

January 06, 2018

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Student Aid Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Kelley Maddox, Deputy Director, Fiscal & Administration, at (916) 464-8095, Kelley.Maddox@csac.ca.gov.

BACKGROUND

Founded in 1955, the Student Aid Commission ("Commission") is the primary state agency for the administration of state-authorized student financial aid programs available to students attending all segments of postsecondary education. These include grant, scholarship, and loan assumption programs supported by the state and the federal government. The Commission's primary programmatic responsibility is the administration of the Cal Grant Program. The Commission's mission is to make education beyond high school financially accessible to all Californians.

During the 2016-17 academic year, the Commission distributed approximately \$2.2 billion in financial aid to nearly 400,000 California college students through the Cal Grant Program, Middle Class Scholarship and eight specialized and loan forgiveness programs. The Commission also administered the Student Opportunity and Access Program (Cal-SOAP) and Cash For College, two financial aid education programs.

The Commission provides policy leadership on financial aid issues and is also responsible for disseminating information statewide about student financial aid programs; reporting to the Legislature, the Governor, postsecondary educational institutions and other state and federal administrative agencies regarding all aspects of student financial aid in California; and conducting student financial aid research.

The Commission has the statutory authority to appoint a chief executive officer to oversee its programmatic responsibilities and to employ other employees as necessary (hereinafter the Executive Director, managers and staff shall be referred to as "CSAC"). The Commission currently has 122.25 authorized positions in its workforce.

ONGOING MONITORING

As the head of California Student Aid Commission, Lupita Cortez Alcalá, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Student Aid Commission internal control monitoring practices are implemented and functioning as

intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Kelley Maddox, Deputy Director, Fiscal & Administration.

MONITORING ACTIVITIES

Through ongoing monitoring processes, the Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Commission is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

The Commission conducted a comprehensive review of internal control systems in State Fiscal Year 16/17 performed by an internal auditor (retired annuitant) from outside the Commission. The review findings were minimal and corrected promptly. The Commission plans to continue using external reviewers in the future to further to improve upon the results from the 16/17 review and to meet or exceed expectations and requirements with internal control systems.

As the Executive Director, Lupita Cortez Alcala, is responsible for the overall establishment and maintenance of the internal control systems.

The Deputy Director of Fiscal and Administrative Services, Kelley Maddox, will be responsible for the department- wide risk assessment. The Department of Finance State Leadership Accountability Act lifecycle model will be used for ongoing monitoring.

ADDRESSING VULNERABILITIES

The Commission encourages staff to speak with their supervisors if they discover an issue or risk that should be addressed. When risks to the Commission are identified, or otherwise come to the attention of CSAC management, they are presented during CSAC weekly Executive Management meetings. Executive Management discuss the issues, evaluate the risks, and determine priorities. An action plan and timeline to mitigate the issues are developed. A key manager is identified for each Division to address the issue and the Deputy Director of each Division is responsible for updating the progress of the action plan at later Executive Management meetings.

Implementation of design and test control procedures that have been developed are confirmed and documented. The Deputy Director of Fiscal and Administrative Services reports the information to the Executive Director and Chief Deputy Director monthly until deficiencies are satisfactorily addressed.

COMMUNICATION

Monthly meetings of all managers include updates of action plans to mitigate risks. Managers are expected to communicate with their staff on these risks. Discussion of relevant risks is included in semi-annual meetings of CSAC. As needed, and depending on the significance of the risk, information about risk and mitigation are distributed to all staff via email.

The Deputy Director of Fiscal and Administrative Services will be responsible for documenting and monitoring the risks and reporting a summary to the Executive Director and Chief Deputy Director.

ONGOING MONITORING COMPLIANCE

The California Student Aid Commission is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Student Aid Commission systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Student Aid Commission risk assessment process: Executive Management, Middle Management, and Front Line Management.

RISK IDENTIFICATION

CSAC performed the risk assessment utilizing a survey that was distributed to all CSAC managers. Prior to release of the survey, CSAC provided the managers with an overview of the SLAA statute, risk analysis/evaluation and training on understanding internal controls, with a presentation provided by staff members of the Department of Finance Office of State Audits and Evaluations.

All managers were subsequently sent a confidential survey asking that they identify, rank (high, medium, low), and comment upon areas of risk either within their specific Division or the organization. The risk assessment sought input in the areas of: internal and external operational risks; internal and external reporting risks; internal and external compliance risks; and any observed fraud risks based upon the Department of Finance's "State Leadership Accountability Act Risks and Definitions." Survey respondents also had the ability to identify, rank and explain any other risks if unsure where such risk should be reported. After identifying the risk, respondents were asked to rate the risk as high for a risk that represents a substantial or significant impact to the identified area; medium for a moderate impact; and low for a minimal impact.

RISK RANKING

Upon completion of the survey, all uncategorized risks were assigned to the appropriate category of the "State Leadership Accountability Act Risks and Definitions." Each area of risk was scored and ranked based upon the designation of the risk as high, medium or low and discussed among Executive Management. Each identified risk was weighed, discussed and considered to find the highest risks to the Commission for inclusion in this report. All identified risks will be followed up on while four areas of significant risk to the Commission's mission were identified, as described below.

RISKS AND CONTROLS

RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING

The Commission relies on staff with subject matter expertise in key areas. As a result of retirements, transfers/promotions to other agencies, extended leaves and other reasons, the Commission has lost staff and historical knowledge in critical areas.

The loss of key staff and/or the failure to adequately document or transfer knowledge among staff interrupts business operations and continuity.

Due to this interruption of business operations and loss of continuity, CSAC must adjust workload until new staff are hired or trained, causing re-prioritization of projects and places achieving the Commission's objectives at risk.

CONTROL A

Within each Division, management identifies critical areas of key-person dependency and assigns a key staff member to lead in the development of written processes or procedures to ensure back-up staff is trained so that the Commission can maintain effective continuity in key positions. The Commission is implementing the State of California Workforce Planning Model and intends to implement the State of

California Succession Planning Model. A formal Workforce Development Plan is nearly finished and the Commission will implement formal training programs within Divisions along with written procedures, policies and desk manuals. Cross training within Divisions, webinars/teleconference training and assignment of mentors to new staff will also mitigate the risk.

RISK: OPERATIONS -INTERNAL-STAFF—TRAINING, KNOWLEDGE, COMPETENCE

Related to the issue of Key Person Dependence, survey respondents identified the need for additional training for both new staff and existing staff in the areas of program knowledge, administrative policies and procedures, professional development and personal development.

Survey respondents reported staff knowledge and/or abilities were not in line with the job requirements in certain areas due to lack of training, lack of written policies, procedures and/or desk manuals.

The lack of training, knowledge transfer, written policies, procedures or desk manuals and the lack of professional development for staff negatively impacts operational efficiency and employee morale, and increases the risk to the Commission's continuity of operations and goals.

CONTROL A

The Commission has several controls in place to mitigate this risk. The Commission established a Training Officer position designed to serve as the Upward Mobility coordinator and Training coordinator.

The Training Officer utilizes the CalHR Core Competency Model matrix to identify the skills required for each position. The training Officer will continue to ensure employees are identified, trained, and equipped with the knowledge to continually advance employee skills and improve performance productivity and service. Training and development opportunities will help prepare employees for upward mobility by strengthening their competencies.

The Training Officer is providing oversight of in-house training programs and recommendations to management on training needs. In-house training has been implemented either for an external vendor to train staff or utilizing the internal subject matter experts as mentors/trainers on Commission programs and business processes where staff have been identified as needing or requesting additional training.

CONTROL B

Within each Division, management identifies critical areas of training, competence and knowledge and assigns a key staff member to lead in the development of written processes or procedures to ensure back-up staff is trained so that the Commission can maintain effective operations. A formal Workforce Development Plan is nearly complete and will implement formal training programs within Divisions along with written procedures, policies and desk manuals. Cross training within Divisions, webinars/ teleconference training and assignment of mentors to new staff will also mitigate the risk.

CONTROL C

Although the Commission's ability to provide outside training opportunities for staff is restricted due to budgetary constraints, the Commission has been actively monitoring the expenditures for training with each Division Chief and encouraging each Division Chief to expend the funding that has been allocated to training for staff. This has led to a year over year increase in of employee training opportunities.

Additionally, the Commission has developed some in-house training. This includes on-the-job training, in-house training and new employee orientation training. Some Divisions establish training schedules and rotation for all new employees to ensure staff receive training and demonstrate competence.

Other Divisions schedule training workshops for those who would like to gain additional professional

skills or are seeking to improve personal development. In addition, the completion of the Individual Development Plan (IDP) for employees who are not on probation provides additional information to management on individuals' training needs ' to facilitate individual advancement.

RISK: OPERATIONS -INTERNAL-FI\$CAL IMPLEMENTATION, MAINTENANCE, OR FUNCTIONALITY

The Commission went live in Fi\$Cal in July 2017. The transition to Fi\$Cal has created risk to the Commission's ability to fulfill its programmatic and administrative responsibilities. Because necessary Fi\$Cal functionality is not yet available to CSAC, and the CALSTARS legacy system is not available during the transition, the accuracy and timeliness of the Commission's fiscal tracking and forecasting responsibilities is significantly impaired, creating uncertainty in determining the Commission's true fiscal status due to the delay. Staff is not able to complete the Month End and Year End Close on time, thus requiring the Commission to manage its operations budget very conservatively. This conservative fiscal management affects the Commission's programs by preventing timely action to address concerns that require additional resources.

The inability to record and track expenditures due to challenges working in the new Fi\$Cal system, lack of staff, lack of adequate training and conflicting instruction from various Department of Fi\$Cal and Department of Finance SMEs also creates late-payment risks for outside vendors that have Prompt Payment Act implications.

The Commission has implemented mitigation to address these risks. But, this mitigation, itself, adversely affects the Commission's ability to fulfill its responsibilities. The Commission is a small agency that has identified one of its significant risks to be key-person dependency. The Commission's limited accounting, budgets and procurement staff members have been working overtime since early 2017 to prepare for and implement the transition to Fi\$Cal and to implement the mitigation required by the transition to be able to meet their regular fiscal responsibilities. There is a risk of burnout, errors, overload and loss of staff. The extra resources that are necessary to reinforce the Commission's administrative capabilities due to Fi\$Cal's functional issues during the transition will reduce the resources available to support its programmatic functions.

The Department of Fi\$Cal has provided webinar trainings that were required to be taken by CSAC Administrative Staff prior to July 2017 but because CSAC staff were prohibited from working in the Fi\$Cal system the training was ineffective because of the time delay from taking the classes to being able to put the training to practical use or, in some cases, the training was inapplicable because of changes made to the Fi\$Cal system between the time of the training and when staff were granted access. Job aids from the Department of Fi\$Cal attempt to bridge the gap but many of these job aids are not updated as the system and instruction evolves, some staff and SMEs at the Department of Fi\$Cal are not sufficiently experienced with Fi\$Cal and the Commission to provide sufficient assistance, and the Department of Fi\$Cal experiences high turn over leaving CSAC staff with a lack of continuity in instruction. Because the Commission must report its financials to the Department of Finance, CSAC staff are also working with Finance staff on technical assistance that often is counter to what the staff/SMEs at the Department of Fi\$Cal states. This causes confusion and frustration with CSAC staff along with many hours of double work or re-work.

Because of the lack of a fully operational Fi\$Cal system and the unavailability of the Legacy CALSTARS system, CSAC has been unable to complete a month end close (MEC) since July 2017 within the Fi\$Cal system. CSAC staff have been maintaining manual spreadsheets in an attempt to address financial status and financial forecasting until all data can be adequately and accurately entered into the Fi\$Cal system. However, maintaining the financial records of the Commission as it disburses more than \$2.2 billion in student financial aid on spreadsheets, not only creates additional workload for CSAC but presents potential

for errors as this is not within the procedural norms identified in existing internal controls. All CSAC accounting staff working overtime since early 2017 in preparation for the new Fi\$Cal system are experiencing fatigue, which in turn increases the potential for errors and further puts at risk an already strained internal control system that was not designed to address such a lengthy delay in implementation as has occurred.

CONTROL A

CSAC administrative staff continue to work with Fi\$Cal and Finance staff for ongoing technical assistance by attending their technical assistance labs held at Finance, communicating with Finance SMEs via telephone and via email. CSAC administrative staff also will continue to attend Department of Fi\$Cal classes or labs for technical assistance when offered and as time permits. Staff will utilize every available job aid, technical assistance and SME as often as possible to adequately learn the Fi\$Cal process for their particular job function. However, many of these job aids are not updated as Fi\$Cal and instruction evolves, some staff and SMEs at the Department of Fi\$CAL are not sufficiently experienced with Fi\$Cal and the Commission to provide sufficient assistance.

CONTROL B

Additional management staff have also been assigned to help facilitate the workload and navigate the often conflicting instruction provided between Finance and the Department of Fi\$Cal staff. These managers have taken on this role in addition to their regular workload causing them to additional hours.

CONTROL C

Administrative staff will keep track of a \$2.2 billion dollar budget via spreadsheets until all information can be adequately and accurately entered into Fi\$Cal. In the absences of the Legacy system CALSTARS the Commission was forced to develop our own spreadsheets to manage the accounting, procurement and budgetary workload. We have implemented the role mapping and the separation of duties (SOD) which has clearly outlined our internal controls for approvals. However, things progress and we continue to fall behind—additional work is and will be needed, and with limited staff, we are unlikely to see significant progress in Fi\$Cal catch-up anytime soon.

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—COMPATIBILITY

The current Grant Delivery System (GDS or the "System"), is the primary data base and data management system for processing and awarding financial aid/grants. The foundational GDS requirements and attributes are based upon business rules and processes established in the 90's or earlier. The GDS's antiquated, and in many instances, obsolete technologies often limit the Commission's ability to effectively automate and modify the System as required by federal or state legislative mandates, adopt new mandated programs and ensure adequate and proper system security controls.

As existing program-mandated changes are identified and new programs have manifested, programming languages popular for that particular time period have been used to develop "plug-in" applications leaving the Commission with multiple, unique and disparate program applications interacting with GDS. The associated interactions with GDS are not standardized; therefore, internal and external customers are required to log into and manage workloads using several applications. This environment ultimately leads to duplication of data and system actions, security and information breaches, ineffective and inefficient delivery of services, lack of knowledgeable support resources, an inordinate amount of manual processes required to ensure service delivery and inability to compete with other State agencies for staffing resources, and increased security risks due to the manual process.

Risk components associated with an inflexible, obsolete and antiquated System include:

- Compromised Data Security
- Ineffective and Inflexible System Support Tools, Design and Maintenance
- Inability to Recruit and Retain Knowledgeable Staff
- Inability to Effectively Execute Succession Planning

As it exists, it is extremely challenging and labor intensive to modify GDS to meet Federal and State mandated changes and/or implement new programs. Each Commission supported financial aid program is administered via an application (tool) which interacts with the GDS. Many of these applications are written in disparate and obsolete programming languages. Finding resources with expertise in these programming languages is extremely difficult as many of the languages are no longer taught in schools and many individuals are nearing retirement age. With a limited resource pool available, the long-term impact is creating multiple single points of failure/success.

Additionally, recruiting for positions supporting obsolete and/or antiquated technologies has proven to be at a minimum, challenging. Most job seekers are trained in new and cutting-edge technologies and are looking for positions that offer opportunities to utilize these talents and skills. In the current environment, the Commission is unable to effectively compete with other State entities for resources due to the less than desirable status of the current antiquated system. The inability to recruit and retain knowledgeable staff adversely affects the Commission's succession and workforce planning activities. It also renders the Commission dependent upon single points of failure and/or limited resources with the necessary knowledge, skills and abilities to support GDS.

Each financial aid/grant program application (tool) has been developed in separate and unique program languages, and associated interactions with GDS are not standardized; therefore, internal and external customers are required to log into and manage workloads using several applications. Ongoing changes to legislation, policy and the implementation of new financial aid programs have posed insurmountable challenges for the Commission due to the lack of standardization and inability to update the antiquated GDS system. A multitude of manual processes support GDS because the system is not able to accommodate an automated solution and/or the risks of a catastrophic failure is imminent with identified upgrades or modifications.

Upgrades and modifications are often required to ensure up to date protection against security threats and vulnerabilities. Many recommended updates cannot be executed on the current system due to the far-reaching ramifications to performance and functionality; therefore, manual workarounds and controls are put in place to mitigate and minimize the Commission's exposure to such security events while allowing daily processing of workload to continue. Manual processes and the inability to upgrade the system render the Commission in a position of potential compromised data security.

CONTROL A

The Commission has embarked on the Grant Delivery Modernization (GDSM) Project which will effectively address all of the risk components noted above. The GDSM will modernize, automate and standardize the components of the current GDS. The Commission is working collaboratively with California Department of Technology (CDT) and California Department of Finance (DOF) to affect a solution which will ensure all mandatory financial aid/grant program requirements are identified and incorporated into the system in a standard format with quality controls supporting the effective and efficient use of data and system resources. The GDSM will automate most manual processes to the extent possible, which will improve quality assurance and service delivery. A single, cohesive system and an appropriate role-based access/account component will promote effective security controls and

allow for transparency in security management. System management and maintenance will be significantly improved with automation and limited need for manual intervention. The GDSM is scheduled to be online in 2020.

CONTROL B

To mitigate and manage the risks as they manifest in the current environment, the Commission is working closely with CDT to stabilize GDS and strengthen security controls by seeking storage support services through the California Department of Technology. The Commission is utilizing security contractors to support and assist in launching an improved Commission Information Security Office (ISO). The Commission has hired a new Information Security Officer to lead the renovation and implementation of a more robust Commission Information Security Program. Program improvements include policy improvements along with the processes and procedures necessary to support policies, Disaster Recovery Plan improvements and a comprehensive security training portfolio.

CONTROL C

To establish enterprise standards, requirements management and the Commission's system/program cohesiveness, The Commission recently launched the Commission's Enterprise Architecture Program. The Commission has hired a Lead Enterprise Architect and is actively recruiting for a Technical Requirements Analyst to support the Enterprise Architecture Program, Program and IT Governance. In addition to the recent implementation of the Enterprise Architecture Program, the Commission has created an IT Governance Services Section which is responsible for effective and efficient Change, Configuration and Release Management Programs. While application of these initiatives is in its infancy, but in effect in the current Commission environment, the initiatives are also being created, implemented and managed with long-term goals and the Commission's mission alignment as guiding principles.

CSAC has invested in new and innovated tools to support the longevity of these programs.

CONCLUSION

The California Student Aid Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Lupita Cortez Alcalá, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency