
2.1

Action/Information Item

California Student Aid Commission

Update on Status of Implementing the Recommendations Cited in the Cal Grant Disbursement and Reconciliation Internal Audit Report that was Released to the Committee in February 2006

In response to the California Student Aid Commission's (CSAC) Internal Audit's six (6) findings and recommended actions resulting from the Cal Grant Disbursement and Reconciliation Review, CSAC staff developed a matrix outlining management's proposed actions, and other pertinent information, to strengthen and improve the internal controls and business processes identified in the audit.

The CSAC staff's proposed actions in response to the six (6) audit findings and recommended actions were presented to the Commission at the June 23 and September 7, 2006 Commission meetings for consideration. The Commission approved the proposed actions.

CSAC staff is providing an update on the implementation of the approved actions in response to the audit findings.

Recommended Action: For Information Only. No Action required.

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**UPDATE ON STATUS OF IMPLEMENTING THE RECOMMENDATIONS CITED IN
THE CAL GRANT DISBURSEMENT AND RECONCILIATION INTERNAL AUDIT
REPORT THAT WAS RELEASED TO THE COMMITTEE IN FEBRUARY 2006**

Summary of Internal Audit Finding #1: The current practice of disbursing funds does not effectively manage the state's cash flow, resulting in excess funds being disbursed to and held by institutions.

Actions Taken to Implement Recommendations: At the June 23, 2006, meeting, the Commission approved the CSAC staff recommendation that no modifications were required to be made to the current methodology for calculating and issuing term and supplemental advances for the 2006-2007 and 2007-2008 award years.

The current term advance amount for any term is calculated by taking 95% of the prior year's reconciled payments minus any outstanding advance amount from prior terms in that same academic year. The CSAC research manager explored several different methodologies to determine a more accurate means of determining the best advance amount. However, no better method was determined. Suggestions discussed by staff and the Grant Advisory Committee proved to not provide significant changes in the term advances. CSAC staff will continue to review and analyze the reconciliation data, on an ongoing basis, to ensure that the current methodology for calculating term advances effectively manage the state's cash flow. The GDS Real-Time Database enhancements proposed for Phase II will allow for a short turnaround time to deliver funds to the institutions and eliminate the disbursement and holding of excess funds.

Estimated Implementation: GDS Phase II - July 2008

Summary of Internal Audit Finding #2: The timeframes in which institutions report disbursements and adjustments to CSAC often exceed the date defined in the Institutional Participation Agreement (IPA), creating cash flow issues and impacting CSAC's ability to effectively forecast future cash flow needs.

Actions Taken to Implement Recommendations: CSAC staff originally recommended that the IPA deadline of October 15 for reporting disbursements and adjustments be retained and enforced by staff. The Commission approved the CSAC staff recommendation at the September 7, 2006, Commission meeting. However, after several meetings and discussions with the Grant Advisory Committee about the new IPA, CSAC staff became convinced that because institutions with summer terms could face practical difficulties in complying with the October 15 deadline, and with the addition of a requirement in the new IPA that institutions report payment transactions within 60 days after each term, a December 31 deadline for making all disbursements and adjustments was appropriate. This will provide time for institutions with late summer terms to complete both their final term and year-end reconciliation.

This revised action – changing the October 15 date to December 31 - will be presented to the Commission for approval as part of the adoption of the new IPA.

Estimated Implementation: Upon implementation of the new IPA.

Summary of Internal Audit Finding #3: There is no mechanism in place to ensure the collection, tracking and reporting of interest earned on Cal Grant funds by institutions.

Actions Taken to Implement Recommendation: At the September 7, 2006 Commission Meeting, the Commission approved CSAC staff's recommended action requiring institutions to hold Cal Grant funds in a interest-bearing account and to remit interest payments to CSAC at the end of the award year. The long-term solution is being addressed with the writing of the new IPA for the 2007-2008 academic year. CSAC staff and GAC held many discussions on the specific parameters of an interest-bearing account which are documented in the most current draft of the new IPA. The issue is still open for discussion in the new IPA.

CSAC staff has created some temporary tracking mechanisms to identify the collection of interest earned on Cal Grant funds. The Information and Technology staff and Cal Grant Operations staff continue to work together to build a temporary tracking form within the WebGrants System to track interest remitted with the development of procedures to ensure compliance. The Information Technology Division is currently building the infrastructure for Phase I of the GDS Real-time Database and Webgrants with an anticipated implementation for the 2007-2008 award year.

Estimated Implementation: Interim actions completed. Long-term actions (Phase 1) anticipated to be completed in December 2007.

Summary of Internal Audit Finding #4: Refunds received from institutions cannot always be recorded in the Grant Delivery System (GDS).

Actions Taken to Implement Recommendations: At the June 23, 2006, meeting, the Commission approved the CSAC staff recommendation that the GDS be modified to record refunds and to reconcile differences between GDS and the California State Accounting and Reporting System (CALSTARS). CSAC staff has created a temporary tracking mechanism to identify and record refunds received from institutions related to the closed award year. Cal Grant Operations staff and Accounting staff have identified a temporary process to resolve reconciliation issues between GDS and CALSTARS. Cal Grant Operations staff calls institutions directly to resolve discrepancies before the data are keyed into the CALSTARS system.

The Information Technology Division is aware of the GDS modification required to resolve the issue and is considering the inclusion of a tracking system to record the refunds and identify discrepancies as part of the Phase I enhancement.

Estimated Implementation: Interim actions completed. Permanent actions anticipated to be completed as part of the GDS Real-Time Enhancement - July 2007.

Summary of Internal Audit Finding #5: Refunds are not consistently handled in accordance with CSAC established procedures.

Actions Taken to Implement Recommendation: At the June 23, 2006, meeting, the Commission approved CSAC staff's recommendation that procedures for requesting and receiving refunds be modified as a result of the audit finding. The audit found that some refund checks from institutions were sent to the Program Compliance Branch and were opened outside the controlled environment prescribed by the Fiscal and Administrative Branch's established procedure. CSAC staff has revised its procedures by having Program Compliance staff issue a special invoice to institutions with instructions to remit checks to the Fiscal & Administrative Branch. Program Compliance Branch, Grant Operations staff and the Fiscal & Administrative Branch are continuing discussions to identify and establish these revised procedures. Additional procedures will be implemented with the enhanced modifications to the GDS system.

Estimated Implementation: Initial actions completed. Procedures will continue to be developed to ensure refunds are consistently handled in accordance with CSAC established procedures.

Summary of Internal Audit Finding #6: CSAC lacks procedures, as required by the State Administrative Manual (SAM), to collect amounts owed from institutions.

Actions Taken to Implement Recommendations: At the June 23, 2006, meeting, the Commission approved CSAC staff's recommendation to improve yearly invoicing and follow-up procedures for collecting amounts owed to CSAC by instituting a sequence of 30-, 60-, 90-, and 120-day collection letters following an institution's failure to respond to an invoice. CSAC staff will adhere to a process of imposing a gradual set of penalties for non-compliance. These procedures are consistent with the requirements stated in the State Administrative Manual (SAM).

Invoices for the past fiscal year were mailed to institutions, and 30-day notices were generated and mailed out to institutions that failed to respond. The 60-, 90- and 120-day letters will be generated by the system and mailed to institutions that continue to fail to pay their invoices. The new IPA will incorporate these procedures.

Estimated Implementation: Completed

2.2

Action/Information Item

California Student Aid Commission

Update on Status of the Recommendations cited in the Cal Grant Grade Point Average (GPA) Internal Audit Recommendations

In June of 2006, an internal audit of the Cal Grant Grade Point Average (GPA) Collection process was conducted. The purpose of Internal Audit's review was to ensure that GPA data is properly reflected in CSAC's Grant Delivery System, based on information submitted to the Commission by schools and students. Internal Audit also evaluated compliance with the time frames defined in the applicable statutory regulations for processing GPA submissions and tested compliance with internally documented procedures. Additionally, Internal Audit evaluated the processes in place to secure confidential student information submitted along with the GPA data. The final report of the audit was released to the members of CSAC's and EdFund's Audit Committees on September 29, 2006.

This presentation is designed to provide an overview of each of the findings and recommendations of the audit, and present an update on the status of the recommendations cited in the Internal Audit recommendations. The final audit report and the update are found in Tab 2.2a and 2.2b respectively.

Recommended Action: For information only. No action required.

Responsible Staff: Catalina Mistler, Chief
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Cal Grant Grade Point Average Collection Review

June 22, 2006

Audit #05-302

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I. Executive Summary

The Cal Grant Operations Branch and the Information Technology Division within the California Student Aid Commission (CSAC) are responsible for administering the operational activities for those state funded grants referred to as Cal Grants. Cal Grants are awarded to eligible students whose family's income and assets are at or below a predetermined ceiling set by the State in accordance with the provisions of the California Education Code section 69432.7(k). These grants are designed to assist students in paying post-secondary education related expenses such as tuition, fees, books, supplies and living expenses.

To apply for a Cal Grant, a student is required to submit a Free Application for Federal Student Aid (FAFSA) to the U.S. Department of Education¹ and to have their certified grade point average (GPA) reported to CSAC on or before the statutory deadline of March 2 for entitlement and competitive awards. Applicants enrolled in a California community college can be considered during a second round of competitive awards even if denied during the March cycle. GPAs must be received by CSAC no later than September 2 for this second round.

GPAs are received by CSAC in three ways:

- **Electronic upload** - Schools submit GPAs predominately through an electronic upload process into CSAC's Grant Delivery System (GDS) using WebGrants, a web based application hosted by CSAC. An e-mail confirmation is automatically sent to the schools from WebGrants confirming receipt of the GPA file(s) when submitted through this electronic upload process.
- **Manual key entry** - Schools can also submit GPA data to CSAC by manually keying each student's social security number and grade point average into WebGrants. The data is then uploaded from WebGrants to GDS.
- **Paper verification forms** - Students can obtain a hardcopy GPA Verification Form, complete the student portion and have an authorized school official complete the GPA data. The Verification Form is then mailed to CSAC by either the student or the school. CSAC staff then scan the GPA data from the form into Exigen Visiflow Explorer, a business form automation application which creates an electronic image of the form and converts the data to an electronic media for upload into GDS.

Schools and students have the ability to inquire through WebGrants via the internet to determine whether the GPA submissions have been processed. Both the Exigen Visiflow Explorer and the ability for students to check GPA submission status are relatively new enhancements to the GPA process.

CSAC staff represented to Internal Audit that many schools submit GPAs of their entire student body, regardless of whether the student requested his or her GPA to be submitted for consideration of a Cal Grant award. During the March 2006 award cycle, approximately 4.5 million GPAs were submitted to CSAC. Exhibit 1 on the next page provides a breakdown of GPAs received for the March 2006 award cycle from post-secondary institutions and high schools and the method of submission.

¹ Data submitted on the student's FAFSA is transmitted electronically by the U.S. Department of Education to CSAC.

Exhibit 1: GPA Submissions Received For the March 2006 Award Cycle

Method of Submission	Number of GPA Submissions		
	Post-Secondary Institutions	High Schools	Total
Electronic WebGrants Upload	4,193,115	155,832	4,348,947
Manual WebGrants Entry	5,444	47,739	53,183
Paper Verification Forms	12,208	58,903	71,111
Total GPAs Received	4,210,767	262,474	4,473,241

Source: Information Technology Division, as of May 25, 2006

Approximately 90,000 of the total applicants who submitted both a FAFSA and certified GPA and met the Cal Grant eligibility requirements, as determined by CSAC, were issued a Cal Grant for the March 2006 award cycle.

The Internal Audit Plan for the two year audit cycle ending December 31, 2007 identified the Cal Grant Grade Point Average Collection function as an area of potential high risk due to the significant transaction volume, statutory requirements, and the complexity of systems and processes utilized as well as the criticality of this process as GPAs are one of the factors used to determine eligibility for a Cal Grant award.

Beginning in February through June 2006, Internal Audit conducted a review of the key activities performed by the Cal Grant Operations Branch and the Information Technology Division in collecting and processing GPAs for the March 2006 award cycle. In carrying out this effort, Internal Audit reviewed the controls and evaluated the efficiency and effectiveness of the procedures and practices used to administer this function.

During this review, Internal Audit noted three practices which increase the risk of awarding Cal Grants to ineligible applicants or denying awards to qualified applicants. A discussion of each follows:

1. ***GPAs received after the March 2 statutory deadline were not consistently handled.*** Section 30023 of the California Code of Regulations states that CSAC “may, on a case-by-case basis, accept the submission of grade point average(s) from institutions after the established deadline if, in the opinion of the Executive Director, circumstances beyond the control of the applicant delayed or prevented the timely submission of the grade point average(s) by the reporting institution(s) by the established deadline. In such cases, any request to the Executive Director to accept grade point average(s) after the established deadline shall be received by the Commission no later than twenty days after the established deadline”. This request is referred to as a “GPA appeal”.

More specifically, CSAC may approve an appeal from an institution if the appeal is received on or before March 22. CSAC Management, however, represented to Internal Audit that CSAC has had a long standing internal practice of accepting GPAs through March 12 *without* an appeal request. This internally established grace period (March 3 – 12), however, has not been formally documented by CSAC staff or approved by CSAC Executive Management. Executive

Management represented that they just recently became aware of this practice in the midst of processing GPAs for the March 2006 award cycle. After a review of current law and regulations governing the late submission of GPA information, Executive Management re-evaluated this practice in early April 2006 and decided to not process any GPAs received after March 2 unless the institution submitted a GPA appeal within the time frame specified in statute. A number of GPAs were received without a written appeal and were processed after March 2 without the knowledge of Executive Management, as described below.

CSAC Executive Management represented that their decision to not process late submissions without written appeals was not made until well into the processing of the March 2006 award cycle due to the timing of when it was reported to them by the former manager of the Cal Grant Operations Branch. By the time the decision was made, a number of GPAs had already been electronically uploaded and manually input into WebGrants after the March 2 deadline by institutions without a written appeal request and had been processed for consideration of a grant award without the knowledge of Executive Management. Executive Management represented to Internal Audit that rather than invalidate the GPAs received in this manner, Executive Management determined that these GPAs could be accepted because the act of submitting the GPAs electronically for groups of students constituted “substantial compliance” with the requirement to submit a GPA appeal request. CSAC Executive Management represented that this was determined with the knowledge that CSAC staff had been in communications with most of the institutions that were submitting late GPA information.

Internal Audit recognizes that the Code of Regulations does not state the specific format in which an appeal request should be made, however, the act of merely submitting a file does not provide the necessary documentation for CSAC management to properly evaluate the request to determine if circumstances beyond the control of the applicant delayed or prevented the timely submission of the grade point average(s) by the reporting institution(s) by the established deadline. More specifics regarding the inconsistencies identified by Internal Audit in the handling of GPAs are described below.

As of the date of Internal Audit’s test work, Internal Audit reviewed 53,682 GPAs that were *electronically uploaded or manually input through WebGrants* by 118 schools between March 3 and March 22, 2006 and noted the following:

- 12,497 GPAs were received and processed for consideration of a grant from eight schools that submitted a written appeal which were approved by CSAC Executive Management.
- 41,146 GPAs were received between March 3 and March 12 and were processed for consideration of a grant without a written appeal. (Internal Audit noted that 22,347 of these GPAs were uploaded on March 3 due to technical problems with WebGrants that prevented institutions from submitting files the evening of March 2. No appeal was necessary on these 22,347 GPAs because the delay was beyond the control of the schools.)
- 31 GPAs were received between March 13 and March 22 and were processed for consideration of a grant without a written appeal.

- 8 GPAs were received between March 13 and March 22 and were not processed. CSAC staff represented to Internal Audit that these eight were marked and submitted by schools as “C2”, which indicated that the GPAs will be considered in the September 2006 community college competitive award cycle.

Internal Audit noted that 19 schools submitted written appeals for 30 *paper* GPAs which were received between March 3 and March 22 and were processed by CSAC staff for consideration of a grant. Internal Audit also noted 1,014 *paper* GPA Verification Forms which CSAC represented to Internal Audit as having been postmarked after the March 2 statutory deadline. These paper forms were received before March 22 and were not processed.

The 1,014 paper forms are for GPAs of students attending approximately 500 institutions. CSAC does not retain the postmarked envelope or date stamp the paper forms when received, therefore, Internal Audit could not validate when the GPAs were received as represented by CSAC staff. Internal Audit noted that 885 of these paper forms were signed and dated by both the student and school on or before March 2 raising the possibility that some of the forms may have been received before March 12, the internal grace period used in previous years.

Stated very simply, a student whose GPA was submitted subsequent to March 2 using a paper form was not considered for a March 2006 award as were students attending schools which submitted GPAs on behalf of the students through the WebGrants system.

Additionally, although the California Code of Regulations states that GPA appeals must be received from institutions no later than 20 days after the March 2 deadline, Internal Audit noted in its test work, GPAs with appeal letters received after March 22. Specifically, CSAC approved two appeal letters dated March 23 and 27, respectively, and processed the associated 268 GPA records for consideration in the March 2006 award cycle. In both cases, the schools believed their GPA submissions had been processed by CSAC and submitted appeal letters only upon being notified by students in late March that their GPAs had not been submitted. Internal Audit recognizes that CSAC Executive Management’s rationale for approving these appeals may have merit, however, the Code of Regulations states that appeals must be received by the Commission no later than twenty days after the March 2 deadline.

2. ***CSAC is not required by state law to validate the accuracy of grade point averages.*** For all GPAs submitted, an authorized school official is required to include a certification, executed under penalty of perjury, that the grade point averages reported are accurate. CSAC relies solely on the certification and does not perform any processes to independently validate the accuracy of GPA calculations. Lack of verification increases the risk of GPAs being intentionally or inadvertently miscalculated.

CSAC Executive Management informed Internal Audit about an incident where the State’s Department of Justice recently investigated and settled a case for \$725,000 in which the State contended that GPA calculations certified by a proprietary post-secondary institution were not accurately calculated resulting in 93 students receiving a Cal Grant for which they were not otherwise eligible. This incident was brought forward based on a “whistle-blower” tip. Without procedures in place to validate the accuracy of GPA data submitted by institutions and students, similar incidents may be occurring where GPAs are intentionally or inadvertently misrepresented.

- 3. *Students submit their GPA Verification Forms directly to the Student Aid Commission.*** California law states that it is the responsibility of the Cal Grant applicant to have his or her GPA reported to CSAC. The law is silent regarding who can report the information. Accordingly, CSAC accepts GPAs from schools and students. CSAC management and staff represented to Internal Audit that the majority of the 71,111 paper GPA Verification Forms (see Exhibit 1) mailed to CSAC were sent by students, subsequent to the school certifying the GPA. This practice results in a control weakness in that a student could easily falsify the GPA information.

Internal Audit identified several opportunities to strength internal controls and improve business processes, as summarized below:

1. Ensure compliance with the statutory requirements regarding the acceptance of GPA submissions after the March 2 statutory deadline. Additionally, establish and formally document a policy for the acceptance of GPAs to help ensure that the data is processed uniformly for all applicants.
2. Develop and implement processes to test the accuracy of GPAs submitted.
3. Ensure that personally identifiable information maintained on GPA Verification Forms is safeguarded at all times.
4. Develop a process to independently validate GPAs submitted to CSAC on paper GPA Verification Forms. Furthermore, implement additional measures to encourage the use of WebGrants for the submission of GPAs thereby reducing the risk of GPA falsification and reducing the cost of handling paper forms.
5. Implement procedures to document the date on which paper GPA Verification Forms and GPA appeal letters are received to provide evidence that GPAs are processed within statutory and Commission approved deadlines.
6. Ensure procedures are updated to reflect the activities currently performed when processing GPA Verification Forms.

Detailed information describing the six recommendations is provided in Section V of this report. The objectives, scope, methodology and key audit procedures used in Internal Audit's effort, along with the findings, recommendations, management's responses and an implementation plan are presented in the remainder of this document. Process flow diagrams depicting the activities performed by the Cal Grant Operations Branch in collecting and processing GPAs are included in Appendix A.

II. Objectives, Scope and Methodology

The key objectives of the Grade Point Average Collection Review include the following:

- Ensure that GPA data submitted to CSAC is properly reflected in the Grant Delivery System (GDS).
- Test compliance with documented procedures for processing GPA submissions.
- Evaluate compliance with the timeframes defined in the applicable statutory requirements for processing GPA submissions.
- Determine the adequacy of procedures to secure personally identifiable student information submitted as part of the GPA collection process.

The scope of this review focuses primarily on key activities performed by the Cal Grant Operations Branch and the Information Technology Branch in the collection and processing of student GPA data received from schools and students.

Internal Audit did not perform procedures during this review to validate the accuracy of the GPAs submitted. Additionally, a review of the requirements for determining an applicant’s eligibility to receive a Cal Grant award is not included in the scope of this review.

To meet the aforementioned objectives, Internal Audit examined relevant supporting documentation provided by CSAC staff, observed procedures and conducted interviews with the individuals listed in Exhibit 2 below.

Exhibit 2: Personnel Interviewed

Staff	Title – Branch	Division
Keith Yamanaka	Chief Deputy Director	Executive Office
Max Espinoza	Division Chief	Program Administration and Services
Anne Robertson	Financial Aid Manager – Cal Grant Operations	Program Administration and Services
Veronica Rodriguez	Special Assistant to Program Administration and Services Division Chief	Program Administration and Services
John Norman	Financial Aid Analyst – Cal Grant Operations	Program Administration and Services
Claudia Jimenez	Program Technician – Cal Grant Operations	Program Administration and Services
John Bays	Division Chief	Information Technology
Penni Doud	Senior Programmer Analyst – Application and Database Support	Information Technology
Souleymane Kano	Research Program Specialist – Research and Policy Analysis	Governmental Affairs and Research
Cheryl Lenz	Research Analyst	Outreach and Public Relations

Source: Internal Audit Department, February – June, 2006

III. Process Overview

The Cal Grant Operations Branch and the Information Technology Division within the California Student Aid Commission (CSAC) are responsible for administering the operational activities for state funded grants referred to as Cal Grants. A student applying for a Cal Grant is required by the California Education Code to complete and submit a Free Application for Federal Student Aid (FAFSA) to the U.S. Department of Education and to have their certified high school or college GPA reported to CSAC on or before the statutory deadline of March 2. Additionally, a student applying for a competitive Cal Grant to attend a community college has until September 2 to report their GPA. CSAC uses the certified GPA data received from the school or student and the FAFSA information obtained from the U.S. Department of Education to determine eligibility for a Cal Grant award.

A student who did not attend an accredited high school or whose GPA is more than 5 years old may submit one of the following test scores in lieu of a GPA: General Educational Development Test (GED), American College Test (ACT) or Scholastic Aptitude Test (SAT). The test score is input by CSAC staff into GDS where it is systematically converted to a GPA equivalent. For the March 2006 award cycle nearly 1,500 test scores were submitted.

One of the key functions in administering the Cal Grant program is the collection and processing of GPA data. An overview of the activities associated with the collection and processing of GPA data is presented below.

CSAC accepts certified GPA data for the March 2 award cycle beginning in November, and in mid-May for the September 2 award cycle, approximately four months prior to the statutory deadline. Applicants enrolled in a California community college who applied for, but did not receive, an award during the March 2 award cycle will automatically be considered in the September 2 competitive grant award process. GPA data is submitted to CSAC in three ways: uploaded electronically to WebGrants, manually entered through WebGrants or by mailing a paper GPA Verification Form directly to CSAC. Each method is described below.

Electronic WebGrants Upload

Schools can securely upload and submit data files containing certified GPA records to CSAC electronically using WebGrants, a web based application hosted by CSAC. These files, which contain multiple GPA records, must be submitted according to CSAC's GPA record layout specification. In previous years, these files have been submitted by schools to CSAC on diskette for upload by CSAC staff to the Grant Delivery System (GDS). Effective in 2001, these files could be uploaded and submitted directly to CSAC through WebGrants using the "GPA Upload Page" as described below.

Before uploading, editing or adding GPA data to the WebGrants system, the school must first review a GPA certification agreement displayed in WebGrants, which states that the individual submitting the GPAs is an authorized official and that the GPAs submitted are correct and accurately reported to the best of their knowledge under the penalty of perjury. The school official must then indicate acceptance of this agreement by selecting the "accept" button displayed on the screen before he or she is allowed to proceed with the GPA submission process. Once the certification is accepted, the "GPA Upload Page" is displayed where the school official enters the necessary data. Once the required information

is entered, the school official then selects the *Begin Upload* button, which uploads the file into WebGrants where the records are edited for proper layout and field values, sorted into valid and invalid categories and placed into a staging area. After the edit process is complete, a “File Upload Page” is displayed, notifying the school of the status of the each record in the upload. Schools can then view, sort and print a listing of valid GPA records or invalid records that did not pass the initial field edits for submission to CSAC. Depending on the number of invalid records, a school may decide to correct and re-upload the entire data file, or correct and submit those individual invalid GPA records by manually entering the record in WebGrants. The manual entry process is described in the section below titled “*WebGrants Manual Entry*”.

When the school is satisfied with the GPA records it intends to submit, the school selects the *Submit Records* button on the “File Upload Status Page”. When the submission process is complete, a message is displayed notifying the school that the GPA records were successfully submitted to WebGrants. Additionally, an e-mail confirmation will automatically be sent to the school confirming receipt of the GPA file(s). GPA records submitted in WebGrants will then be uploaded to GDS during the next weekly batch processing cycle that occurs every Friday. Schools can use the WebGrants “Change/View GPAs Page” to view and change GPA records that have already been submitted to CSAC before the next weekly batch processing cycle.

WebGrants Manual Entry

Schools can also submit GPA data to CSAC by manually entering the data into WebGrants “Add GPAs Page”. Once the school reviews and accepts the GPA certification agreement, the school enters the total number of new records to be created and WebGrants displays the appropriate number of blank GPA records. The school then completes each GPA record by entering the applicant’s social security number, grade point average, school code, graduation date, and GPA type. Once all the records are entered, the school selects the *Submit GPAs to CSAC* button. If there are any errors that would prevent the record(s) from being submitted to CSAC, a dialogue box will appear advising of the error. The school must correct the errors and click the *Submit GPAs to CSAC* button to resubmit the record(s). When the submission process is complete, a message is displayed notifying the school that the GPA records were successfully submitted to WebGrants. GPA records submitted in WebGrants will then be uploaded to GDS during the next weekly batch processing cycle that occurs every Friday. Schools can use the WebGrants “Change/View GPAs Page” to view and change GPA records that have already been submitted to CSAC before the next weekly batch processing cycle. Additionally, once the records are uploaded, GDS generates a GPA Summary Report by school of each GPA record uploaded. These reports are available to the respective schools via WebGrants.

Paper GPA Verification Form

An applicant can access CSAC’s website and complete the designated student portion of the GPA Verification Form. The printed form will include a bar code with the student’s data encoded on the form for use by CSAC staff during processing. Alternatively, a student can print out a blank copy of the form from CSAC’s website or obtain a hardcopy of the form from their school’s financial aid office and manually complete the designated student portion of the form. Once the applicant has completed the student designated portion of the form, he or she then hand carries the form to an authorized school official, generally the high school counselor or staff in the financial aid office, who calculate the student’s GPA and completes the school’s portion of the form. The authorized school

official must certify under penalty of perjury that the data reported is accurate to the best of their knowledge. The student or the school then mails the completed form to the CSAC post office box designated on the GPA form.

Mail Center staff picks up the mail containing the GPA Verification Forms from CSAC's post office box each day. The Mail Center staff then delivers the mail to the Cal Grant Operations Branch in mail bins. CSAC Office Assistants, supported by Student Assistants, in the Cal Grant Operations Branch open the envelopes and remove the GPA Verification Forms along with any supporting documents. CSAC represented that they visually review the envelope to determine if the postmark is March 2 or before. If the postmark is after March 2, the form is set aside and processed for consideration in the September 2 community college competitive award cycle. Additionally, based on a visual review of the forms, the CSAC Office Assistants, supported by Student Assistants, set aside any forms that cannot be scanned because the documents are damaged or contain illegible characters. If the GPA form contains a test score in lieu of a GPA, the form is set aside for manual entry into GDS, where the test score is converted into a GPA equivalent.

CSAC Office Assistants batch the forms into groups of up to 50 and then take the forms to one of the Financial Aid Analysts for processing. The analyst then scans the form by inserting the documents into the scanner sheet feeder. The scanner software, referred to as "Kofax", tracks the number of records created, which the analyst then confirms against number of forms in each batch. If the number of forms does not match the batch count, the analyst will manually recount the forms or when necessary, rescan the entire batch.

An analyst then imports the forms into Exigen Visiflow Explorer, a business form automation application, which creates an electronic image of the form and converts data to an electronic media. If the data passes a series of systematic edits in Visiflow such as valid social security number format, valid GPA format, and presence of a signature, the record is then committed to the GDS uploading queue by the analyst. If the record fails any of the data edits, the record is sent to the error queue. An analyst then reviews and researches the invalid records in the error queue and makes the appropriate corrections by viewing the scanned electronic image of the form. Once corrected, the record is committed to a queue and subsequently uploaded to GDS. For the March 2006 award cycle, Cal Grant Operations staff represented to Internal Audit that a majority of the 71,000 scanned electronic images contained at least one scanning error resulting from Kofax being unable to recognize certain characters on the form. CSAC staff indicated that they were able to correct most of these errors by visually comparing the scanned image of the GPA form and manually inputting the necessary corrections in Visiflow. If the forms contain data errors (i.e. missing a GPA or signature, invalid SSN format, GPA over 4.00, etc.), CSAC sends a letter to the applicant, referred to as the "10-day letter", requesting the applicant to file a corrected or completed form within 10 days after the mailing of the notice by CSAC. For the March 2006 award cycle, 1,460 letters were sent to applicants requesting corrected or complete information. CSAC staff represented that 406 letters were returned with corrected information and were processed for consideration of a Cal Grant award.

Daily, a lead Financial Aid Analyst requests the records in the "commit to GDS queue" be uploaded to GDS, which is referred to as the "MEG Q" process. The records in the queue are subject to a series of additional systematic edits designed to verify that the records have the correct attributes, such as a valid school code, before they are uploaded to GDS. If any records fail the MEG Q process, a report is created of the failed records which are researched by an analyst who makes the necessary corrections

and resubmits the corrected records to the MEG Q process. The GPA data on records that pass the MEG Q process are then uploaded into GDS. All processed GPA Verification Forms are filed on shelves, by batch, for a minimum of three years in an unlocked storage room.

An applicant can log onto WebGrants for Students at any time during this process to verify that his or her GPA form was received and processed into GDS if they have submitted a FAFSA. Additionally, once the records are uploaded, GDS generates a GPA Summary Report by school of each GPA record uploaded. These reports are available to the respective schools via WebGrants. However, CSAC represented that many high schools do not retain student Social Security Numbers, therefore, the schools are not able to verify the submission of a student's GPA because the GPA Summary Report lists the student's Social Security Number but not their name.

Late School GPA Submissions

A school may send a letter to CSAC requesting approval to submit a late GPA for a student. The Executive Director or her designee, such as the Program Administration and Services Division Chief, can grant that request if circumstances beyond the control of the student prevented the timely submission of the GPA. The request must be received no later than twenty days after the established deadline along with the certified GPAs which the school is requesting to submit. CSAC, however, has a long standing practice of accepting GPAs 10 days beyond the March 2 and September 2 statutory deadlines without an appeal request. CSAC management indicated that this "in-house" deadline is consistent with their "in-house" FAFSA application deadlines, which have also been extended by 10 days to allow sufficient time for the receipt of the FAFSA from the U.S. Department of Education.

IV. Key Audit Procedures

Numerous audit steps were completed by Internal Audit to review the internal controls and evaluate the efficiency and effectiveness of procedures and practices currently used to process the Grade Point Average (GPA) data received from students and schools. Key audit procedures executed along with the results are presented in Exhibit 3 below and on the pages that follow.

Exhibit 3: Key Audit Procedures Performed and Test Results

Audit Objective	Key Procedures Performed	Results
<p>A. Ensure that GPA data submitted to CSAC is properly reflected in the Grant Delivery System (GDS).</p>	<p>A.1 Internal Audit uploaded 50 records of test data to the WebGrants training environment in order to simulate the process performed by schools when uploading GPA files to CSAC using WebGrants. Internal Audit then verified that WebGrants edited the test data for proper record format and data values by submitting both valid and invalid social security number formats, school codes, and GPA values. <i>(Note: Internal Audit could not execute this procedure by reviewing the actual data submitted by schools because the upload process utilized by the Information Technology Division does not maintain GPA files once the upload is complete.)</i></p> <p>A.2 Obtained the electronic GPA files submitted by 13 schools for the March 2006 award cycle, which contained approximately 1,500 GPAs. <i>(Note: The upload process utilized by the Information Technology Division does not maintain GPA files once the upload is complete, however, these 13 files were</i></p>	<p>A.1 All data tested was edited for proper record format and data value. All test data containing valid formats and data was accepted in WebGrants. Those records containing invalid test data were rejected and the errors had to be corrected before the records were accepted in WebGrants.</p> <p><i>No exceptions noted</i></p> <p>A.2 Internal Audit noted that all the GPA records tested were accurately recorded in the GDS GPA Grant Transaction file.</p> <p><i>No exceptions noted</i></p>

Audit Objective	Key Procedures Performed	Results
	<p><i>inadvertently uploaded by the schools into the payment reporting area of WebGrants, where uploaded files are maintained, instead of the GPA Upload area. As a result, the schools resubmitted the files through the GPA upload to correct the problem. However, the files originally uploaded in the payment reporting area were retained in WebGrants, but not uploaded into GDS which allowed Internal Audit to perform this procedure.)</i></p> <p>Utilizing ACL audit analysis software, Internal Audit compared the 1,500 GPA records to the GDS GPA Grant Transaction file to ensure that GPA records contained in these 13 files were properly recorded in GDS.</p> <p>A.3 Haphazardly selected a sample of 100 paper GPA Verification Forms from the over 71,000 paper forms submitted for the March 2006 award cycle. Traced the key data presented on the form (student name, SSN, GPA, school code, and GPA type) to the GDS Grant Transaction file to ensure that the data was properly reflected in GDS.</p>	<p>A.3 Internal Audit verified that the key data on the forms tested was properly reflected in GDS.</p> <p><i>No exceptions noted</i></p> <p>Additionally, while performing the key procedures, Internal Audit had discussions with CSAC staff regarding the receipt and processing of GPA Verification Forms. CSAC management and staff represented to Internal Audit that the majority of GPA Verification Forms are mailed to CSAC by students, subsequent to the school certifying the GPA. This practice results in a control weakness in that a student could</p>

Audit Objective	Key Procedures Performed	Results
	<p>A.4 Selected 50 students out of the 1,500 who submitted SAT, ACT, or GED test scores, in lieu of a GPA for the March 2006 award cycle. Traced the key data presented on the form (SSN and test score) to the corresponding student record in GDS. Additionally, validated that the GPA equivalent, as converted by GDS, agreed to the test score conversion table provided by the Research and Policy Analysis Branch. This conversion table is developed by CSAC staff based on information received from the organizations who administer the SAT, ACT and GED. <i>(Note: As part of this review, Internal Audit did not test the methodology used by CSAC staff to create the conversion table).</i></p>	<p>easily falsify the GPA information.</p> <p><i>See Section V. Finding and Recommendation #4</i></p> <p>A.4 Internal Audit noted that the key data on the forms tested was properly reflected in GDS. Additionally, the scores tested were properly converted by GDS based on the Research and Policy Analysis Branch conversion table.</p> <p><i>No exceptions noted</i></p>
<p>B. Test compliance with documented procedures for processing GPA submissions.</p>	<p>B.1 Observed the key tasks performed by Cal Grant Operations Branch staff while processing paper GPA verification forms to evaluate compliance with documented procedures.</p>	<p>B.1 Internal Audit noted that although a desk procedure exists that provides some guidance to CSAC staff when processing GPA forms, this document has not been approved by CSAC management or updated to reflect the tasks currently performed with the implementation of the Kofax GPA Imaging Optimization System.</p> <p><i>See Section V. Finding and Recommendation #6</i></p>

Audit Objective	Key Procedures Performed	Results
		<p>Additionally, while performing the key procedure, Internal Audit noted that CSAC staff do not validate the accuracy of GPA calculations performed by the schools. Instead, CSAC relies solely on the certification from the school which states that the GPAs are correct and accurately reported. Lack of verification increases the risk of GPAs being intentionally or inadvertently miscalculated.</p> <p><i>See Section V. Finding and Recommendation #2</i></p>
<p>C. Evaluate compliance with the timeframes defined in the applicable statutory requirements for processing GPA submissions.</p>	<p>C.1 Obtained a listing of all applicants who submitted incomplete or incorrect GPA information. Requested copies of the letters sent by CSAC (or documentation listing the applicants to whom letters were sent) requesting corrected or complete GPA information. Verified that only those forms returned by the applicants within 10 days after the mailing of the notice by CSAC were processed for consideration of a Cal Grant award.</p>	<p>C.1 CSAC provided Internal Audit with a listing of 1,460 applicants who were sent letters requesting corrected or complete GPA information. CSAC staff represented that 406 applicants submitted corrected or completed forms to CSAC that were postmarked within the 10 day period and were processed for consideration of a Cal Grant award. Internal Audit, however, could not verify whether the forms were returned within 10 days after the mailing of the notice as CSAC staff do not retain the postmarked envelope or data stamp the forms when opening the mail.</p> <p><i>See Section V. Finding and Recommendation #5</i></p>

Audit Objective	Key Procedures Performed	Results
	<p>C.2 Using ACL, extracted all GPA records from the GPA Grant Transaction file that were either electronically uploaded or manually input through WebGrants between March 3 and March 22 (118 schools were identified).</p> <p>Requested the approved GPA appeal letters, authorizing CSAC to process the GPAs received after March 2 for consideration in the March 2006 award cycle.</p> <p>Compared the GPA records against the appeal letters to determine if those GPAs processed between March 3 and March 22 were supported with appeal letters.</p> <p>C.3 Internal Audit reviewed those GPA appeal letters represented by CSAC as having been received from schools for the March 2006 award cycle and approved by CSAC Executive Management as of June 5, 2006 (as of the date of Internal Audit's test work, CSAC provided Internal Audit with 29 GPA appeal letters).</p> <p>Verified that the appeal letters were received by CSAC within twenty days after the March 2 deadline and processed for consideration in the March 2006 award cycle.</p>	<p>C.2 Internal Audit identified 53,682 GPAs submitted through WebGrants by 118 schools between March 3 and March 22. Although GPA appeal letters were received and approved from only eight of the schools, all of these GPAs were processed for consideration in the March 2006 award cycle with the exception of eight GPAs, received between March 20 and March 22.</p> <p><i>See Section V. Finding and Recommendation #1</i></p> <p>C.3 Based on a review of the documentation supporting each of the 28 GPA Appeal letters, Internal Audit determined that 26 of the letters were received within the 20 day grace period. All 26 appeals were approved by CSAC and the GPA data was accurately reflected in GDS. Two appeal letters were received by CSAC after the 20 day grace period (dated March 23 and 27, respectively), yet the appeals were approved and the GPAs were processed by CSAC for consideration in the March 2006 award cycle.</p> <p><i>See Section V. Finding and Recommendation #1</i></p>

Audit Objective	Key Procedures Performed	Results
<p>D. Determine the adequacy of procedures to secure personally identifiable student information submitted as part of the GPA collection process.</p>	<p>D.1 Observed the process in which incoming mail containing personally identifiable student information submitted as part of the GPA collection process is opened, processed and stored.</p>	<p>D.1 Internal Audit noted that GPA forms containing personally identifiable student information are not adequately secured by CSAC staff. Specifically, the mail containing the GPA forms were kept in mail bins in an unsecured work area until opened. The forms were then placed in cubicles (on top of a desk or filing cabinet) for up to a week before being processed. Once processed, the documents were maintained in an unlocked storage room.</p> <p><i>See Section V. Finding and Recommendation #3</i></p>

Source: Internal Audit Department, February – June 2006

V. Findings, Recommendations and Management's Responses

Internal Audit's findings and recommendations along with management's responses resulting from this review are provided below.

Finding 1 – GPAs received after the March 2 statutory deadline were not consistently handled.

Section 30023 of the California Code of Regulations states that CSAC “may, on a case-by-case basis, accept the submission of grade point average(s) from institutions after the established deadline if, in the opinion of the Executive Director, circumstances beyond the control of the applicant delayed or prevented the timely submission of the grade point average(s) by the reporting institution(s) by the established deadline. In such cases, any request to the Executive Director to accept grade point average(s) after the established deadline shall be received by the Commission no later than twenty (20) days after the established deadline.” This request is referred to as a “GPA appeal”.

CSAC management represented to Internal Audit that a long standing internal practice has existed since 1995 of accepting GPAs through March 12 *without requiring a written appeal request*. CSAC management also represented that this internally established grace period is consistent with their FAFSA application deadline, which has also been internally extended by 10 days to allow sufficient time for the receipt of the FAFSA data from the U.S. Department of Education. This practice, however, has not been formally documented or approved by CSAC Executive Management. Executive Management represented that they just recently became aware of this practice in the midst of processing the GPAs for the March 2006 award cycle through a report given by the former Cal Grant Operations Manager in early April to Executive Management. Executive Management re-evaluated this practice and its authority to accept GPAs after the March 2 statutory deadline upon being informed by the former manager of the Commission's practice and requested more information on what was permissible by state law and regulations. As a result, Executive Management made a decision to not process any *paper* GPA Verification Forms postmarked after March 2 unless an institution submitted a GPA appeal within the time frames specified in the statutory regulations.

As part of the test work for this review, Internal Audit noted the following regarding GPA submissions after March 2, 2006:

- **53,595 electronic GPAs uploaded into WebGrants by 25 institutions:**
 - 53,327 uploaded March 3 - 22
 - 268 uploaded on or after March 23

Only three out of the 25 institutions submitted an appeal for the late GPA submissions. One appeal was associated with GPAs uploaded March 3 – 22. The other two appeals were associated with the GPAs uploaded on or after March 23. In total, the three appeals were associated with 12,758 electronic GPAs. CSAC, however, accepted all 53,595 GPAs for consideration in the March 2006 award cycle.

- **370 manually input GPAs into WebGrants by 122 institutions:**

- 355 manually input March 3 - 22
- 15 manually input on or after March 23

Seven schools submitted appeal requests for late submissions associated with manually input GPAs for seven students. An additional 340 GPAs received from 95 schools were processed without an appeal in the March 2006 award cycle.

The remaining 23 GPAs manually input into WebGrants (of which 8 were received March 3 - 22 and 15 on or after March 23) were received from 20 schools, were not processed, and will be considered for the September 2006 community college competitive award cycle.

- **1,014 paper GPA Verification Forms submitted for students who attended approximately 500 institutions.**

Based on Executive Management's decision to not process any *paper* GPA Verification Forms postmarked after March 2 without an appeal, 1,014 *paper* GPA Verification Forms were not processed for consideration of a Cal Grant. Executive Management represented to Internal Audit that this decision was based on consultation from the Attorney General's Office on what was permissible within existing state law and regulations. In addition, 19 schools provided CSAC with appeal letters after March 2 associated with 30 GPAs in which CSAC staff processed for consideration of a grant.

Internal Audit cannot take a position as to whether or not these 1,014 paper forms should have been processed but merely points out that CSAC management's decision to not accept these forms is not consistent with practices utilized in previous years when paper GPA Verification Forms postmarked or received before March 12 were processed without an appeal.

Additionally, CSAC management's decision to not accept these forms is not consistent with the current handling of GPAs electronically uploaded or manually input through WebGrants for the March 2006 cycle. Stated very simply, a student whose GPA was submitted subsequent to March 2 using a paper form was not considered for a March 2006 award as were students attending schools which submitted GPAs through the WebGrants system. The method of submitting the GPA information for the March 2006 award cycle may have resulted in a different outcome in the award of a Cal Grant based on the method of submission.

Internal Audit inquired with CSAC management regarding their decision to process the GPAs received from schools through WebGrants after March 2 and to not accept any of the 1,014 paper GPA Verification Forms postmarked after March 2 for consideration in that award cycle. Executive Management represented that they were not made aware that the GPAs submitted through WebGrants after the March 2 deadline had been processed for consideration in the March 2006 award cycle until notified by the former Cal Grant Operations Manager in early April. Internal Audit noted that 22,347 out of the approximate 54,000 GPAs submitted through WebGrants were uploaded on March 3 due to technical problems with WebGrants that prevented institutions from submitting files the evening of March 2. CSAC management indicated that these files were accepted without an appeal request because the delay was beyond the control of the schools.

Internal Audit determined that an additional 18,830 GPAs were submitted and uploaded to GDS from 63 institutions between March 4 and March 22 without an approved GPA appeal letter. Management represented to Internal Audit that the GPAs, although received after the March 2 statutory deadline, were processed for consideration in the March 2006 award cycle on the legal premise that the act of submitting the GPAs electronically by the institutions constituted “substantial compliance” with the requirement to submit a GPA appeal request. Internal Audit recognizes that the law does not state the specific format in which an appeal request should be made, however, the act of merely submitting a file does not provide the necessary documentation for CSAC management to properly evaluate the request to determine if circumstances beyond the control of the applicant delayed or prevented the timely submission of the grade point average(s) by the reporting institution(s) by the established deadline. Internal Audit also noted that eight GPAs submitted from seven institutions through WebGrants manual entry between March 20 and March 22 were not processed. This practice, however, is not consistent with CSAC management’s assertion that any GPA files submitted within twenty days after the statutory deadline, or by March 22, constituted a valid appeal request and should be processed for consideration in the March 2006 award cycle.

Additionally, Internal Audit noted that CSAC Management approved two appeal letters dated subsequent to the 20 day period (March 23 and 27, respectively) and processed the GPAs for consideration in the March 2006 award cycle. CSAC Management approved the appeals because, in both cases, the schools attempted to submit the GPAs before the March 22 appeal deadline. The schools, however, did not submit appeal letters until late in March when they were notified by students that their GPAs had not been submitted. Internal Audit recognizes that CSAC Executive Management’s rationale for approving these two appeals may have merit, however, the Code of Regulations states that appeals must be received by the Commission no later than twenty days after the March 2 deadline and is silent as to the acceptance of appeals beyond this date for extenuating circumstances.

Recommendation 1 – Ensure compliance with the regulatory requirements regarding the acceptance of GPA submissions after the March 2 statutory deadline. Additionally, establish and formally document a policy for the acceptance of GPAs to help ensure that the data is processed uniformly for all applicants.

CSAC should consistently comply with the regulatory requirements for processing GPAs submitted directly through WebGrants and in paper after the March 2 statutory deadline. Specifically, GPAs received subsequent to the March 2 statutory deadline should only be accepted and processed by CSAC if the school submitted a written appeal to CSAC for consideration no later than twenty days from March 2.

Additionally, the Cal Grant Operations Branch, with support from the Information Technology Division, should develop and implement a policy for the acceptance of GPA data to help ensure that the GPA data is processed uniformly for all applicants. The policy should also define the criteria for approving appeals, particularly in extenuating circumstances, including but not limited to malfunctions to WebGrants which could prevent schools from submitting GPA data by the statutory deadlines. The policy should be consistently applied to all Cal Grant applicants regardless of whether GPAs are submitted to CSAC directly through WebGrants or in paper. The policy should be approved by CSAC Executive Management and reviewed periodically to ensure that it reflects current practices. Moreover,

CSAC should formally and regularly communicate the documentation and submission requirements to schools and applicants for appeals.

Management's Response to Recommendation 1 – CSAC Management agrees a reevaluation of the GPA submission process is appropriate. CSAC staff is pursuing amendments to the existing regulations to clarify the issues involved in late submittals of GPAs.

As pointed out in this Internal Audit Review, a number of GPAs were electronically uploaded and manually input into WebGrants after the March 2 deadline by institutions through March 12 without a written appeal request consistent with the long-standing internal practice of accepting GPAs and FAFSA records through March 12 without an appeal request. While CSAC Executive Management was unaware of this practice until it was identified well into the processing of the March 2006 award cycle, a policy decision was made to end this practice with respect to any pending late GPA submittals. It was also determined that some of the pending late GPA submittals could be accepted under certain circumstances.

Current regulations under Title 5, Section 30023(c) California Code of Regulations state the following:

“The Commission may, on a case-by-case basis, accept the submission of grade point average(s) from institutions after the established deadline, if, in the opinion of the Executive Director, circumstances beyond the control of the applicant delayed or prevented the timely submission of the grade point average(s) by the reporting institution(s) by the established deadline. In such cases, any request to the Executive Director to accept grade point average(s) after the established deadline shall be received by the Commission no later than twenty (20) days after the established deadline and the computed grade point average(s) shall be included with the request.”

Executive Management determined that electronic submissions involving multiple students could be processed because it could reasonably be concluded that a late electronic submittal of multiple GPAs by a school was beyond the control of any particular individual student whose GPA was included in the multiple GPAs. The electronic submittal by the school after the deadline could be considered to be a request for the late submittal of the GPAs. Thus, electronic submittals meeting these conditions constituted substantial compliance with the regulation relating to requests for late submittals of GPA. This was determined with the knowledge that CSAC staff had been in communications with most of the institutions that were submitting late GPA information for multiple students.

However, the substantial compliance reasoning was implemented by applying it to all electronic GPA submittals submitted after the deadline, whether the file contained multiple GPA information or not. The policy decision to accept late GPA submittals under the substantial compliance reasoning was not intended to apply to single-student electronic GPA uploads submitted by schools after the deadline without a written appeal.

The difference in treatment between late paper GPA submittals and late electronic submittals of multiple GPAs is a function of the current regulation governing late submittals. The current regulation requires a showing that the late submittal was beyond the control of the student. The substantial compliance reasoning cannot be applied to late paper GPAs because, absent a written explanation establishing that the late submittal was beyond the control of the student, the circumstances do not allow for a reasonable conclusion that the late submittal was beyond the control of the student. Secondly, the current regulation also does not authorize appeals by students; it expressly authorizes appeals only by schools. This was significant in determining that the 1,014 paper GPA Verification Forms that were postmarked after the March 2 statutory deadline and received before March 22, 2006, could not be processed, because it could not be determined whether a late paper GPA had been submitted by a student or a school. Further, the late GPA submittals did not include certificates of mailing or any appeal from schools on behalf of these students.

CSAC has proposed regulatory changes that would allow students to request late submittals of GPAs and that would extend the timeframe to request late submittals of GPAs for students eligible for entitlement awards. Better notification to students and schools of the deadline and requirements for late GPA submittals is also being considered. The proposed regulatory changes are currently in the preliminary steps of the regulatory process. CSAC staff intends to present updates on the proposed regulations and present other recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

Finding 2 – CSAC does not validate the accuracy of GPA data submitted by schools and students.

A student's GPA is one of the primary factors in determining a student's eligibility for a Cal Grant award. The GPA value is the average of all grades received from classes completed by a student while in high school or college. The California Education Code and the Cal Grant Manual, a procedures manual developed by CSAC staff to assist schools in administering Cal Grant related activities, provides specific details on how GPAs must be calculated. The GPA calculation is rather complex since certain classes, for example, physical education and reserve officer training corps (ROTC) must be excluded from the calculation. Having to take into consideration grades for courses that cannot be included in the GPA computation increases the risk of errors, particularly for those institutions, such as high schools that generally perform the calculations manually.

CSAC is not required by state law to validate the accuracy of GPAs. For all GPAs submitted, an authorized school official is required to include a certification, executed under penalty of perjury, that the grade point averages reported are accurate. CSAC relies solely on the school certification and does not perform any processes to independently validate GPAs for accuracy. CSAC currently has five auditors in its Program Compliance Branch who are responsible for conducting compliance reviews of post secondary institutions participating in the Cal Grant program. However, CSAC management represented that the Program Compliance Branch currently reviews only 50 of the approximately 370 Cal Grant participating institutions each year and does not have sufficient resources to allow staff to expand their reviews to include such procedures in their test work and to expand their reviews to high schools.

CSAC Executive Management informed Internal Audit about an incident where the State's Department of Justice recently investigated and settled a case for \$725,000 with a proprietary post-secondary institution in which the State contended that GPA calculations certified by the institution were inaccurate and resulted in 93 students receiving a Cal Grant for which they were not otherwise eligible. This incident was brought forward based on a "whistle-blower" tip. Without procedures in place to validate the accuracy of GPA data submitted by institutions and students, similar incidents may be occurring at other institutions where GPAs are intentionally or inadvertently miscalculated.

Recommendation 2 – Develop and implement processes to test the accuracy of GPAs submitted.

CSAC should develop and implement procedures to validate the accuracy of student GPAs being submitted to CSAC. Consideration should be given to the following:

- CSAC's Program Compliance staff should expand the scope of their reviews conducted at post secondary institutions to include a review of the institution's methodology for calculating GPAs.
- The Cal Grant Operations Branch should review schools' methodologies for calculating GPAs. It may also be necessary for CSAC's Information Technology Division to assist Cal Grant Operations staff in reviewing the computer code for those schools who have systems that automatically calculate the GPAs.
- CSAC staff could periodically select a sample of GPAs, as reported by high schools and post secondary institutions, and recalculate the data. The school would be required to provide documentation, such as a transcript or other records to support the GPA calculations for the items sampled by CSAC.

Management's Response to Recommendation 2 – Although an authorized school official is required to include a certification, executed under penalty of perjury, that the grade point averages reported are accurate, CSAC Management agrees a reevaluation of the GPA submission process is appropriate given the potential risk of GPA's being intentionally or inadvertently miscalculated. CSAC's Cal Grant Operation's staff will work collaboratively with the Program Compliance staff to explore the expansion of the scope of the reviews conducted at post secondary institutions to include a review of the institution's methodology for calculating GPA's. This approach will require additional resources. CSAC Management will consider all the options detailed in the Audit Review and others provided by CSAC staff. CSAC staff intends to present their recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

Finding 3 – Cal Grant GPA Verification Forms, which contain personally identifiable student information, are not adequately secured during or subsequent to processing.

During the March 2006 award cycle, CSAC received over 71,000 paper GPA Verification Forms. The forms, which contain personally identifiable information, such as student name, address, date of birth, and social security number are not adequately safeguarded by CSAC staff. Staff from the Mail Center retrieves the mail containing GPA Verification Forms from the post office and deliver the documents to the Cal Grant Operations Branch in mail bins. The bins are stacked in an unsecured work area for up to two weeks until the CSAC staff, with support from Student Assistants, have an opportunity to open the mail. Once the mail is opened and sorted, the documents are then distributed to one of the three Financial Aid Analysts who process the forms. The analysts keep the forms in their cubicle (on top of the desk or on top of filing cabinets) for up to a week while the forms are being processed. Once the forms are processed, the documents are maintained in an unlocked storage room on shelves for three years. These documents are accessible to anyone who enters the storage room, increasing the likelihood of theft or other wrongdoings. Documents older than three years are then shredded.

Recommendation 3 – Ensure that personally identifiable information maintained on GPA Verification Forms is safeguarded at all times.

CSAC management should formally develop and implement procedures to ensure that sensitive student data on GPA Verification Forms are secured at all times to minimize the likelihood of theft or other wrongdoings. Examples of such measures include storing documents in a locked room or in file cabinets.

Management's Response to Recommendation 3 – While CSAC's Cal Grant Operations Branch is housed in a secure building with restricted badge access required, CSAC Management agrees that a reevaluation of current procedures is appropriate to ensure that sensitive student data on GPA Verification forms is secured at all times. CSAC staff will formally develop written procedures and adopt measures to minimize the likelihood of theft or other wrongdoings. CSAC staff has been working with the space planners to ensure that a secure mail processing and document scanning room is available in CSAC's new facilities. CSAC staff intends to present their recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

Finding 4 – Students often mail paper GPA Verification Forms directly to CSAC, increasing the risk of the GPA being falsified by the student.

According to the California Education Code, it is the responsibility of the Cal Grant applicant to have his or her grade point average reported to the Commission. The process requires the student to complete the student portion of the form and for the school to provide, and certify the accuracy of, the student's GPA information. The school, or in most cases, the student per CSAC then mails the completed form to CSAC. This process increases the risk that a student may falsify the GPA information. CSAC staff represented to Internal Audit that a number of high schools have implemented policies that prevent school officials from handling documents containing students' social security numbers and, therefore, prohibits the school from mailing the Verification Form to CSAC.

Additionally, CSAC staff represented to Internal Audit that there have been a few instances where the GPA on Verification Forms appear to have been altered. In such cases, CSAC staff contact the school to confirm the GPA data. However, CSAC does not have a policy that requires maintaining documentation evidencing the follow-up efforts performed to confirm the GPA data.

Internal Audit recognizes that CSAC has explored ways to require all schools to submit GPA data to CSAC rather than allow students to handle the forms. Specifically, CSAC supported California Assembly Bill 1241 (AB 1241) which was introduced in February 2005 and would have required public and private high schools to report the GPAs of all graduating students potentially eligible for a Cal Grant award directly to CSAC. However, AB 1241 was amended several times in such a way that changed the intent of the bill from requiring institutions to submit GPA data directly to CSAC to a requirement where CSAC merely reports GPA statistics to the legislature. This bill, however, was not signed by the Governor and, therefore, not enacted into law.

Recommendation 4 – Develop a process to independently validate GPAs submitted to CSAC on paper GPA Verification Forms. Furthermore, implement additional measures to encourage the use of WebGrants for the submission of GPAs thereby reducing the risk of GPA falsification and reducing the cost of handling paper forms.

CSAC management should develop a process, such as emailing or calling schools, to independently validate or confirm the accuracy of GPAs submitted to CSAC on paper GPA Verifications Forms. This process will help reduce the risk of GPAs mailed to CSAC by the student from being falsified.

Additionally, the Outreach and Public Relations Division should continue to work collaboratively with the School Support Services Branch to conduct training sessions and publish literature providing guidance for schools on submitting GPAs electronically via WebGrants, thereby reducing the risk of GPA falsification and reducing the cost of handling paper GPA Verification Forms. CSAC should also consider convening a workgroup, similar to the group proposed in AB 1241, to explore other steps that can be taken to increase the number of GPAs that are submitted electronically, thus further increasing the efficiency of GPA submissions.

Management's Response to Recommendation 4 – California Education Code (CEC), Section 69433 authorizes CSAC to develop supplemental applications to be utilized in obtaining essential information to accomplish the objectives of individual Cal Grant programs. Therefore, CSAC staff developed the GPA Verification Form and requires each reporting of grade point averages to include a certification by a school official, executed under penalty of perjury, that the grade point averages reported are accurate. CSAC staff has also worked to provide increased training on the GPA upload process to high schools and postsecondary institutions and will continue these efforts. This recommendation will be given serious consideration; however, CSAC Management recognizes this proposal will increase the workload for both CSAC and institutions. CSAC staff intends to present their recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

Finding 5 – Documentation is not retained to substantiate the dates GPA Verification Forms and GPA Appeals were received.

A student applying for a Cal Grant is required by California Education Code to submit or his or her certified high school or college GPA to CSAC. The GPA must be received or postmarked no later than March 2. Furthermore, a student who submits a timely but incomplete or incorrect GPA Verification Form has ten days after the mailing of notice by CSAC to file a corrected or completed GPA. Similarly, an institution who submits a GPA appeal to CSAC, requesting approval to submit GPAs after the March 2 deadline, must do so no later than March 22 in order for the request to be considered by CSAC Executive Management.

For the March 2006 award cycle, over 71,000 GPA Verification Forms were received. CSAC represented that 1,014 of these forms were postmarked after March 2, 2006 and, therefore, were not processed since the school had not submitted an appeal letter. Additionally, CSAC management represented that 406 of the 1,460 ten day correction letters sent to students who submitted a timely but incomplete or incorrect GPA Verification Form were returned to CSAC before the deadline and were processed for consideration in the March 2006 award cycle.

Internal Audit, however, could not perform its intended test procedures to verify whether the forms were obtained within the time frames defined in the statutory regulations as CSAC staff does not retain any evidence substantiating the dates the forms were received or postmarked. Lack of date validation controls may result in awarding Cal Grants to ineligible applicants or denying awards to qualified applicants. For time sensitive information, such as GPA submittals, best practices suggest use of a date stamp for proof of receipt and time and date validation.

Recommendation 5 – Implement procedures to document the date on which paper GPA Verification Forms and appeal letters are received to provide evidence that GPAs are processed within statutory and Commission approved deadlines.

The Cal Grant Operation Branch staff should consider retaining the envelopes of all GPA Verification Forms postmarked after the statutory deadline in order to have documentation in case a dispute is raised regarding when a late GPA submission was received. Additionally, CSAC should develop procedures to date stamp GPA Verification Forms and appeals in order to provide documentation that the forms were postmarked before statutory deadlines.

Management's Response to Recommendation 5 – CSAC Management recognizes the need to document the date on which paper GPA Verification Forms and appeal letters are received. CSAC's Cal Grant Operations Branch recently procured an electronic date stamp machine and will develop and implement formal procedures to date stamp all GPA Verification Forms and appeals in order to provide documentation that the forms were postmarked before statutory deadlines. In addition, CSAC staff will consider retaining the envelopes of all GPA Verification Forms. CSAC staff intends to present their recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

Finding 6 – Documented procedures do not reflect the current tasks performed in processing GPA forms.

CSAC recently implemented Kofax, a document management and imaging application, to process paper GPA Verification Forms received for the March 2006 Cal Grant award cycle. Although CSAC has an informal written desk guide of procedures in place for processing GPA forms, these documents have not been updated to reflect the process changes resulting from the implementation of Kofax. CSAC management provided Internal Audit with updated process flow diagrams which include the Kofax application and represented that they intend to create more detailed written procedures sometime after the March 2006 award cycle is complete.

Recommendation 6 – Ensure procedures are updated to reflect the activities currently performed when processing GPA Verification Forms.

CSAC management should formally document the procedures for processing GPA forms as soon as possible. These procedures should be periodically reviewed and revised, as needed, to ensure that they reflect current practices and to help ensure that staff are processing the forms accurately and consistently.

Management's Response to Recommendation 6 – As stated in this finding, CSAC's Cal Grant Operations Branch recently procured and implemented the Kofax document management and imaging application and developed process flow diagrams reflecting the GPA Verification Form process change. CSAC Management concurs that the Cal Grant Operations Branch should revise and formally document the procedures to ensure that they reflect the current practices and to help ensure staff are processing the GPA Verification Forms accurately and consistently. CSAC staff intends to present their recommendations for implementing the audit findings to the Commission at regularly scheduled Commission meetings during the 2006-2007 fiscal year.

VI. Implementation Plan for Recommended Actions

Exhibit 3 below presents Internal Audit's recommended actions resulting from this review. The assigned individuals responsible for ensuring that the actions are implemented are also included.

Exhibit 3: Recommended Actions

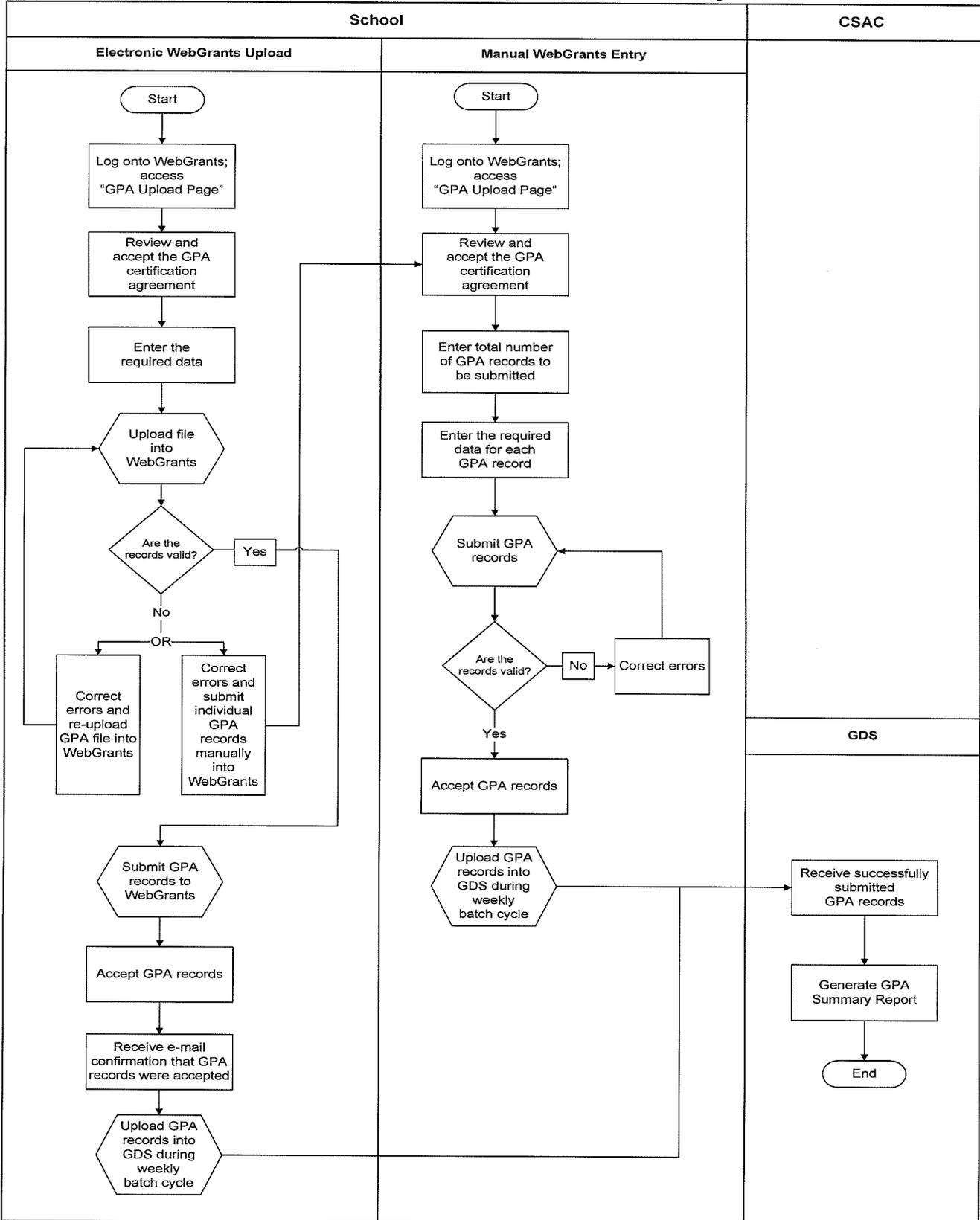
Recommended Actions	Assigned Lead
<p>1. <i>Ensure compliance with the regulatory requirements regarding the acceptance of GPA submissions after the March 2 statutory deadline. Additionally, establish and formally document a policy for the acceptance of GPAs to help ensure that the data is processed uniformly for all applicants.</i></p>	<p>Chief, Program Administration and Services Division, Manager, Cal Grant Operations Branch and Chief, Information Technology Division</p>
<p>2. <i>Develop and implement processes to test the accuracy of GPAs submitted.</i></p>	<p>Chief, Program Administration and Services Division, Chief, Information Technology Division, Chief, Management Services Division, Manager, Program Compliance Branch and Manager, Cal Grant Operations Branch</p>
<p>3. <i>Ensure that personally identifiable information maintained on GPA Verification Forms is safeguarded at all times.</i></p>	<p>Manager, Cal Grant Operations Branch</p>
<p>4. <i>Develop a process to independently validate GPAs submitted to CSAC on paper GPA Verification Forms. Furthermore, implement additional measures to encourage the use of WebGrants for the submission of GPAs thereby reducing the risk of GPA falsification and reducing the cost of handling paper forms.</i></p>	<p>Chief, Outreach and Public Relations Division, Manager, School Support Services Branch, Manager, Cal Grant Operations Branch and Manager, Program Compliance Branch</p>
<p>5. <i>Implement procedures to document the date on which paper GPA Verification Forms and appeal letters are received to provide evidence that GPAs are processed within statutory and Commission approved deadlines.</i></p>	<p>Manager, Cal Grant Operations Branch</p>
<p>6. <i>Ensure procedures are updated to reflect the activities currently performed when processing GPA Verification Forms.</i></p>	<p>Manager, Cal Grant Operations Branch</p>

Source: Internal Audit Department, February – June, 2006

It will be the responsibility of CSAC's new Internal Auditor to meet with the assigned leads reflected in Exhibit 3 to evaluate the implementation and progress of all corrective actions identified as part of this review.

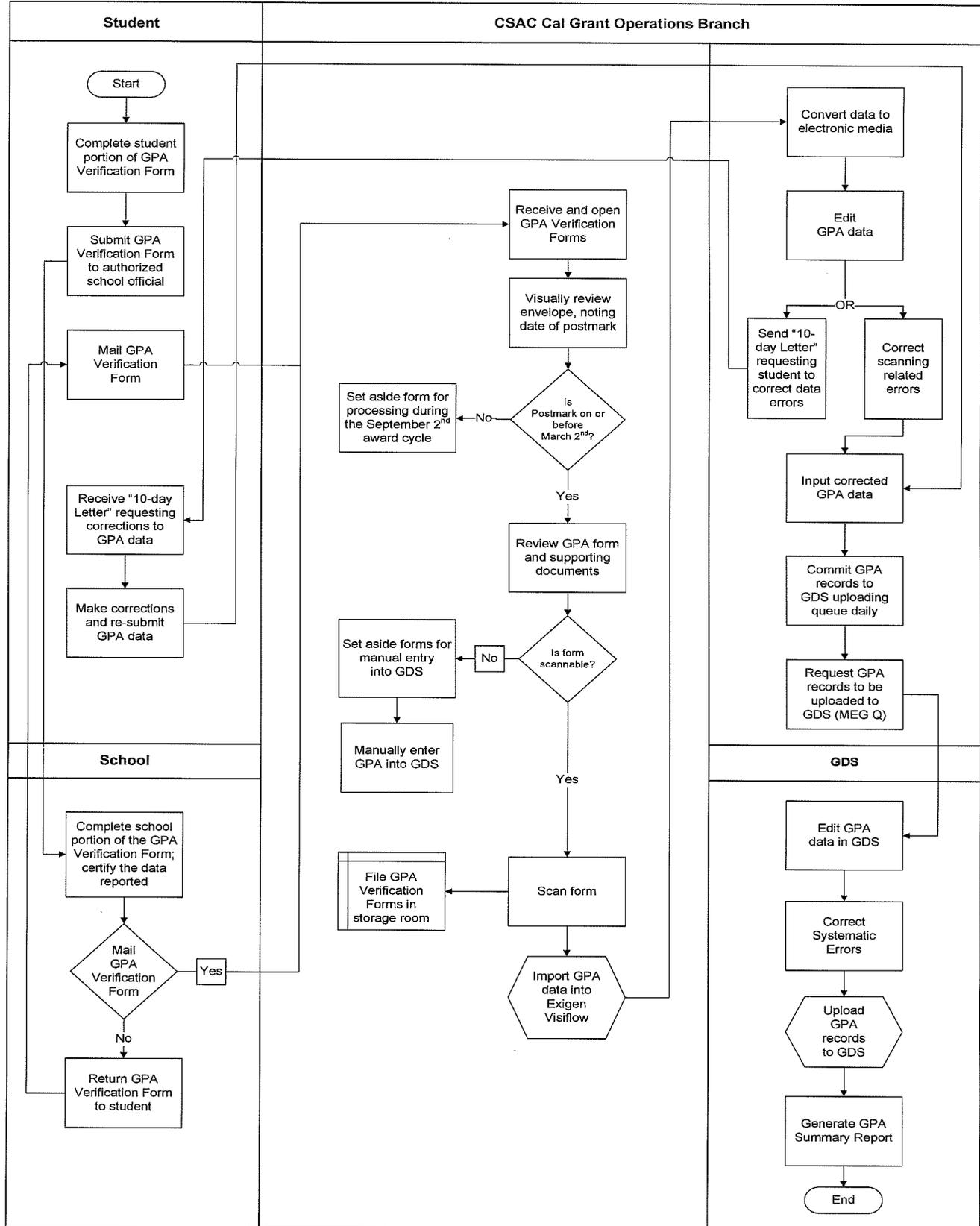
Appendix A

High Level Flowchart for the WebGrants Electronic Upload and Manual Entry Processes



Source: Audit Services Department, February – June, 2006

High Level Flowchart for the Processing of Paper GPA Verification Forms



Source: Audit Services Department, February – June, 2006

Update on Status of the Recommendations cited in the Cal Grant Grade Point Average (GPA) Internal Audit Recommendations

Summary of Internal Recommendation Audit #1: Ensure compliance with the statutory requirements regarding the acceptance of GPA submissions after the March 2nd statutory deadline. Additionally, establish and formally document a policy for the acceptance of GPAs to help ensure that the data is processed uniformly for all applicants.

Update on Recommendation #1:

CSAC staff completed the process of the Commission's adoption of an emergency regulatory change to clarify the late GPA submittal process. CSAC staff is currently in the final stage of the rulemaking process to enact permanent amendments to the regulations. The process detailed in this regulation will ensure consistent treatment of GPAs. All GPAs submitted late for the 2007-2008 academic year will be required to follow the proposed regulation to be considered.

CSAC staff is working to "switch-off" the medium used to upload electronic GPAs via WebGrants after March 2nd. Any request for upload after the deadline will have to be in writing, and consistent with regulations Section 30023 (c), addressing the appeal process for late submission of GPAs.

Furthermore, Cal Grant Operations staff will continue to ensure that paper GPA forms received after post mark date of March 2 are date-stamped and set aside for the September award cycle. CSAC staff will also run queries after the March 2 deadline to determine if GPAs were received past the deadline to validate that the preventative measures implemented were successful.

Estimated Implementation: *Beginning in the 2007-2008 academic year*

Summary of Internal Audit Recommendation #2: Develop and implement processes and procedures to test the accuracy of GPAs submitted to CSAC.

Update on Recommendation #2: Cal Grant Operation Branch staff, in collaboration with Internal Audit, will evaluate GPAs calculated and submitted by a selected sample of high schools to determine if this is an area of significant concern. Initial proposal is to visit approximately thirty schools and recalculate the GPAs they submitted in line with the requirements. Once an assessment is made and data is evaluated, further action will be recommended based on the results of these evaluations. Similar evaluation will be recommended for post-secondary school institutions.

Estimated Implementation: Short term: April, 2007; Long Term: September 2007.

Summary of Internal Audit Recommendation #3: Ensure that personally identifiable information maintained on GPA Verification Forms is safeguarded at all times.

Update on Recommendation #3: As a short term measure, Commission staff has begun to store documents in file cabinets that are locked. Management is also inculcating prudent security practices among staff by way of providing in-house training with the help of the Commissions Security Officer on handling sensitive information. Also management is ensuring staff is taking appropriate steps to lock sensitive data away when they are not at their work stations.

The GPA forms were kept in house in case there was a request to verify data resulting from an appeal, although to-date, Cal Grant Operations staff has not received any requests for a copy of the GPA once it has been processed. With the implementation of an imaging process where the GPA forms are now stored on Optical files and can be reproduced on request, the need to keep paper copy appears redundant. Therefore, Commission staff is seeking a legal opinion as to whether these documents can be moved to offsite storage or the originals destroyed.

Estimated Implementation: Short Term: Ongoing; Long Term: September 2007.

Summary of Internal Audit Recommendation #4: Develop a process to independently validate GPAs submitted to CSAC on paper GPA Verification Forms. Furthermore, implement additional measures to encourage the use of WebGrants for the submission of GPAs thereby reducing the risk of GPA falsification and reducing the cost of handling paper forms.

Update on Recommendation #4: Since all of the paper GPA forms are manually processed, any forms with alterations or white-outs are being set aside and the schools in question are called to verify the data. A call log is kept to track the frequency of such alterations. Furthermore, the School Support Services Branch is continually conducting training and providing guidance for schools on submitting GPAs electronically via WebGrants.

Estimated Implementation: Completed

Summary of Internal Audit Recommendation #5: Implement procedures to document the date on which paper GPA Verification Forms and appeal letters are received to provide evidence that GPAs are processed within statutory and Commission approved deadlines.

Update on Recommendation #5: Beginning March 2, 2007 Cal Grant Operations Staff will retain the envelopes of all GPA forms that are postmarked on or after March 2. The forms will also be dated stamped with the receipt date. Those that are post marked after the March 2nd deadline will be set aside and processed later for the September award

cycle. Since these GPA forms will be scanned and made available via Optical, the date-stamp on these forms will provide evidence in case of an appeal.

Estimated Implementation: March 2, 2007

Summary of Internal Audit Recommendation #6: Ensure procedures are updated to reflect the activities currently performed when processing GPA Verification Forms.

Update on Recommendation #6: CSAC Staff will work on formalizing the procedures currently used and kept in various locations and make it available to staff handling the process. The procedures will be updated on an ongoing basis based on any changes to process.

Estimated Implementation: August 31, 2007

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Information Item

California Student Aid Commission

Status on California Student Aid Commission's (CSAC's) Pending Legal Matters

Audit Committee Chair Johnston has requested to be briefed at each meeting regarding any Student Aid Commission legal matters.

Recommended Action: No action is required.

Responsible Staff: Kathleen Lynch
Deputy Attorney General
Office of the Attorney General
Department of Justice

2.4

Action/Information Item

California Student Aid Commission

Discussion Regarding the Commission's Chief Audit Executive Position

Commission Audit Chair Johnston provided the following language for discussion regarding the Student Aid Commission's Chief Audit Executive Position.

The Commission is responsible for administering a billion dollar Grant Program that has not been sufficiently audited. Unlike the FFEL programs managed by EDFUND, there are no external audits required annually to audit compliance and internal controls of the Grant Program. The only internally directed audits that have been performed were the two completed in 2006 plus the one currently underway by the Department of Finance. The Commission's internal audit function responsible for Grant Program audits currently includes one Chief Audit Executive and two staff auditors. The Chief Audit Executive reports functionally to the Chair of the Audit Committee and administratively to the Executive Director. The California Department of Personnel Administration recently approved this Chief position; however, the posting for applicants has been temporarily put on hold when it was noted that the responsibilities had been expanded beyond Grant Program audit activities to include certain FFEL Program responsibilities. Any such expansion should be addressed through the ongoing Roles and Responsibilities Project. Additionally, it was noted that the desirable skills for the Chief position stated on the job posting did not require the applicant to be a Certified Internal Auditor as long as the individual was actively pursuing such certification.

Discussion items for the Chief Audit Executive position:

1. Should staff move forward to fill this position with the understanding that the individual is responsible only for Grant Program audits unless otherwise expanded as a result of the Roles and Responsibilities Project?
2. Should an individual be hired who is not already a Certified Internal Auditor?
3. Should the requirements be revised to expect the applicant to currently have at least one of the following designations: Certified Internal Auditor, Certified Public Accountant, or Certified Information Systems Auditor?

In regards to the two staff auditor positions, one is currently filled and the other is vacant. Commission staff will provide a briefing on current activities to fill this vacant staff auditor position.

Note: CSAC staff has enclosed the additional background information.

Responsible Person: Commission Audit Committee Chair Johnston

CHRONOLOGY OF EVENTS

April 2006	<ul style="list-style-type: none"> BSA Audit recommends that the Student Aid Commission replace its current chief of internal audits with an individual who is free from the appearance of organizational and personal impairments to independence.
June 2006	<ul style="list-style-type: none"> The Commission's Audit Committee determined that the roles of the two audit functions will be determined upon hiring the new CSAC Audit Chief. The Commission unanimously approved to separate the CSAC/EDFUND internal auditor position into two separate positions. CSAC staff begins work on obtaining Department of Administration (DPA) approval for a Senior Management Auditor classification.
December 2006	<ul style="list-style-type: none"> In support of the previous decision by the Commission, Chair Fousekis instructs the Executive Director to hire a CSAC Audit Manager. CSAC receives approval from DPA for Senior Management Auditor classification.
January 2007	<ul style="list-style-type: none"> CSAC advertises for Senior Management Auditor and begins recruiting applications. Commission Audit Committee Chair Johnston instructs Management Services Division Chief to place a hold on hiring an Audit Manager and place the topic for discussion at the next Audit Committee Meeting.

CERTIFICATIONS

Per DPA, the Senior Management Auditor classification does not require certifications as a minimum requirement. The Commission does not have authority to require specific audit certifications. However, the Commission can indicate desired qualifications on the job opportunity bulletin. (See Tab.4d) Below are common desired certifications for the auditor classification.

- Certified Internal Auditor (CIA): The professional credential for internal auditors.
- Certified Public Accountant (CPA): The accepted standard of achievement among public accountants.
- Certified Information Systems Auditor (CISA): The accepted standard of achievement among information systems audit, control and security professionals.
- Certified Government Auditing Professional (CGAP): A specialty certification designed specifically for and by government auditing practitioners.
- Certified Financial Services Auditor (CSFA): A specialty certification that measures an individual's knowledge of, and proficiency in, audit principles and practices within the banking, insurance, and securities financial services industries.

Background Information on the Commission's Chief Audit Executive Position

In its April 2006 audit report, BSA identified a potential personal impairment to independence to the EDFUND Chief Audit Executive indicating that "Student Aid has the statutory responsibility to oversee EDFUND. As an employee of EDFUND, the chief internal auditor receives considerably more in compensation than she would as an employee of Student Aid. Thus, [BSA] questioned her ability to remain impartial and unbiased when choosing potential audit areas or developing audit findings. According to standards, internal auditors must avoid even the appearance of partiality." As a result, BSA recommended that to ensure it administers the Federal Family Education Loan (FFEL) Program effectively, Student Aid should replace its current chief of internal audits with an individual who is free from the appearance of organizational and personal impairments to independence. Tab 2.4c is the BSA excerpt of the finding and recommendation.

CSAC's Audit Committee met on June 20, 2006 to discuss the BSA findings and recommendations as they related to internal audits. CSAC staff explained that in order to obtain a Chief Audit Executive for CSAC, the Commission must seek Department of Personnel Administration (DPA) approval. The Audit Committee approved a recommendation to the Commission to separate the internal audit functions of CSAC/EDFUND.

At the June 22, 2006 Commission Meeting, the Commission discussed the separation of the CSAC/EDFUND internal auditor position into two separate positions. In response to questions from the Commission, the Acting Chief of the Federal Policy and Programs Division stated that because the Commission is the Guaranty Agency, external auditors are auditing the Commission's administration of the FFEL program and the Commission is responsible for managing the external audits of the FFEL Program. Commissioner Johnston acknowledged that CSAC has the responsibility for external audits of the loan program. EDFUND's Vice President of Audit Services expressed concern about the external audit process and wanted to ensure it would not become complex with the addition of CSAC's Chief Audit Executive. After a lengthy discussion, there was agreement that upon the hiring of the Chief Audit Executive that the two auditors would work together to efficiently coordinate external audits. The Commission unanimously approved to separate the CSAC/ EDFUND internal audit position into two separate positions.

Based upon the Commission's action and the Executive Director's direction, CSAC staff initiated discussions with DPA and subsequently submitted a request to establish a Chief Audit Executive for the Commission at the Senior Management Auditor level. The information provided to DPA is included in Tabs 2.4d-f. Based on the information submitted to DPA, CSAC received approval for the Senior Management Auditor classification (Chief Audit Executive).

DPA approved the Senior Management Auditor classification based on the following duties:

- The Chief Audit Executive reports administratively to the Executive Director and functionally to the Chair of the Commission and the Chair of the Commission's Audit Committee.

- The Chief Audit Executive manages the Internal Audit Branch and the Program Compliance Branch.
 - The Internal Audit Branch conducts audits of the Cal Grant and Specialized programs along with administrative audits. Staffing in the Internal Audit Branch consists of a total of two Associate Management Auditor positions. There is currently one vacancy and it is anticipated that once the Chief Audit Executive position is filled, the vacant Associate Management Auditor position will be filled.
 - The Program Compliance Branch conducts program reviews of institutions participating in Commission programs. Staffing in the Program Compliance Branch currently consists of one Staff Management Auditor and five Associate Management Auditors.
- The Chief Audit Executive manages and coordinates the Commission audit processes and responses to findings on audits or reviews conducted by external audit agencies.
 - As the Guaranty Agency, the Commission is responsible for the FFEL Program. The Commission maintains all the risks associated with FFEL Program audits. External auditors will review the administration of the FFEL Program within CSAC and EDFUND.
- The Chief Audit Executive may also conduct specific audits on EDFUND as recommended by the Federal Policy and Programs Division as part of the division's oversight function of the loan program and EDFUND.

In January 2007, CSAC staff began recruiting applicants for the Commission's Chief Audit Executive position. On January 19, 2007, Audit Committee Chair Johnston directed the Management Services Division Chief to "hold any noticing of this position in the current form until guidance is received from the audit committee."

CSAC staff recommends proceeding with the hiring process of a Chief Audit Executive based on the current duty statement. CSAC staff revised the job opportunity bulletin (Tab 2.4g) to indicate under "desired qualifications" that the applicant should possess one of the following certifications:

- Certified Internal Auditor (CIA)
- Certified Public Accountant (CPA)
- Certified Government Auditing Professional (CGAP)
- Certified Information Systems Auditor (CISA)

can objectively perform his or her duty of reviewing the budget and business plan when he or she had a role in approving these documents as a board member.

The Independence of the Internal Audit Functions at Student Aid and EDFUND May Be Compromised

Potential organizational and personal independence impairments exist at Student Aid and EDFUND because the same person serves as Student Aid's chief of internal audits and as EDFUND's vice president of audit services. Additionally, a further organizational impairment existed at EDFUND because its vice president of audit services was also the interim vice president of its legal services.

EDFUND's vice president of audit services may have organizational and personal independence impairments because she also serves as Student Aid's chief of internal audits.

State law requires all state agencies that have their own internal auditors or that conduct internal audits or internal audit activities to comply with the Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA). In addition, the Government Auditing Standards issued by the Comptroller General of the United States apply to audits of government entities, programs, activities, and functions, and of government assistance administered by nonprofit entities.

Both the IIA standards and government auditing standards address organizational impairments. For example, government auditing standards state that, in order for a government internal audit unit to be free from organizational impairments to independence, the unit must meet all of the following criteria: be accountable to the head or deputy head of the government entity, report audit results to the head or deputy head of the government entity, and be located organizationally outside the staff or line management function of the unit under audit. Although Student Aid's organization chart indicates that the chief internal auditor reports to its executive director, the duty statement for the position states that the chief is a member of Student Aid's senior management team. The senior management team is responsible for the day-to-day operations of Student Aid. Our concern is that an internal auditor should be independent of the senior management team that makes the day-to-day business decisions. Because the chief internal auditor must monitor the disposition of the results of the internal audits she conducts and ensure that management has implemented the recommendations or accepts the risk of not implementing the recommendations, the chief's position as a

member of Student Aid's senior management team creates the appearance of an organizational impairment. The chief internal auditor also reports to the chairs of Student Aid's and EDFUND's audit committees. Typically, the audit unit's independence is enhanced when it also reports regularly to the entity's independent audit committee. However, the appearance of organizational impairment still exists because the chief internal auditor does not appear to have met the three criteria.

Additionally, the chief internal auditor may have a personal impairment to her independence. Student Aid has the statutory responsibility to oversee EDFUND. The internal audit services charter for Student Aid and EDFUND, which defines the purpose and responsibility of the internal audit activity, states that the scope of internal audit services encompasses the examination and evaluation of the adequacy and effectiveness of Student Aid's system of internal control and the quality of performance in carrying out assigned responsibilities. The charter further states that the internal audit activities include the review of EDFUND.

Student Aid's chief internal auditor is an employee of EDFUND and receives her salary and bonus payments from EDFUND. As an employee of EDFUND, the chief internal auditor receives considerably more in compensation than she would as an employee of Student Aid. Thus, we question her ability to remain impartial and unbiased when choosing potential audit areas or developing audit findings related to Student Aid's oversight of EDFUND. For example, in Student Aid's draft internal audit plan and risk assessment for fiscal year 2004–05, one potential audit area was Student Aid's monitoring of EDFUND's compliance with the provisions of the operating agreement. There was an annotation that the internal audit unit would review the methodology used by Student Aid's Federal Policy and Program Division in performing oversight functions. The chief internal auditor assigned a risk rating of medium to this potential audit area and, as a result of insufficient audit resources, no audits have been performed in this area. We believe the chief internal auditor should have assigned a risk rating of high because the operating agreement is the sole means of dictating EDFUND's operations. Further, as discussed previously in the chapter, we found several weaknesses related to the operating agreement that affect Student Aid's oversight of EDFUND.

Student Aid's chief internal auditor disagrees with our assessment that an organizational or personal impairment exists. Moreover, Student Aid views the chief internal auditor's role

Tab 2.4c

as an employee of EDFUND who has accepted responsibilities at Student Aid that are similar to those she has at EDFUND. Nevertheless, according to the standards, internal auditors must avoid even the appearance of partiality.

Further, because Student Aid did not comply with certain standards, it missed an opportunity to identify these potential impairments itself. Specifically, both the IIA standards and government auditing standards require audit organizations to undergo an external assessment conducted by a qualified independent reviewer or review team from outside the organization. The IIA standards require this assessment every five years while the government auditing standards require it every three years. However, its chief internal auditor stated that an external assessment of Student Aid's internal audits unit had not been conducted in several years. If Student Aid had complied with these standards, it would have been able to identify and address the issues we raise sooner.

Student Aid's chief internal auditor also has possible organizational impairments in her position as EDFUND's vice president of audit services. In this position, she is responsible for directing the internal audit functions of EDFUND and directing the program review and compliance function for the FFEL Program. Again, the duty statement for the position states that the vice president is a member of EDFUND's executive management team. Similar to Student Aid's senior management team, EDFUND's executive management team is responsible for its day-to-day operations.

EDFUND's vice president of audit services was acting as EDFUND's interim vice president of legal services, which further impaired her independence. Government auditing standards cite as an example of a personal impairment individuals of an internal audit organization who are also responsible for managing an entity or making decisions as senior management that could affect operations of the entity or program being audited. When asked about her responsibilities as the interim vice president of legal services, the vice president of audit services stated that EDFUND placed her in this position because there were no other vice presidents available to perform the duties due to their workloads. Further, EDFUND's vice president of audit services explained that she did not handle any legal matters. Instead, she was responsible for reviewing and signing the legal invoices and time sheets, disseminating information from the executive management team to legal staff, and helping the

assistant general counsel manage the relationship with the temporary external general counsel. Authorizing, executing, or consummating transactions, such as approving invoices, hinders the chief internal auditor's ability to objectively and independently evaluate the internal controls related to those transactions. As such, simultaneous occupation of both positions is potentially an organizational and personal impairment of independence. After we brought this issue to EDFUND's attention, it assigned the legal duties to staff other than the chief internal auditor.

The Composition of the EDFUND Board Could Impair Student Aid's Decision Making

State law requires Student Aid to oversee the development and operations of EDFUND and to nominate and appoint EDFUND's board. Further, state law requires Student Aid to maintain its responsibility for financial aid program administration and policy leadership program evaluation. Therefore, whether in fact or in appearance, a commissioner may have a perceived conflict with overseeing the operations of an organization for which he or she is also a board member. Additionally, the Student Aid executive director, as a voting member, may have a similar perceived conflict.

State law also requires one member of the board to be an employee of EDFUND and one member to be a student enrolled in a California public or private postsecondary educational institution. Student Aid determines the remaining composition of the board. Since the creation of EDFUND, Student Aid commissioners have been serving as EDFUND board members. In its May 23, 2005 meeting, Student Aid removed six EDFUND board members due to concerns about the governance of the FFEL Program. According to the chair of Student Aid, the decision allowed the commissioners to make a more responsible decision regarding the program's future governance.

Among other things, EDFUND board members must approve all of EDFUND's expenses and fund authorizations. The operating agreement between Student Aid and EDFUND requires Student Aid to review and approve EDFUND's business plan and annual operating budget. Moreover, any material expenditure or material change in operations or corporate policies outside of the plan and budget must have Student Aid's prior approval. Thus, we question whether a commissioner who is also an EDFUND board member can objectively perform his or her duty

Tab 2.4c

According to the financial disclosures made by the former senior manager to EDFUND, she held stock in the lender during these negotiations.¹²

The former oversight division chief ultimately did not follow the recommendations of EDFUND's former senior manager and negotiated a contract that contained those terms related to indemnification. Nonetheless, the various communications made by EDFUND's former senior manager may have constituted an attempt to improperly influence the formation of this contract given that the amount of her stock ownership at the time may have served as a disqualifying interest under the act.

Although in the final analysis any determination regarding a violation of the act would need to be made by the Fair Political Practices Commission and ultimately by a reviewing court, we believe that the factual circumstances merit referral to the Fair Political Practices Commission. Accordingly, we have referred this matter to the Fair Political Practices Commission.

RECOMMENDATIONS

To ensure that it maximizes the amount of funds available to fulfill its mission and administer the FFEL Program effectively, Student Aid should:

- Ensure that EDFUND complies fully with federal regulations and its policy governing salary setting for its executives, including modifying its policy to address board members who have a conflict of interest and ensuring that its consultants compile comparable compensation data solely from similar financial-related organizations.
- Ensure that EDFUND determines bonuses for its president in accordance with Student Aid's policy.
- Modify its policy statement and guidelines memorandum titled *EDFUND Incentive Compensation Plans* to ensure that EDFUND's executive management team does not receive a bonus if the FFEL Program or Operating Fund realizes a deficit.

¹² The Form 700 that this individual had filed under the Political Reform Act of 1974 disclosing her financial interests indicated that she owned stock with a fair market value of more than \$100,001 and less than \$1,000,000. The actual fair market value while these negotiations were ongoing may have been different.

Tab 2.4c

- Ensure that EDFUND includes all FFEL Program revenues and expenses in its calculation of the program's operating surplus or deficit.
- Ensure that it and EDFUND's board establish guidelines to use when approving the total bonus pool amount for EDFUND's executive management team.
- Direct its executive director and EDFUND's president to resolve outstanding issues related to the methodology used to measure EDFUND's performance, which affects the bonuses for its nonexecutive employees.
- Amend its operating agreement to require EDFUND to establish a travel policy that is consistent with the State's policy.
- Closely monitor EDFUND expenses paid out of the Operating Fund for conferences, workshops, all-staff events, travel, and the like. Discontinue using Operating Fund money to pay for expenses related to nonemployees attending its company functions.
- Ensure that reimbursements to commissioners for their expenses are not excessive.
- Ensure that EDFUND follows through on its efforts to revise its contracting policies.
- Amend its operating agreement to require purchases of goods and services incurred by EDFUND to be reimbursed pursuant to procurement and contracting policies approved by the executive director of Student Aid.
- Rescind its delegation of the approval authority of EDFUND's detailed operating budget to the EDFUND board.
- Follow through on issues raised by its staff regarding EDFUND's operations.
- Require staff to independently verify the accuracy of the reports submitted by EDFUND.
- Complete key tasks outlined in the June 2005 mandated performance review of EDFUND.
- **Replace its current chief of internal audits with an individual who is free from the appearance of organizational and personal impairments to independence.**

- Ensure that it complies with IIA and government auditing standards that require an external assessment of its internal audits unit.
- Consider removing Student Aid commissioners from the EDFUND board.
- Consider changing the Student Aid executive director's role on the EDFUND board from a voting member to a nonvoting member.
- Ensure that EDFUND complies with the Bagley-Keene Act record-keeping requirements by maintaining a confidential minutes book of the business discussed during its closed sessions. In addition, Student Aid and EDFUND should establish policies and procedures to help ensure that closed sessions are conducted within the board's authority as required by state law. These policies and procedures should provide the board and staff with clear guidelines in defining trade secrets and business proprietary information that can be discussed during closed sessions so that no further violations of state law occur.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: April 20, 2006

Staff: Joanne Quarles, CPA, Audit Principal
Steven A. Cummins, CPA
Paul Alberga
Stacey Epstein, Esq.
Heather Kopeck
Richard Power
Ben Ward

SPECIFICATIONS: MANAGEMENT AUDITOR SERIES
CALIFORNIA STATE PERSONNEL BOARD

SPECIFICATION

MANAGEMENT AUDITOR
Series Specification
(Established August 6, 1969)

SCOPE

This series specification describes auditor classes typically used to administer, supervise, or conduct technical audits of the fiscal and management procedures and practices of State agencies and other entities subject to audit by the Department of Finance or the internal audit staff of a State agency.

Schem Code	Class Code	Class
LE30	5841	Staff Services Management Auditor
LE26	4159	Associate Management Auditor
LE24	4160	Staff Management Auditor
LE22	4161	Senior Management Auditor
LE20	4163	Supervising Management Auditor

DEFINITION OF SERIES

Positions in this series examine organization operations and internal and management controls, review organization policies and procedures, appraise performance and accomplishments in the execution of agency plans and objectives, and evaluate the effectiveness of operations in terms of the resources available to the agencies audited. Management Auditors are also involved with audit programs in which the auditor may review accounts, records and reports, verify reconciliations of accounts, and determine that the financial statements accurately reflect financial status and transactions. Where the scope of examinations performed is primarily fiscal in nature and does not include a strong emphasis on management, performance, or operational auditing, positions are more appropriately allocated to the State Financial Examiner series.

ENTRY LEVELS

Entry into the Management Auditor series is typically gained through the class of Staff Services Management Auditor.

FACTORS AFFECTING POSITION ALLOCATION

Variety and complexity of audit assignments, scope and complexity of audit objectives and programs, independence of action and level of decision-making authority, level and variety of professional contacts, degree of administrative and supervisory

responsibilities, supervision received, responsibility for program and policy implementation, and impact of the audit program on the plans, procedures, and policies of the organizations audited.

DEFINITION OF LEVELS

STAFF SERVICES MANAGEMENT AUDITOR

This is a recruiting, training, and development class for persons qualified to learn, under close supervision, management auditing methods.

ASSOCIATE MANAGEMENT AUDITOR

This is the first full journey person level requiring independence and proficiency in handling complex and difficult assignments. Typically, an Associate is assisted by one or more Staff Services Management Auditors in the performance of complex management audits in a single agency or a small group of related agencies.

STAFF MANAGEMENT AUDITOR

Either (1) supervises and works with a group of audit teams performing the less complex management audits of State departments or large governmental programs; or (2) directs the work of a small internal audit staff in a department where the scope of the program includes significant emphasis on management, operational, or performance auditing.

SENIOR MANAGEMENT AUDITOR

Either (1) is responsible for planning, organizing, and directing the work of a group of audit teams performing management audits of several organizations or may supervise a large audit team conducting a sensitive complex audit; or (2) directs an internal audit program of a State department requiring a variety of complex technical management audits.

SUPERVISING MANAGEMENT AUDITOR

Either (1) is responsible for long-range planning, directing, and coordinating the total audit activities of several State agencies or large State organizations; or (2) directs and is responsible for the total management audit activities of an internal audit program in a State department requiring management audits of several large internal governmental programs, or agencies under contract.

MINIMUM QUALIFICATIONS

STAFF SERVICES MANAGEMENT AUDITOR, RANGES A, B, AND C

Education Requirements: The following describes the education which is acceptable for one or more of the classes in this series. Equivalent to graduation from college preferably with a major in accounting, business administration, public administration, or economics and with a minimum of six semester units of accounting. Registration as a senior in a recognized institution will admit applicants to examinations for Staff Services

Management Auditor but they must produce evidence of graduation or its equivalent before they can be considered eligible for appointment.

Experience Requirements: No experience required. Applicants must meet the education requirements.

ASSOCIATE MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Staff Services Management Auditor (Range C) or Governmental Auditor II.

(Applicants who have completed six months of service performing the duties as specified above will be admitted to the examination, but must have satisfactorily completed the one year of this experience before they can be eligible for appointment.)

Or II

Three years of increasingly responsible professional auditing and accounting experience or management consultant experience which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must have included duties at a level equivalent to that of Staff Services Management Auditor (Range C) in State service. One year of graduate work in accounting, business administration, public administration, or a related field may be substituted for the six months' experience. and

The education pattern listed under Education Requirements.

STAFF MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Associate Management Auditor.

Or II

Four years of increasingly responsible professional auditing and accounting experience or management consultant experience, which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must have included duties at a level equivalent to that of an Associate Management Auditor in State service. and

The education pattern listed under Education Requirements.

SENIOR MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties of a class with a level of responsibility not less than that of Staff

Management Auditor or two years of professional auditing and accounting duties in a class with a level of responsibility not less than that of Associate Management Auditor.

Or II

Five years of increasingly responsible auditing and accounting experience or management consultant experience which shall have involved preparation of reports and presentations of recommendations to management. For at least one year, these responsibilities must include duties at a level equivalent to that of an Associate Management Auditor in State service. and

The education pattern listed under Education Requirements.

SUPERVISING MANAGEMENT AUDITOR

Either I

One year of experience in the California state service performing professional auditing or accounting duties in a class with a level of responsibility not less than that of a Senior Management Auditor; or two years of experience in the California state service performing professional auditing or accounting duties in a class with a level of responsibility not less than that of Staff Management Auditor.

Or II

Five years of experience in a professional accounting, auditing, or examining position, at least two years of which shall have involved the direction of a large and complex independent and comprehensive post audit program (the term "comprehensive" implies examination of the entire fiscal operations rather than a specialized or limited segment), or four years of experience in a management consultant position, at least two years of which shall have involved the direction of a large management consultant program. (Experience in the California state service applied toward this requirement must include at least two years performing the duties of a class at a level of responsibility not less than that of Staff Management Auditor.) and

The education pattern listed under Education Requirements.

KNOWLEDGE AND ABILITIES

STAFF SERVICES MANAGEMENT AUDITOR

Knowledge of: Principles and practices of organizational management, accounting, and auditing.

Ability to: Learn and apply general and specialized accounting and management auditing principles and procedures as used in State Government.

ASSOCIATE MANAGEMENT AUDITOR

Knowledge of: Elementary statistics; organization and management in the public and private sector, current trends, and problems in governmental management; principles of electronic data processing, the uniform accounting system, and the financial organization and procedures of the State of California, policies, rules, and regulations of the Legislature, State Controller, State Treasurer, Department of Finance, and central control agencies as they relate to State agency financial and program management activities.

Ability to: Conduct financial and management duties of a variety of State agencies, governmental jurisdictions, and other entities; make investigations of accounting and financial organization procedures and problems; communicate effectively; and analyze data and take effective action.

STAFF MANAGEMENT AUDITOR

Knowledge of: All of the above, and principles and techniques of personnel management and supervision; methods of auditing through electronic data processing systems; applications of probability sampling to auditing; program budgeting.

Ability to: Plan, organize, and direct the work of a small group of auditors engaged in management audits, assume responsibility for complex audit studies. ("Understanding of, and effectiveness in, carrying out State and departmental equal employment opportunity and affirmative action policies.")

**SENIOR MANAGEMENT AUDITOR
SUPERVISING MANAGEMENT AUDITOR**

Knowledge of: All of the above, and organization and management of a broad range of State agencies; group leadership techniques; program planning and evaluation; Department's Affirmative Action Program objectives; a manager's role in the Affirmative Action Program and the processes available to meet affirmative action objectives.

Ability to: All of the above, and plan, organize, and direct the work of a staff engaged in a variety of complex, technical, management audits; work effectively with top level managers of State agencies and other organizations. ("Understanding of and effectiveness in carrying out State and departmental equal employment opportunity and affirmative action policies.")

SPECIAL PERSONAL CHARACTERISTICS

ALL LEVELS:

Ability to qualify for a fidelity bond and willingness to travel and work away from the headquarters office.

CLASS HISTORY

Class	Date Established	Date Revised	Title Changed
Staff Services Management Auditor	12/15/77	--	--
Associate Management Auditor	08/06/69	09/06/78	--
Staff Management Auditor	08/06/69	09/06/78	--
Senior Management Auditor	08/06/69	09/06/78	--
Supervising Management Auditor	10/01/75	09/06/78	--



CALIFORNIA STUDENT AID COMMISSION

DUTY STATEMENT

Employee Name Vacant	Classification Senior Management Auditor	Working Title Chief Audit Executive
Division/Branch Audits & Compliance	Position Number 270-732-4161-001	Effective Date January 9, 2007

Summary of Responsibilities
 The Chief Audit Executive reports functionally to the Audit Committee of the California Student Aid Commission and administratively to the Executive Director, and is the expert advisor to both regarding auditing matters and standards. The incumbent plans, guides and directs the activities of the Internal Audit Services Branch and the Program Compliance Branch; coordinates/oversees all internal and external audits of the Commission, and provides oversight of the audit program of the Commission's auxiliary corporation, EdFUND. The incumbent performs with a high degree of independence, and is responsible for minimizing risk exposure, ensuring that assets are safeguarded, and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent provides high quality, independent and objective audit services to the Commission in accordance with auditing standards.

Percentage of Time	Statement of Duties
30%	Plans, guides and directs the work of the Internal Audit Services Branch. Performs regular risk assessments and completes audit plans through the examination of organizational systems such as information systems, planning systems, budget systems, and cost accounting systems; reviews operational results, examines administrative and accounting controls, and Commission/EdFUND compliance with laws, rules, policies and procedures; issues written reports after audits are completed; follows up on audits to determine that appropriate corrective action was taken; reports to the Audit Committee on audit activities at bi-monthly meetings and at special Audit Committee meetings; and provides biennial reports to the Department of Finance on the adequacy of the system of internal controls of the Commission; performs special investigations of a confidential nature; works closely with the Commission's legal counsel to ascertain legal implications of items uncovered in audits and/or investigations;
20%	Coordinates and manages the audit processes and responses to findings on audits or reviews conducted by external audit agencies, e.g. BSA, OIG, USED, OSAE; including, but not limited to, the independent audit of the Federal Fund and Student Loan Operating Fund; program reviews conducted USED or contracted auditors of guaranty agency operations; coordinates Federal Family Educational Loan (FFEL) Program audits with the EdFUND Vice President of Audit Services; reports to the Joint Commission/EdFUND Audit Committee on external FFEL Program audits.
25%	Oversees the work of the Program Compliance Branch. Develops, implements and monitors audit plans to review California schools for compliance with the policies, regulations and laws governing the Cal Grant Programs and Specialized Programs. Conducts reviews Cal SOAP Consortia for compliance with State program requirements. Reports on audit findings, and makes recommendations for program improvement and training.
15%	As Chief audit advisor to the Executive Director and the Commission, provides subject matter expertise and leadership; recommends and establishes audit policies; ensures that Commission management and staff have training, guidance and support for various audit subjects and procedures; conducts internal training sessions on a variety of subjects as they relate to auditing, as well as providing an audit perspective on various laws and rules under which the Commission and EdFUND operate; develops and maintain a library of reference materials; attends various professional classes and training conferences to keep abreast on latest audit techniques and applications.
10%	Performs all necessary administrative tasks: supervises internal audits and program compliance staffs and carries out supervisory responsibilities in accordance with State personnel requirements; develops and trains staff; prepares budget change proposals and provides budget justifications; effectively communicates in writing and orally to Commissioners, external audit agencies, State control agencies, and Commission stakeholders.

I have read and discussed these duties with my supervisor:		I certify that the above accurately represent the duties if the position:	
Employee's Signature:	Date:	Supervisor's Signature:	Date:

MEMORANDUM

Date: December 6, 2006

To: Dan Tokunaga
Personnel Management Analyst
Classification and Compensation Division
Department of Personnel Administration

From: **California Student Aid Commission**
Management Services Division
Glenda Smith, Manager, Personnel Services Branch

Subject: 625 Request for Senior Management Auditor

The California Student Aid Commission (Commission) is requesting approval to reclassify a vacant position in the Management Services Division to a Senior Management Auditor position to serve as the Chief of the newly formed Audit Services Division with responsibility for both internal and external audit functions. Significant changes have taken place since we last requested this upgrade in January 2005 and were subsequently denied by DPA in March of that year. The changes which warrant this upgrade can be summarized as follows:

- Heightened program visibility and sensitivity
- Broadened scope of responsibility
- Change in reporting relationship

During the years 2005 and 2006, several events occurred that underlined the need for closer oversight of Commission programs, processes, business practices and policies. In April 2006, the Bureau of State Audits (BSA) issued an audit report with 27 recommendations requiring closer monitoring of the Commission and EDFUND and questioning the benefit to the State to have the Commission continue to participate in the Federal Family Education Loan (FFEL) Program as a guarantee agency. The report recommended the Legislature closely monitor Commission and EDFUND to make sure they remain competitive with other FFEL Program guarantee agencies and monitor the Operating Fund to ensure that it is generating a sufficient operating surplus so that it can supplement funding for Commission's other services and programs. Legislative monitoring was also recommended to ensure that Commission completed all critical tasks including the renegotiation of its Voluntary Flexible Agreement with the U.S. Department of Education (USED) and the development of a business

diversification plan. Other concerns brought forward in the BSA report questioned various governance issues between the Commission and EDFUND and required the Commission to clarify roles and responsibilities and to more closely monitor several of EDFUND's business practices.

The BSA audit specifically recommended that the Commission replace the current Chief of Internal Audits (the Commission had designated EDFUND's Chief of Internal Audits to be responsible for both the EDFUND and the Commission internal audit functions) with an individual who is free from the appearance of organizational and personal impairments to independence. As a result of the BSA report, the Commission has decided to reestablish its own Chief of Audit Services. Since part of the role of the Commission's Audit Services Division is to audit EDFUND, the change would avoid any potential conflict of interest.

The Commission has incurred additional attention by the Administration and Legislature as a result of an error that was made with the enactment of Chapter 403, Statutes of 2000 (SB 1644) that added an entitlement component to the Cal Grant Programs Staff was given only 3 ½ months to develop, test and implement completely new operational policies, procedures and computer processes for the entire Cal Grant Program. During the latter part of 2005, Commission staff discovered that one of the statutory requirements for eligibility for a Cal Grant Transfer Entitlement award had not been properly incorporated into procedures or computer processes. The omission allowed ineligible students who did not meet the residency requirement at the time of graduation from high school to receive Cal Grant awards and jeopardized their participation in other programs for which they might be eligible. AB 840 was enacted to address this problem and to enable these students to remain in the Cal Grant program and required procedures where new students that do not meet all requirements will not qualify for awards in the future. AB 840 requires that participating institutions verify 10% of the transfer entitlement students for meeting the requirement that they graduated from a California high school and were a California resident at the time of graduation. The legislation also requires the Commission to audit the verification conducted at the participating institutions.

The Commission determined that a comprehensive review or risk assessment of all of the Cal Grant Transfer Entitlement Program policies, procedures and processes is necessary to ensure proper program administration. As a result, the Commission has contracted for a comprehensive review or risk assessment of the Cal Grant Transfer Entitlement Program policy and procedures, including business rules, to ensure compliance with all statutory requirements. Since many of the basic eligibility requirements and processes are the same for the other Cal Grant Entitlement Programs, the Audit Services Division will be utilizing the information in the comprehensive review in future audits of the Cal Grant Programs.

The Senior Management Auditor and the internal audit staff will be responsible for the risk assessment and audit planning, implementation and follow-up for the Cal Grant and other specialized programs administered by the Commission. The auditors will be working closely with the staff in the Program Administration and Services Division as well as staff in the Information Technology Division to ensure the Cal Grant Transfer Entitlement Program error is corrected and that the Cal Grant processes, procedures and policies conform and continue to conform to the law. A further complication to the risk assessment is that in the last two years, the Cal Grant program has been sustaining a steady loss of knowledgeable program staff that have transferred to other state agencies. The loss of knowledgeable program staff puts a further burden on the internal audit staff since the percentage and variety of errors made can be expected to increase until the new Cal Grant staff becomes knowledgeable in their jobs.

The proposed Senior Management Auditor position will report administratively to the Executive Director and functionally to the Chair of the Commission and the Chair of the Commission's Audit Committee and serves as the expert advisor on auditing standards, policy and other audit matters. The incumbent will plan, guide and direct the activities of the Internal Audit Services Branch and the Program Compliance Branch and will coordinate and oversee all internal and external audits of the Commission and will provide oversight of the EDFUND's audit program.

One of the responsibilities in the Internal Audit Services Branch will require that the Senior Management Auditor conduct a risk assessment of the Commission's internal accounting and administrative controls to develop an internal audit plan to be approved by the Commission. The risk assessment and audit plan will include grants and other programs, financial management, payroll, and technology management. The Internal Audit staff will be responsible for conducting the audits approved in the plan. Staffing in the Internal Audit Branch will consist of two Associate Management Auditors (one position is currently vacant and is being advertised) who will report directly to the Senior Management Auditor. A request for additional positions for the Internal Audit Services Branch is planned for the 2008-09 budget.

The Senior Management Auditor will oversee the Program Compliance Branch which makes regular visits to institutions participating in Commission's grant and specialized programs and Cal-SOAP to conduct administrative reviews. AB 840 requires the Commission to audit the verification conducted at the participating institutions. The Program Compliance Branch will be responsible for meeting this new requirement. Staffing in the Program Compliance Branch currently consists of one Staff Management Auditor, who will report directly to the Sr. Management Auditor, and five (5) Associate Management Auditors. Three new Associate Management Auditors and one Associate Governmental Program Analyst positions are being requested in a 2007-08 Budget Change Proposal to increase the frequency of institutional audits and audits of the CAL-SOAP consortiums

and to monitor institutions' verification of transfer entitlement and GPA verification processes.

The Senior Management Auditor will coordinate and manage the audit processes and responses to findings on audits or reviews conducted by external audit agencies, including BSA, Office of Inspector General (OIG), US Department of Education (USED), Department of Finance Office of State Audits and Evaluation (OSAE) and the auditor contracted to conduct the annual independent audit of the Federal Fund and Student Loan Operating Fund. The incumbent will coordinate these external audits with the EDFUND Vice President of Audit Services. The incumbent will also conduct specific audits on EDFUND as recommended by the Federal Policy and Programs Division as part of that division's oversight function of the loan program and EDFUND.

The Senior Management Auditor is responsible for minimizing risk exposure, ensuring that assets are safeguarded and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent will report to the Commission's Audit Committee on audit activities at bi-monthly meetings and at special Audit Committee meetings and provide biennial reports to the Department of Finance on the adequacy of internal controls of the Commission. The incumbent will work closely with the Commission's legal counsel and perform special, highly confidential investigations if needed.

The Student Aid Commission considers the approval of the Sr. Management Auditor position to be critical to the Commission's ability to carry out its vision and mission. The Commission needs a seasoned and knowledgeable auditor who has the authority and ability to respond to the very sensitive and complex issues discussed above assist the Commissioners and staff in repairing our damaged reputation and prevent future mistakes by providing expert leadership and guidance. Should you require further information, please contact me on 526-8046.



JOB OPPORTUNITY

270-732-4161-001

Release Date: 01/09/07

The California Student Aid Commission is the State's major policy formulating agency for student financial aid and one of the largest agencies of its kind in the country. The Commission is responsible for administering a comprehensive program of student loans, grants, college savings plans, and other special programs for eligible students. Today, the Commission is moving ahead to provide innovative financial aid leadership for California's postsecondary students attending California's unrivaled system of public and private colleges, universities and private career colleges.

Classification: **Senior Management Auditor/Pos. #270-732-4161-001**
Permanent, Full-Time
Audits and Compliance Division

Who May Apply: Individuals with permanent, full-time status, employed by the State of California as a Senior Management Auditor, or in a comparable classification, or those with transfer or list eligibility to the advertised classification. SROA/surplus employees at this level are encouraged to apply. Applications will be screened and only the most qualified will be selected for interview.

Duties: The Chief Audit Executive reports functionally to the Audit Committee of the California Student Aid Commission and administratively to the Executive Director and is the expert advisor to both regarding auditing matters and standards. The incumbent plans, guides and directs the activities of the Internal Audit Services Branch and the Program Compliance Branch; coordinates/oversees all internal and external audits of the Commission and provides oversight of the audit program of the Commission's auxiliary corporation, EdFund. The incumbent performs with a high degree of independence and is responsible for minimizing risk exposure, ensuring that assets are safeguarded, and guarding against non-compliance with policies, procedures, laws and regulations. The incumbent provides high quality, independent and objective services to the Commission in accordance with auditing standards.

Salary: \$5663 - 6831

Desirable Skills: Knowledge of general accounting and auditing principles, risk management concepts and SAM 20000 process; must possess excellent oral presentation and writing skills; Must have demonstrated experience managing a diverse staff; Must possess the abilities to mentor and to listen and work interactively with others; must possess and display good judgment and discretion; must be a self-starter who accepts new challenges and is able to work under pressure and able to motivate staff; **possess a Certified Internal Auditor, Certified Public Accountant, Certified Government Auditing Professional or Certified Information Systems Auditor designation.**

How to Apply: Please submit an application/resume with **Pos.# 270-732-4161-001 on the app.** to:
California Student Aid Commission
Personnel Services Branch
ATTN: Sheila Roberts
P.O. Box 3210
Rancho Cordova, CA 95741-3210

Final Filing Date: Until filled.

Facilities: Close to freeway access at Zinfandel Drive and Hwy 50
Free Parking

AN EQUAL OPPORTUNITY EMPLOYER PROVIDING OPPORTUNITIES TO ALL REGARDLESS OF RACE, COLOR, CREED, NATIONAL ORIGIN, ANCESTRY, SEX, MARITAL STATUS, DISABILITY, RELIGIOUS OR POLITICAL AFFILIATION, AGE OR SEXUAL ORIENTATION.

IT IS AN OBJECTIVE OF THE STATE OF CALIFORNIA TO ACHIEVE A DRUG FREE WORK PLACE. ANY APPLICANT FOR STATE EMPLOYMENT WILL BE EXPECTED TO BEHAVE IN ACCORDANCE WITH THIS OBJECTIVE BECAUSE THE USE OF ILLEGAL DRUGS IS INCONSISTENT WITH THE LAW OF THE STATE, THE RULES GOVERNING CIVIL SERVICE, AND THE SPECIAL TRUST PLACED IN PUBLIC SERVANTS.