Exhibit 14

Information

Audit Update

The Commission is responsible for the efficient administration and effective oversight of its authorized Federal and State financial aid programs. To that end, the Commission must examine the management of its programs and the disbursement of funds from beginning (Commission) to end (eligible qualifying institutions.) This is accomplished through both external reviews and internal audits performed by staff in the Legal & Audit Services Division.

PROGRAM COMPLIANCE OFFICE

The Commission's Program Compliance Office (PCO) auditors conduct reviews of postsecondary institutions participating in the Commission's financial aid programs to give the Commission a measure and a process to safeguard the assets it has entrusted to the institution, to check the accuracy and reliability of the data submitted, and to ensure and protect the overall integrity of the Commission's programs. The areas of review include: program compliance, student records, and payment administration for participants in the Cal Grant, Specialized Programs and the California Student Opportunity and Access Program (Cal-SOAP). The PCO currently has a staff of three Associate Management Auditors conducting reviews. A fourth Associate Management Auditor is acting in the role of a Staff Management Auditor.

- **Institutional Audits**

The PCO auditors are performing full field audits of Cal Grant participating institutions for the 2011-12 and 2012-13 academic year. For fiscal year 2013-14, the auditors closed twelve audits, issued two draft audit reports, performed field work at five institutions and engaged an additional three campuses. An additional four audits have been closed in fiscal year 2014-15. The most common findings for these audits include: satisfactory academic progress policy does not meet federal standards; renewal unmet need calculated incorrectly; Cal Grant funds not reconciled; eligibility verification not performed; Cal Grant A awards paid on an ineligible program. As a result of these findings, institutions have returned $242,415.02 to the Commission and been found to have an additional $78,767.50 in institutional liabilities.

- **Fiscal Reviews**

Legislative changes have increased the audit workload within the PCO with the implementation of SB 70 and SB 1016. The institutional eligibility requirements for the Cal Grant Program became more rigorous with the establishment of the cohort default rate (CDR) and graduation rate qualifications for participating institutions. In 2011-12 academic year, 76 institutions were eliminated from the Cal Grant Program for exceeding the maximum CDR. For the 2012-13 academic year, 156 institutions were eliminated from Cal Grant participation for either CDR, graduation rate or both. With the large number of institutions exiting the Cal Grant Program, the PCO instituted a fiscal review process to ensure that the newly ineligible institutions had appropriately reconciled their Cal Grant funds and returned undisbursed and/or ineligible Cal Grant

funds to the Commission before the three-year audit provision contained in the Institutional Participation Agreement expired. To date, 47 fiscal audits of ineligible institutions are either in process or completed and $62,584.90 has been returned to the Commission. An additional $18,709.00 in institutional liabilities was discovered during these audits.

- **Competitive Program**

The Program Compliance staff has been actively involved in the Commission's efforts to increase the paid rate for the Competitive Cal Grant awards. For the last two years, the PCO has assisted the Program Administration & Services Division (PASD) in contacting students and institutions to conduct research on why students at a particular institution have not been paid. As a result of these activities, the PCO has expanded the scope of the institutional audits to include a sample of Cal Grant students, whether Entitlement, Transfer Entitlement or Competitive, that were on the institution's roster for the academic year under review that were not paid at any point during the academic year.

INTERNAL AUDITS

- **Internal Audit Plan and Risk Assessment**

The Internal Auditor has drafted an Internal Audit Plan and Risk Assessment for review by the Audit Committee. (See Exhibit 15.) The Internal Audit Plan and Risk Assessment have been based upon a risk-based approach specific to CSAC operations. The plan focuses on high risk areas and a limited amount of special projects, as available resources permit.

- **FISMA**

The Financial Integrity and State Manager's Accountability (FISMA) Act of 1983 was enacted to reduce the waste of resources and strengthen accounting and administrative control. FISMA requires each state agency head to maintain effective systems of internal accounting and administrative control, to evaluate the effectiveness of these controls on an ongoing basis, and to biennially review and prepare a report on the adequacy of the agency's systems of internal accounting and administrative control.

The Commission's internal auditor performed a risk assessment utilizing questionnaires, risk assessment spreadsheets, prior audits, and interviews with Commission managers. The identified risks were shared with the senior management team and the highest risks were identified. The top risks were found to be related to protection of personally identifiable information, information technology modernization challenges and limitations, and issues related to succession planning/key-person dependency.

The FISMA report was prepared, signed off by the Executive Director as required by law, and timely submitted in December 2013. The corrective action plan was submitted as required in January 2014. (See Exhibit 14.1)

The Department of Finance (Finance) has accepted the Commission's FISMA report and corrective action plan as submitted. Finance's acceptance of the FISMA report and/or CAP means the report and plan meet the evaluation criteria, including an evaluation of whether management was engaged in the risk assessment process and involved in establishing controls, ongoing monitoring, and risk mitigation strategies on an organization-wide basis.

California Student Aid Commission

The Commission submitted its required 6-month corrective action plan on June 17, 2014. (See Exhibit 14.2) This corrective action plan was accepted by Finance on August 12, 2014.

The Commission will be required to submit an updated corrective action plan by December 31, 2014. The Commission will be updated of the status of the FISMA reporting and the corrective action plan at its February 2015 meeting.

Responsible Person(s): Keri Tippins
General Counsel and Chief
Legal & Audit Services Division

STATE OF CALIFORNIA
CALIFORNIA STUDENT AID COMMISSION

John R. McDowell, Jr., Chairman
Ana Beltran, Vice Chair
Cris Arzate, Secretary

Nancy Anton
Larry Asera
Brian Conley
Jacqueline Doud
Hal Geiogue

Harry Le Grande
Jamillah Moore
Wm. Gregory Sawyer
Jack Scott
Michele Siqueiros

Diana Fuentes-Michel, Executive Director

DATE: December 18, 2013

TO: Michael Cohen, Director of Finance

FROM: Diana Fuentes-Michel, Executive Director, California Student Aid Commission

SUBJECT: Review of the Systems of Internal Control

In accordance with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 31, 2013.

As statutorily required, the California Student Aid Commission is in compliance with Government Code section 12439.

Enclosure(s)

cc:	Director of Finance	FISMAhotline@dof.ca.gov
	Legislature	deanna.hansen@asm.ca.gov
	State Auditor	MargaritaF@auditor.ca.gov
	Governor's Office	Adrian.Mata@gov.ca.gov
	State Library	FISMA@library.ca.gov
	State Controller's Office	SCOaudFISMA@sco.ca.gov
	State Treasurer's Office	FISMA.Reports@treasurer.ca.gov
	Attorney General	OPRA@doj.ca.gov

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STATE OF CALIFORNIA
CALIFORNIA STUDENT AID COMMISSION

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Diana Fuentes-Michel, Executive Director

December 18, 2013

DEPARTMENT NAME: California Student Aid Commission
ORGANIZATION CODE: 7980

INTRODUCTION:

In accordance with the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983, the California Student Aid Commission (Commission) submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2013.

Should you have any questions about this report, please contact Keri Tippins, General Counsel, at (916) 464-8135, KTippins@csac.ca.gov.

BACKGROUND:

The 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. Founded in 1955, the 15-member Commission's primary programmatic responsibilities include administration of the Cal Grant Program. The Commission's mission is to make education beyond high school financially accessible to all Californians.

The Commission distributed approximately $1.5 billion to more than 260,000 California college students during 2012-13 academic year through its Cal Grant, specialized and loan forgiveness programs.

With a workforce of 107.7 authorized positions, the Commission provides policy leadership on financial aid issues and is also responsible for conducting student financial aid research, disseminating information statewide about student financial aid programs, and 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.

P.O. Box 419026, Rancho Cordova, CA 95741-9026 Tel: (916) 464-8271 / Fax: (916) 464-8033 Website: www.csac.ca.gov

RISK ASSESSMENT METHODOLOGY:

The Commission performed the risk assessment utilizing questionnaires, risk assessment spreadsheets, prior audits, and interviews with Commission managers. The questionnaires and risk assessment spreadsheets were sent to managers at various levels. The questions addressed topics such as: top issues that concern managers, personnel changes, compliance requirements with personal identifiable information, disaster recovery, and any observed fraud risks. In addition, management completed spreadsheets listing core functions, controls and ranked risk for impact and probability. The risk assessment did not center focus in one specific area but looked throughout the Commission for input regarding management's observations of areas of risk.

Management within each division was given an opportunity to reflect and discuss risks and explain mitigating controls within their programs. Internal Audit staff analyzed the results of the risks to determine whether the risks identified were unique to the unit or common within the department-wide risk assessment.

EVALUATION OF RISKS AND CONTROLS:

The following risks were identified to be common throughout the Commission:

RISK #1 – Personally Identifiable Information Protection

Personally Identifiable Information (PII) is used when processing awards: grant, scholarship, and loan assumption. When processing these awards, students provide us with detailed information about themselves in order to be considered for an award, to receive a payment, or to complete other Commission transactions. This information can contain PII which is defined as information that can be used to distinguish the student's identity and eligibility, such as, name, social security number, date of birth, dependency status, school of attendance, education level and income tax information.

> **Controls:** The Commission has several controls in place to safeguard PII as required by the State's Information Security Office. The Commission promotes information security and privacy awareness, ensures consistent enforcement of Commission information security policies, and identifies and integrates best practices to mitigate fraud and protect PII. The Commission has established accurate and secure identity management to facilitate authentication and authorization, and to strengthen and enhance the process used to release or exchange Commission information. These practices include: web users required to complete security access and confidentiality agreement, data is encrypted, password protection, locking of paper documents, timely emptying of shred bins, security training, physical badges, established privacy information breach procedures and external auditing.

RISK #2 – Information Technology Modernization Challenges & Limitations

The Commission needs to modernize its Grant Delivery System (GDS). The GDS is the primary database for Commission business objectives. The information technology modernization needs to address the following challenges:

- **Software Update Challenges:** The Commission utilizes several software applications to assist in carrying out its business function. There is a potential vulnerability if software cannot be patched or updated timely. The risks include potential document and file incompatibilities with end users, unauthorized access and increased system down time for configuration recreation. Updating the technology allows the Commission to maintain and update the systems more effectively and efficiently.

- **Upgrade Systems:** The Commission GDS system needs to be modernized. Modernizing the systems will enable the Commission to use best practices to structure the functionality of the programming to allow more effective and efficient updating of legislatively mandated changes. It will also mitigate potential risks to the Commission's programs associated with reliance on a legacy system.

- **Manual Data Entry:** The risk of manually keying data can cause incorrect information to be entered into a student's record. This can, for example, cause a student to be erroneously awarded a Cal Grant or, conversely, not be awarded a Cal Grant that the student was eligible to receive. In addition, the significant number of documents to be manually keyed and the limited staff resources to complete the work can delay Cal Grant award processing.

- **Scarce System Support Resources:** The Commission has multiple resource constraints that place support systems at risk. The systems rely on expertise in obsolete programming languages not taught in schools and in-depth business expertise due to embedded business logic. Due to retirements and limited staff resources, the Commission is experiencing a knowledge drain that places the systems at risk. Using a broadly, industry, supported technology will allow Commission to leverage a larger pool of resources and obtain training more easily.

- **System Limitations Place California at Risk:** If the GDS systems fail, workload could not be handled manually due the volume of data processed by the GDS.

  Controls: The Commission has taken steps to modernize its system. It recently upgraded its Oracle database from 10g to 11g and has undertaken an assessment of its GDS system. The Commission is also offering training and other assistance to high schools to encourage schools to use the Commission's electronic GPA upload process. This will help minimize the incorrect data being entered into a student's record. The Commission is also seeking additional resources to address its Information Technology needs.

RISK #3 – Departmental Succession Planning

The Commission relies on staff with subject matter expertise in key areas. As a result of retirements, promotions, transfers or extended leaves, the Commission has lost staff in critical areas. The loss of key staff without the necessary transfer of knowledge, development of remaining staff, or the development of new approaches to performing the work, results in the constant re-prioritization of projects and places achieving the Commission's objectives at risk.

> **Controls:** Within each division, management identifies critical areas of key-person dependency and documents processes or ensures processes are updated and back-up analysts are trained. Formal training programs are in place for some Divisions. Other Divisions schedule cross-training, webinars, teleconferences, video training, regular training workshops and assign mentors to new staff. Consulting contracts contain knowledge transfer deliverables.

The Commission management identified mitigating controls through the questionnaires, spreadsheets, prior audits and meetings. Internal Audit staff plan to test significant controls during the next reporting cycle.

VACANT POSITIONS:

The Commission continues to follow Government Code (GC) section 12439 regarding hiring practices similar to other departments within the State.

CONCLUSION:

In accordance with the Fiscal Integrity and State Manager's Accountability Act of 1983, Government Code Sections 13400 through 13407, I certify that the Commission has established adequate internal controls in place to mitigate the risks identified. The Commission continues to improve and correct control deficiencies as they arise. The Commission management team is committed to the highest standard of compliance.

Sincerely,

Diana Fuentes-Michel
Executive Director

cc:	Director of Finance	FISMAhotline@dof.ca.gov
	Legislature	deanna.hansen@asm.ca.gov
	State Auditor	MargaritaF@auditor.ca.gov
	Governor's Office	Adrian.Mata@gov.ca.gov
	State Library	FISMA@library.ca.gov
	State Controller's Office	SCOaudFISMA@sco.ca.gov
	State Treasurer's Office	FISMA.Reports@treasurer.ca.gov
	Attorney General	OPRA@doj.ca.gov

Name of Department / Org Code (	California Student Aid Commission/7980		January 31, 2014 Report	January 28, 2014
Signature of Director: __ **/ S /**			June 30, 2014 Report	indicate report submitted
			December 31, 2014 Report	indicate report submitted
			June 30, 2015 Report	indicate report submitted
		CORRECTIVE ACTION PLAN		
CONTROL WEAKNESSES IDENTIFIED	CORRECTIVE ACTIONS TAKEN	CORRECTIVE ACTIONS TO BE TAKEN ONGOING MONITORING	PERSON RESPONSIBLE FOR ACTION (POSITION TITLE)	DATE OF ACTION/ PLANNED ACTION
Personally Identifiable Information Protection	The Commission has several mitigating controls in place. Please see FISMA report.	An internal audit will be performed to determine security risks.	Keri Tippins, General Counsel	June 2014
Information Technology Modernization Challenges & Limitations	The Commission has several mitigating controls in place. Please see FISMA report.	An external provider is currently performing a risk assessment on the Commission's Grant Delivery System. The Commission will review the assessment and determine an appropriate course of action based upon the recommendations in the assessment.	Chris Edwards, Division Chief Keri Tippins, General Counsel	On Going
Departmental Succession Planning	The Commission has several mitigating controls in place. Please see FISMA report.	Each division is documenting procedures and cross training.	Management	On Going

Exhibit 14.2

Name of Department / Org Code (	California Student Aid Commission/7980		January 31, 2014 Report	January 28, 2014
Signature of Director: __ /S/			June 30, 2014 Report	June 30, 2014
			December 31, 2014 Report	indicate report submitted
			June 30, 2015 Report	indicate report submitted
CORRECTIVE ACTION PLAN				
CONTROL WEAKNESSES IDENTIFIED	CORRECTIVE ACTIONS TAKEN	CORRECTIVE ACTIONS TO BE TAKEN ONGOING MONITORING	PERSON RESPONSIBLE FOR ACTION (POSITION TITLE)	DATE OF ACTION/ PLANNED ACTION
Personally Identifiable Information Protection	The Commission has several mitigating controls in place. Please see FISMA report.	The Commission is developing an internal audit plan and risk assessment for 2014-15 which will include a security risk component. The Commissioners will vote in September 2014 for approval.	Keri Tippins, General Counsel	September 2014
Information Technology Modernization Challenges & Limitations	The Commission has several mitigating controls in place. Please see FISMA report.	The risk assessment on the Commission's Grant Delivery System has been completed. The Commission is currently reviewing the assessment results and developing a plan for implementing recommendations.	Chris Edwards, Division Chief Keri Tippins, General Counsel	February 2015
Departmental Succession Planning	The Commission has several mitigating controls in place. Please see FISMA report.	Each division is documenting procedures and cross training.	Keith Yamanaka, Chief Deputy Director	December 2014