

Action/Information Item

California Student Aid Commission

Consideration and Possible Action on the Contract for Comprehensive Review of the Cal Grant Policy and Procedures, Including Business Rules, to Determine Compliance with all Statutory Requirements

Commission staff recommends that the Commission undertake a comprehensive review or risk assessment of Cal Grant policies and procedures, including business rules, to ensure compliance with all statutory requirements. A comprehensive review or risk assessment is necessary for proper administration of the Cal Grant Program. Since the workload associated with this review or risk assessment cannot be absorbed by current Cal Grant program staff, Commission staff recommends that the review or risk assessment be undertaken as a contract for services.

The Commission's Audit Committee has exercised its authority by assuming responsibility for deciding whether the current internal audit plan is sufficient to provide this necessary review or risk assessment, or whether an outside contractor should be retained. Commission staff recommends that the Committee consider whether the scope of the internal audit is sufficiently comprehensive to include a review of compliance of the policies, procedures and business rules for the eight Cal Grant award categories with all statutory requirements.

The cost of an outside contract cannot be finally determined without requesting bids. However, based on similar consulting services, the Commission staff believes it appropriate to place a ceiling of \$100,000 on bids for the risk assessment of the Cal Grant policies, procedures and business rules, with the anticipation that bids might come in somewhat less.

Recommended Action: Authorize Commission staff to follow state contracting processes (for a contract of less than \$100,000) to obtain consulting services for a comprehensive review or risk assessment of Cal Grant policies and procedures, including business rules, to ensure compliance with statutory requirements.

Responsible Staff: Diana Fuentes-Michel
Executive Director

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Background:

The Cal Grant Program underwent a significant and fundamental change in 2000 when Chapter 403, Statutes of 2000 (SB 1644) was enacted. SB 1644 added Education Code sections 69430-69440 and changed the Cal Grant Program to an entitlement program. Commission staff had to develop and implement completely new operational policies and procedures, and the computer programming to implement those new policies and procedures, for the entire Cal Grant Program in the unusually compressed, 3-1/2-month period between September 12, 2000, the effective date of SB 1644, and January 1, 2001, when the first cycle of awards under SB 1644 was required. Under normal circumstances, this kind of change-over would take 18-24 months.

Although the initial operational focus was primarily on increasing student participation in the new Cal Grant Entitlement Program, Commission staff made changes in the operating policies and procedures, with accompanying computer programming changes, as compliance issues arose. However, a comprehensive review of the policies and procedures originally developed and implemented in 2000 through 2002 to ensure compliance with statutory requirements has not been undertaken.

Risk:

A comprehensive review or risk assessment is necessary for proper administration of the Cal Grant Program. The need for such an assessment was underscored in the latter part of 2005, when Commission staff determined that one of the statutory requirements for eligibility for a Cal Grant Transfer Entitlement award had not been properly incorporated into procedures.

The procedures did not incorporate a mechanism to ensure that students awarded Transfer Entitlement awards satisfied the statutory requirement that those students had been California residents at the time of high school graduation. Commission staff withdrew the awards from those students for whom the Commission lacked sufficient information to establish that they met the residency requirement and placed any payments of the awards on hold. The students' institutions have cooperated by not seeking to collect any previously paid funds and by temporarily funding the students for the interim, until the students' eligibility for their Cal Grant Transfer Entitlement awards is resolved. Forms requesting those students to certify under penalty of perjury their residency at the time of high school graduation were distributed, and 197 students have now been identified as being California residents at the time of high school graduation based on the information in those forms.

Commission staff is consulting with the Administration and the Legislature on reinstating the Transfer Entitlement awards for those 197 students. Legislation addressing the Transfer Entitlement issues is pending, but the issues have not yet been settled and may not be resolved until the 2006 State budget is enacted.

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This has the potential of adversely affecting these students' ability to graduate this year or to register for classes for the next academic year, since institutions often condition a student's ability to graduate or register for the next term on first resolving any outstanding issues relating to the students' financial aid.

Contract Option:

Commission staff recommends that the Commission undertake a comprehensive review or risk assessment of Cal Grant policies and procedures, including business rules, to ensure compliance with all statutory requirements. Since the workload associated with this review or risk assessment cannot be absorbed by current Cal Grant program staff, Commission staff recommends that the review or risk assessment be undertaken as a contract for services.

The review or risk assessment would be similar to the recently completed risk assessment of information security. The outside consultant in that risk assessment reviewed the Commission's and EdFund's policies and procedures for compliance with state and federal laws relating to information security and privacy protection, identified areas in which additional protection or changes in procedure were required, and provided recommendations for how the policies and procedures could be brought into compliance.

The Commission's Audit Committee has exercised its authority by assuming responsibility for deciding whether the current internal audit plan is sufficient to provide this necessary review or risk assessment, or whether an outside contractor should be retained. Commission staff recommends that the Committee consider whether the scope of the internal audit is sufficiently comprehensive to include a review of compliance of the policies, procedures and business rules for the eight Cal Grant award categories with all statutory requirements. Assuming the scope of the planned internal audit is sufficient, Commission staff further recommends that the Committee consider whether the timing of the internal audit is acceptable.

Commission staff considers a comprehensive review or risk assessment of Cal Grant policies, procedures and business rules for compliance with statutory requirements to be of the highest priority to avoid further issues that would adversely affect students and to ensure the fiscal integrity of the program. To the extent the current internal audit plan may delay a comprehensive review or risk assessment, even assuming that the scope of the internal audit will be consistent with a comprehensive review of the entire Cal Grant program, Commission staff recommends that a contract for outside services be authorized.

Cost Estimate:

The cost of an external contract cannot be finally determined without requesting bids. Commission staff concluded that a comprehensive review or risk assessment would include an evaluation of the procedures, policies and business rules for each of the eight Cal Grant award categories to ensure

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compliance with statutory requirements, but did not consider it necessary at this time to review computer programming of those procedural steps. The contractor for the risk assessment of information security at EdFund and the Commission essentially reviewed the information security laws, reviewed EdFund and Commission procedures, tested the technology for security and prepared an analysis of the those areas which were not in compliance with information security laws, with recommendations to achieve compliance. Commission staff anticipated that the comprehensive review or risk assessment of the Cal Grant program, although not identical, would involve similar types of tasks, without the technology testing.

The information technology security risk assessment contract totaled \$300,000 for the assessments of both EdFund and the Commission. As a rough reference point, reducing that amount by 50% to \$150,000 to account for a risk assessment of a single entity, and further subtracting another \$50,000, or 1/3 of the reduced contract amount, to account for the cost of the technology testing that would not be required in the risk assessment of the Cal Grant program, results in a reduced total of \$100,000. The Commission staff believes it appropriate to place a ceiling of \$100,000 on bids for the risk assessment of the Cal Grant policies, procedures and business rules, with the anticipation that bids might come in somewhat less.

Recommended Action:

Authorize Commission staff to follow state contracting processes (for a contract of less than \$100,000) to obtain consulting services for a comprehensive review or risk assessment of Cal Grant policies and procedures, including business rules, to ensure compliance with statutory requirements.