legislature provide policy guidance to the Division of Community Colleges regarding an acceptable level of loan indebtedness. In addition, we recommend that the Division of Community Colleges develop systemwide policies regarding the Financial Aid Fee and its use in maintaining a legislatively defined acceptable level of loan indebtedness for needy students."

We do not concur with recommendation 2 and subsequently Recommendation 3. It is our contention that if the Legislature provides guidance regarding an acceptable level of loan indebtedness, it should not be solely to the Division of Community Colleges, but should be a statewide policy. In addition, systemwide policies should be developed by the Office of Student Financial Aid in terms of maintaining a legislative defined acceptable level of loan indebtedness for all students not simply needy students.

Further, we do not concur that the Financial Aid Fee should be part of the funds that would be used to maintain a "defined acceptable level of loan indebtedness" for needy students, because, once again, that was not the intent of the legislation. The Community College System supported the creation of the Financial Aid Fee, because a need existed for a source of funds that would allow them to make awards in areas that have been identified as important to their overall mission and their community. That need still exists and the Division strongly supports the intent of the current legislation.

Thank you for the opportunity to respond to the audit. If you need any other information, please contact me.

Sincerely,



Clark Maxwell, Jr.

cgw

