

**Action/Information Item**

***California Student Aid Commission***

Approval of April 20-21, 2006 Minutes

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***Recommended Action:*** The Commission is asked to approve the minutes.

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**CALIFORNIA STUDENT AID COMMISSION  
COMMISSION MEETING**

**MINUTES  
APRIL 20-21, 2006**

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A meeting of the California Student Aid Commission was held on Thursday, April 20, 2006, at 3300 Zinfandel Drive, Rancho Cordova, California.

Chair James Sandoval called the meeting of the California Student Aid Commission to order at 8:44 a.m.

The following Commission Members were present:

James Sandoval  
Louise McClain  
James Fousekis  
Josefina Baltodano  
Rory Diamond  
Michele Dyke  
Daniel Friedlander  
Sally Furay  
Dean Johnston  
J. Michael Ortiz  
David Roth (arrived 9:57 am)  
Joseph Yew

**ADMINISTRATIVE MATTERS**

Gloria Lopez, Commission Liaison, took roll and indicated that there was a quorum. Ms. Lopez provided details regarding materials recently emailed to Commissioners.

**PUBLIC COMMENT**

Chair Sandoval requested public comment; hearing none, he welcomed new Commissioners Friedlander, Ortiz and Yew. Chair Sandoval expressed his appreciation to the new Commissioners in accepting the nomination to serve on the California Student Aid Commission. Upon Chair Sandoval's request, all Commissioners provided a brief background and introduction.

**COMMISSION CHAIR'S REPORT**

Chair Sandoval acknowledged the resignation of Commissioner Levine. Chair Sandoval stated that effective March 31, 2006, Commissioner Levine resigned after 12 years of serving the Commission. He indicated that the Commission will be recognizing her in a very special way, at an upcoming meeting. Chair Sandoval wanted to take this first public opportunity for the Commission to recognize the Commission's deep appreciation for her services.

Chair Sandoval continued by indicating that nothing is more important to the Commission at this moment than the Bureau of State Audits (BSA) report which will be released today. Chair Sandoval explained that it is a pivotal time for the Commission and the Commission needs to take responsibility for their charge and lead the California Student Aid Commission. Chair Sandoval stated it is especially clear over the last couple of years, given the major findings stated in the Legislative Analyst's report, which are expected to be mirrored in the BSA report that as a result of the organizational structure between the Student Aid Commission and EDFUND in some opinion, there is a level of dysfunction that has created the need for organizational change and reengineering to take place. Chair Sandoval explained that the responsibility of the Commission is to see to the changes. He further commented that the Commission continues to discuss and debate the appropriate roles and responsibilities. Chair Sandoval indicated that his opinion is that the tension between the Commission and EDFUND resulted in the resignation of three Commissioners. He stated that it has become too much and the matter needs to be dealt with. Chair Sandoval explained that the responsibility falls squarely on the Commissioners, further stating that tomorrow the Commission will be going through a rather extensive summary of the BSA findings and discussing how the Commission will respond to certain recommendations.

Chair Sandoval explained that the purpose of tomorrow's Commission meeting is to review the report and decide the process that Commissioners will take to respond to the BSA recommendations. Chair Sandoval reminded Commissioners that the processes need to provide time and opportunity for the Commissioners to evaluate, research and consult with all the Commissioners in addition to seeking outside advice and counsel. Chair Sandoval continued by indicating that he expects the BSA report to contain items that have not been brought to the Commissioners' attention in previous internal audits or management reports from the Student Aid Commission or EDFUND. Chair Sandoval concluded that the Commission is fortunate that the audit took place in order to bring the matters to the Commission's attention, an allow them to respond positively and constructively for the future of the students in the State of California.

Chair Sandoval reported that after the June workshop it will be time to reestablish the Commission committees with full leadership. He further indicated that this will allow the various Committees to do the work necessary to respond to the results of the BSA audit and to respond to what the Commission considers to be in the best interest of the students of the State of California.

## **AGENDA ITEM 1 – EXECUTIVE DIRECTOR'S REPORT**

Executive Director Michel began her report by indicating the last nine months have been extremely challenging for the Commission and its staff. She acknowledged the hard work of staff. Executive Director Michel indicated in today's meeting Commission staff will report on the latest cycle of the Cal Grant program. She reminded Commissioners that this is the time of the year when students make decisions about their higher education. Executive Director Michel indicated that the Legislature has introduced a number of bills dealing with the expansion of the Cal Grant program, the high school exit exam, and other issues related to the Commission's programs.

Additionally, Executive Director Michel indicated that staff will provide a recap of outreach efforts and Cash for College workshops. She updated Commissioners on new items this year that included WebGrants for Students, IVR (new phone system) and CSAC Training Academy. She also stated that the Commission had the opportunity to place new on-line video training opportunities featuring the Superintendent of Public Instruction and our School Services Unit.

Executive Director Michel explained that staff has done a tremendous job this year in bringing forth new initiatives designed to expand access and opportunity in higher education.

Commissioner Fousekis asked about the results of outreach efforts are this year and the number of students who will be receiving Cal Grants. Executive Director Michel responded that preliminary numbers indicate we are up a couple of percentages over last year. However, this year versus last year is not an accurate comparison because of the delays in processing which staff is currently addressing. The Program Administration & Services Division Chief, Max Espinoza, and Information Technology Division Chief, John Bays, will be providing more information later in the day.

Finally, Executive Director Michel introduced the Commission's new Special Counsel, Catherine Brown, who is on loan from the State's Attorney General's Office.

## **AGENDA ITEM 2 – APPROVAL OF FEBRUARY 23-24, 2006 MINUTES**

On **MOTION** by Commissioner McClain, **SECONDED** and **CARRIED**, the February 23-24, 2006 meeting minutes were **APPROVED** as presented. Commissioners Friedlander, Ortiz and Yew **ABSTAINED**.

## **AGENDA ITEM 3 – EDFUND PRESIDENT'S REPORT**

President Kipp began his report by indicating that EDFUND is at a very solid point to move forward and deal with the significant issues ahead. He indicated that EDFUND is a performance-based organization, an auxiliary of the California Student Aid Commission, working to provide administration and support for the student loan program in California and throughout the nation. President Kipp stated that as EDFUND faces difficult times it is necessary to focus on the core values: excellence, commitment, integrity and teamwork to guide and provide a foundation for what EDFUND does. He indicated that the BSA audit is another example of the kinds of challenges EDFUND deals with and deals with successfully.

President Kipp explained that the recent changes that were enacted as a result of the Deficit Reduction Act are affecting the financial structure of the loan program nationally. He further commented that there is a lot of attention on the default fee and the fact that it is now a mandatory charge to the students or is paid by some source of funding other than federal funds. President Kipp explained that in some instances the fee is being covered by guarantee agencies that have multiple lines of business, drawing on profits from other parts of their organization. EDFUND intends to honor their commitment to continue to waive and buy down the fee until October 1, 2006.

In some cases, the lenders are paying the fee for the students. EDFUND staff continues to have discussions with others about the possibilities of providing lower cost options to students throughout the period of the coming federal fiscal year. President Kipp indicated that it is anticipated virtually every guarantor's financial position will be such that they will have to charge the fee beginning July 1, 2007. He continued by stating that it is a very competitive market and EDFUND has enjoyed extraordinary growth and the key is being the premier service provider and being responsive to schools and lenders resulting in a strong base of support from the school and lender community. President Kipp stated that while price is one factor in a school or lender making a decision, the value added that a particular guarantor, such as EDFUND brings is also significant. He added that EDFUND has had schools that have announced they will send their volume through EDFUND in the coming years, even though their state or other competitor guarantors will not be charging the fee, because of the service levels EDFUND provides.

President Kipp continued his report by indicating six months into the year EDFUND's loan volume continues to grow resulting in a 3.1 percent increase over the prior year and \$2.5 billion in new Stafford loans. Consolidation loan volume is at \$1.5 billion which is a 263 percent increase over the prior year, exceeding more than a hundred million dollars over last year. President Kipp indicated that the other area in the Budget Reconciliation Act that presented a challenge was a change in the dynamics and the strategy for collections. He acknowledged that EDFUND has moved very aggressively to implement new collection techniques indicating that EDFUND is expected to exceed last year's collection recoveries and the collection revenues. President Kipp stated that the EDFUND revenue picture for the loan program remains positive.

President Kipp recognized the enthusiasm and dedication of the client relations management group indicating that they are actively recruiting other respected colleagues and friends for vacant positions, which is the ultimate testimony of the degree of confidence they have in the organization.

President Kipp ended his report by stating that EDFUND is in the final stages of filling the new general counsel position and found out last night that an extraordinary talented, much sought after young CFO has accepted a position with EDFUND.

Chair Sandoval asked President Kipp the status of the orientation for the new Commissioners. President Kipp responded that EDFUND staff will be arranging a time where they can provide an orientation for all the new Commissioners.

#### **CONSIDERATION AND POSSIBLE ACTION ON THE CERTIFICATE OF APPRECIATION FOR THE "I HAVE A DREAM" FOUNDATION - OAKLAND**

Chair Sandoval stated that at a previous meeting, Commissioner Fousekis requested that the "I Have a Dream" Foundation in Oakland be acknowledged by the Commission for their work.

On **MOTION** by Commissioner Fousekis, **SECONDED** and **CARRIED**, the Commission will formally acknowledge the Oakland "I Have a Dream" Foundation.

Chair Sandoval recessed to the Standing Committee meetings.

*The Commission operated as a Committee of the Whole.*

**STANDING COMMITTEE MEETINGS**

**Grants & Programs Committee Meeting**

**AGENDA ITEM 1.1 - CAL GRANT UPDATE**

Max Espinoza, Chief, Program Administration & Services Division, began his report by acknowledging the passing of Marco Antonio Firebaugh, former Assembly Member, and important advocate of Commission efforts and programming.

Mr. Espinoza began the Cal Grant update by explaining that 75,308 entitlement awards had been issued, reflecting a 1.4 percent increase over last year this time. The expectation is that the numbers will slightly increase as processing continues. In addition to the number of awards issued to date, Mr. Espinoza also provided the following information:

1. There was a decline in Cal Grant awards of 10.5 percent at the Community Colleges. There is no clear indication of the cause.
2. Over 4,470,000 Grade Point Average (GPA) forms were received for the 2006/07 March 2<sup>nd</sup> deadline. This reflects a 19 percent increase of received GPAs over last year.
3. Approximately 286,000 verified GPAs were received from high schools. This is at a two percent increase over the 279,000 GPAs received last year. 63,000 of these GPAs were received from students using the new downloadable GPA verification form reflecting a 13 percent decrease in the number of paper forms from students.
4. High schools reflected a 14 percent increase of GPAs submitted using the WebGrants GPA upload process. Commission staff views the increase as a result of increased outreach and training efforts that included use of real-time training for large groups, video clips and timely and responsive workshops on GPA uploading.

Discussion of the Transfer Entitlement (E2) program began with Anne Robertson, Manager, Cal Grant Operations Branch, explaining that efforts have been made to tighten eligibility edits for E2 awards. A processing oversight of E2 applicants in 2005-06 resulted in the need to reassess the E2 process.

Ms. Robertson reported that for the 2006-07 academic year Commission staff will place the E2 awards on hold and applicants will be sent a "preliminary award letter" with a certification form (Cal Grant Transfer Entitlement Certification Form) that will allow the student to "self-certify" their eligibility for an E2 award. Upon receipt of the certification form, the student's record will be reevaluated to determine eligibility and if deemed to be eligible, the hold status will be removed, thereby allow for payment to student. Students who do not meet the E2 eligibility requirements will subsequently be considered for a competitive award.

Mr. Espinoza added that this new E2 process is consistent with the proposed legislation addressing this issue and within the Commission's administrative authority.

Commissioner McClain expressed her joy with the manner in which Commission staff is working through the processing of the GPAs submitted by students and schools. She gave “kudos” to those individuals and efforts, such as the Cash for College efforts, counselor trainings, efforts of the Cal-SOAP offices and the “In-the-Classroom Grant” program that helps with securing the GPA for Cal Grant consideration.

Commissioner McClain asked if a “break-down” document of GPA activity would be generated like the one from last year generated by Dr. Samuel Kipp, EDFUND President. Mr. Espinoza said that Commission staff certainly could, but staff would have to be allowed the necessary time to do so. The data, he explained, has to come in so that research staff can review it and report observations.

Commissioner McClain explained that contact was made with schools that were low performing the previous year. These schools were encouraged to get the GPA filings done and were asked what the Commission could do to help. She added that the California Student Financial Aid Association (CASFAA) and California Community College Student Financial Aid Administrators Association (CCCSFAAA) membership were very proactive in helping address the filing issue.

Mr. Espinoza explained that he would work with Steve Caldwell, Chief of Governmental Affairs & Research, and the staff to compile data and report back to the Commissioners. Commissioner McClain added that the Commissioners intended to continue exploration of the GPA filing issue and sought to hold additional meetings with the stakeholders to see what does and does not work in terms of getting schools to file GPAs.

Executive Director Michel added that the Commission was in the process of hiring a new policy and research manager with the expectation of assessing and comparing GPA filing behavior by year. Commissioner Baltodano asked that, in addition to GPA filing data and the decline in Cal Grant awards at the Community Colleges, the Commission should also comment on the demographic aspects of the student population impacted with information such as ethnicity, race, and cultural identity since efforts are underway to provide greater access to students of color.

Commissioner Johnston asked if, after the student self-certifies of E2 eligibility, the CCs verified the documentation. Ms. Robertson responded that the Commission receives a GPA Verification Form from the Community Colleges for students with 24 units of attendance. Mr. Espinoza added that the GPA is received before the self-certification form is sent to the student; therefore, the form is being sent to students that may potentially be eligible because they have at least met the GPA requirement.

Commission Chair Sandoval commented on the need for the Commissioners to be provided with materials in advance to allow ample time for review. He asked that this matter be corrected and addressed by the Commission every time it surfaces. Executive Director Michel commented that the items received on this tab were “hot off the press” and that some of the other attachments had been issued before, but had been included so that Commissioners had the complete package.

Chair Sandoval responded by noting that several of the documents did not have dates on them and explained the difficulty in determining what areas of the presentation need to be addressed without having the opportunity to review the materials prior to the meeting. Mr. Espinoza assured Chair Sandoval that staff would do their best to get Commissioners needed meeting information in advance. Chair Sandoval clarified that his concern with securing timely materials for agenda items is not specific to the report being completed by the Grants & Programs Committee, but instead, a general concern for the body in how Commissioners receive materials. Commissioner Baltodano expressed that she would work more closely with Ms. Robertson and Mr. Espinoza to provide the Commissioners with information in a timely manner.

**AGENDA ITEM 1.2 - REPORT FROM THE GRANT ADVISORY COMMITTEE (GAC) CHAIR**

Grant Advisory Committee (GAC) Chair Mary Lindsey introduced herself and provided new Commissioners with a brief description of the role of the GAC. Chair Lindsey explained that the Committee is made up of three representatives from each of the five segments, the California Department of Education (CDE), the California Postsecondary Education Commission (CPEC), and CASFAA. The goal, she added, is for the various segments and other entities to work together to deliver Cal Grant funds to students.

Chair Lindsey explained that GAC had 17 recommendations to make to the Commissioners, but would only be providing highlights on the following:

- 1) California High School Exit Exam (CAHSEE) - GAC recommends that CSAC work with high schools and the CDE to obtain information that the student has a diploma. Other recommendations under CAHSEE were also included in the attachment.
- 2) Institutional Participation (IPA) - GAC recommends that their input be part of the review process to ensure that what is expected of 400 institutions, who participate in Cal Grant, is feasible.
- 3) Audit/Reconciliation/Cash Advance Findings - GAC recommends a short-term solution for 2006-07 and continued work for the following years: Expand the consultation process to include GAC as well as business officers and information technology staff for campuses. GAC also recommends that the Commission actually enforce its established Cal Grant deadlines since not enforcing them has contributed to the current problems. GAC fully supports Commission efforts to bring about pertinent processing change, but that it be done in a mindful and thoroughly considerate manner so that the changes are transparent to students and the money is delivered to them in a timely fashion.

Mr. Espinoza added that GAC was informed, during the April 14, 2006 GAC teleconference, that staff had informed the Commission that staff had originally hoped to have a plan for response to the audit findings for the April meeting but this was now being moved to June. Mr. Espinoza expressed his commitment to consult with GAC, in advance, prior to coming before the Commission. This approach will be used for the next GAC teleconference meeting scheduled for May 26, 2006, to vet the staff proposal with GAC in response to the internal audit.

On the matter of taking action on the noted GAC recommendations tied to the internal audit, Commissioner Furay asked for confirmation that the type of audit being conducted was an internal audit. Commissioner Furay then asked if action was required on the noted 17 GAC recommendations. Chair Lindsey explained that it was GAC's hope that the Commission would consider and take action on the recommendations.

Mr. Espinoza explained that many of GAC's recommendations deal with specific items that are separate and may or may not be a part of the materials presented, but will be presented eventually at a later date. He added that many of the audit recommendations are related to the audit, specifically on reconciliation and advances, and that will be before the Commissioners in June.

Commissioner Furay expressed concern about responding to specific recommendations (one, two, and three) in a timely manner. She did not want to arrive at the June 2006 Commission meeting and discover that they cannot take action in June on a certain issue because some action did not occur in June. Executive Director Michel recommended that GAC's recommendations regarding legislation be addressed during the Governmental Affairs agenda item. On the matter of internal audits, staff should be allowed to look at the GAC recommendations and be prepared to present the plan in June. Issues outside these two areas could be highlighted now if that is the Commission Chair's desire.

Chair Lindsey noted GAC's support of the Commission timeline for the development and writing of the new IPA, asking that staff adhere to the established timeline and GAC be directly involved with the drafting and development of the document. The other area of concern for GAC is the Cal Grant delivery system. GAC recommends that a workgroup be convened when looking at system enhancements that include business officers and information technology staff in addition to Commission staff. Commissioner Furay expressed concern about the real-time database (Phase I) and the IPA. Both Mr. Espinoza and John Bays, Chief of Information Technology, explained that the real-time effort, if funding allotted, is scheduled to begin July 1, 2006, and Phase II would follow in July 2007. Mr. Espinoza explained that the new IPAs must be in place, for all participating schools, in 2007.

Any concerns about timeliness were addressed by Executive Director Michel who stated that a meeting could be facilitated by staff before the June 2006 workshop to address specific issues. She also added that being able to time anticipated outcomes is tied to funding, legislative processes (hearings), secondary reviews by staff as needed and effective sequencing of events. Chair Sandoval reiterated that it is important that both the Chair of the Grant Programs Committee and GAC be kept up to date, informed of the next step to be taken by staff and a listing of the key issues.

GAC Chair Lindsey recommended that staff propose their recommendation on the issue, present it to GAC, determine if both GAC and staff agree and, if so, move forward. If not, GAC would bring those issues in which agreement could not be reached, to the Commission for consideration. Commissioner Baltodano agreed to try the recommended process if no objections.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Committee of the Whole **APPROVED** the recommendation to have staff enforce the October 15<sup>th</sup> reconciliation deadline with staff agreement.

**AGENDA ITEM 1.3 - ADOPTION OF PROPOSED REGULATIONS FOR THE STATE NURSING ASSUMPTION PROGRAM OF LOANS FOR EDUCATION (SNAPLE)**

Mr. Espinoza reported the following:

- 1) CSAC held a number of stakeholder meetings including one on February 3, 2006, that included the nursing community, postsecondary institution representatives, and the Office of Statewide Health Planning.
- 2) CSAC contacted GAC members and requested feedback. A GAC teleconference was held February 21, 2006. Staff continued discussion into the 45-day comment period (March 9 & 10, 2006). Staff reviewed and incorporated as many of the recommendations as possible prior to the beginning of the 45-day public comment period.
- 3) The Office of Administrative Law (OAL) published notice on March 3, 2006, with the public comment period ending April 17, 2006.
- 4) CSAC discussed SNAPLE during GAC's scheduled meeting on March 9 & 10, 2006.

In addition to the activities implemented to secure input from various stakeholders, Mr. Espinoza also explained that Commissioners had, for their review, 1) Initial Statement of Reasons (discussing SNAPLE regulations), 2) summary of comments and resources received during the 45-day period, and 3) a sample of the forms to be submitted to the OAL.

Mr. Espinoza asked the Commissioners to 1) approve and adopt the proposed SNAPLE regulations for submission to the OAL, 2) approve and request that the regulations take effect upon filing with the Secretary of State so that the Commission can begin administering the program before the close of the fiscal year, 3) approve and authorize staff to complete and sign appropriate forms, certifying on behalf of the Commission, for submission of the regulations to the OAL. If approved, he added, the OAL will have 30 working days for review.

Mr. Espinoza introduced Catherine Brown, Legal Counsel for CSAC, and Catalina Mister, Manager, Specialized Programs Operations Branch, responsible for administering the program. Ms. Mistler summarized the SNAPLE Program explaining the following:

- 1) Funds are not provided to the participant during the current fiscal year, but instead, are projected out.
- 2) Participants earn loan assumption benefits after they provide a full year of service as nursing faculty at a college.

In response to questions by Commissioner Fousekis, Ms. Mistler explained that the SNAPLE program pays students after they are out of school and teaching. She added that the program covers up to three consecutive years of "loan assumption" for eligible students teaching as nursing faculty in acceptable institutions.

A secondary issue noted by Ms. Mistler refers to the “unmet need” formula. As expressed by participants at the stakeholder meetings, many believed that the applicant pool would exceed the income ceilings for program eligibility since many may have incomes of over \$100,000 due to the pay inherent to the industry. Ms. Mistler explained that in order to address the need issue, there would have to be amendments to current law that requires certain levels of unmet need be in place.

Executive Director Michel explained that CSAC has communicated with the Department of Finance (DOF) and the Administration that the current legislation, modeled after the Assumption Program of Loans for Education (APLE), was inappropriate for this population (nurses) of students being served. The criteria from the APLE program (teachers) were replicated and it does not apply to nurses.

Executive Director Michel informed Commissioners that DOF and the Administration concurs with CSAC recommendations, has asked that CSAC work with the administration to amend the legislation and has expressed the desire to make payment for the 2005-06 academic year. This being the case, she explained the importance of the Commission understanding the concerns noted by the “field;” the need for further discussion about the process as it pertains to timing; and determine whether or not it is doable to have SNAPLE awards issued for the current 2005-06 year.

Chair Sandoval expressed his reservation to vote on information he had just received. He asked for further clarification of the fundamental differences between the Initial and Final Statement of Reasons. Ms. Brown explained that there are specific findings that have to be included in the Final Statement of Reasons, specifically such as whether the proposed regulatory action creates an impact on small business or whether it creates a mandate on local schools. Such findings, she added, have to be included in the Final Statement of Reasons at the end of the document. Ms. Brown concluded that changes to the document were minor and included a change of abbreviations used in the document and the removal of a comment deemed unnecessary.

In response to comments regarding the timeliness of the Final Statement of Reasons, Commissioner Fousekis noted that Ms. Brown explained the public comment period ended April 17, 2006, and the Final Statement of Reasons could not be delivered to Commissioners any sooner than the day of the meeting. That being said, Commissioner Fousekis urged Commissioners to vote on the recommendation the following day, thereby allowing people to read the document.

Commissioner Johnston expressed concern about limiting language in the regulations citing acceptable locations having to be in California and the accrediting entities recognized for the SNAPLE program. Commissioner Johnston reiterated his need to do an extensive review of the document before he votes on it.

Executive Director Michel encouraged Commissioners to have GAC highlight their comments to ensure concerns, as noted by Commissioner Johnston, are outlined for review. She explained that staff has had to deal with pressed deadlines, given legislative expectations that the Commission deliver SNAPLE services for the 2005-06 academic year. Executive Director Michel stated that staff does their best to meet the expected deadlines and believes that with a list of highlights, submitted by GAC, some concerns held by Commissioners may be addressed.

Chair Lindsey, in response to Executive Director Michel's example of Commissioners voting on administrative action over legislative processes in some cases, commented that the GAC recommendations (list) have comments set to the side for review by Commissioners for clearer understanding of the issue. Additionally, she noted that what may help with clarity on the review process for the Commissioners is for them to know their areas of latitude as it pertains to the regulations. The final piece, Chair Lindsey added, would be that staff and legal counsel interpret what is recommended by others and notifies staff what can and cannot be included in regulation changes.

Commissioner Roth asked about the reason for discomfort in voting on the regulations. Chair Sandoval explained that he would like the opportunity to read it. He added that given the degree of accountability being sought for previous Commission actions, he wanted the Commissioners to know what they are voting on, especially as it pertains to regulations.

Commissioner Fousekis asked for Commissioner Johnston's initial reactions to the SNAPLE regulations. Commissioner Johnston noted that the nursing program has a huge shortage and anything done to the legislation should do nothing but try to include and not exclude participation. The nursing industry, he added, is highly regulated and although he was unaware of what the law states, he did know that he did not want it to be limiting.

Chairperson Sandoval asked about the urgency to have the regulations approved. Ms. Brown explained that approval at this level triggers some additional review that happens after this step. So the difference, Ms. Brown added, is when the regulations will become effective knowing that a delay on approval further delays that date.

Commissioner Johnston asked if there had been authoritative communication from the Legislature or the Governor's Office. Executive Director Michel explained that, after meeting with the DOF, it is clear that they and the Governor would like to see awards for SNAPLE made for the 2005-06 academic year. Staff was asked to put the issue before the Commissioners to see what the will of the Commission is with regard to adoption of the regulations. The Administration and DOF want the Commission to work with them to fix the demonstrated financial need issue and any other concerns staff might bring back to them (DOF/Administration).

Commissioner Furay, along with Commissioner Fousekis, recognized the value of diligent review as it pertains to the SNAPLE regulations. Commissioner Furay also recognized, however, the importance of the selection process for SNAPLE and felt comfortable with the idea of creating a summary sheet, for distribution the next day, so Commissioners could review the changes to the regulations and respond accordingly.

Commissioner Fousekis added that if, after review of the changes to the regulations the next day, more review time is needed, a subsequent meeting could be arranged. Chair Sandoval agreed to review the SNAPLE regulations the next day with the understanding by others that he did not feel comfortable being forced into a decision.

**Outreach Committee Meeting**

**AGENDA ITEM 2.1 - ANNOUNCEMENT OF MARMADUKE AWARD WINNER**

Cheryl Lenz, Outreach Coordinator, outlined the process used to select a recipient for this year's Marmaduke award winner. The Marmaduke award, named in honor of the former long-time Director of the California Student Aid Commission, Arthur Marmaduke, who passed away this year, is provided to an outstanding high school counselor annually and includes a monetary award. The selected recipient was not announced at the meeting because it is to be a surprise for the recipient. No actions were taken.

**AGENDA ITEM 2.2 - PUBLIC AWARENESS CAMPAIGN UPDATE**

Carole Durante, Public Relations Manager, briefly summarized the activities staff had been working on, which included media strategy, public relations, integrating the Cash for College initiative activities into our Campaign, and ethnic and legislative Outreach.

Scot Crocker, President and Chief Executive Officer (CEO) of Crocker Flanagan, and David Flanagan, Partner/Creative Director summarized the activities the company provided. They reported that their charge was to provide outreach to priority schools, reaching age demographics of 16 to 19 year olds. A secondary audience, and just as important, the counselors and parents were targeted.

Bobby Pena, President of BP Cubed Inc., provided a report on the ethnic and legislative outreach. Mr. Pena also reported that as of the date of the Commission meeting, more than 65 television, radio, print interviews, articles and stories have been secured, specifically on the ethnic side.

Mr. Crocker closed the report of Crocker Flanagan by advising that the campaign would now move toward producing a research project that will be two phases. The first is targeting graduating seniors at the priority high schools, and their parents. The second phase will be working with Commissioner McClain to connect with high school counselors to determine what tools and materials were useful.

Cory Schwartz, Consumer Quest, presented findings from the research report his firm produced based on the work of the public awareness campaign work of Crocker Flanagan. The report was based on the priority schools list and should be available to the Commissioners soon.

Ms. Durante also indicated that Commission staff prepared and sent thank you letters to corporate sponsors who helped with the campaign.

**AGENDA ITEM 2.3 - CALIFORNIA CASH FOR COLLEGE RECAP**

Despina Costopoulos, Cash for College Coordinator, shared a video encapsulation developed by Next Wave Productions that provided images representing the nearly 280 workshops that were held through the March 2, deadline at community colleges, universities, high school, and community sites. Another 35 workshops will be held in 32 cities, from San Diego up to Ukiah and Marysville. Cal-SOAP has been instrumental in providing support for the workshops.

Several elected officials feel strongly about Cal Grants and the workshops, including Superintendent O'Connell, Speaker Nunez, Speaker Pro Tem Lee, Senator Soto, and Assemblyman Baca. Other members of the Central Valley, who are participating in the East Bay, are Assemblyman Torrico, Assemblywoman Hancock, Congressional representatives George Miller, Barbara Lee, and also the pioneer of the community workshop, Senator Ortiz, who has conducted these workshops for six years. Karen Micalizio and Louise Jones were acknowledge and thanked for their participation in the Cash for College efforts. Other important partners include Univision, the EOPS community, the Parent Institute for Quality Education (PIQE) and the Commission staff with hours of volunteer work who reached so many families in so little time.

The Cash for College campaign will offer follow-up support to students who attended the workshops and will refer them to the May workshops sponsored by the community colleges.

The Committee discussed the status of the outreach grants and whether or not funds were allocated for next year's public awareness campaign and outreach grants. Commissioner McClain responded by stating this is the last year.

Special thanks were acknowledged for the Cal-SOAP consortia, and the various CCC, CSU and UC campuses for all of their assistance and for the Education Financing Foundation which provided funding for a \$1,000 scholarship at each event as an extra draw.

In Los Angeles, the Univision program, "34 on Your Side" dedicated time to the Cash for College workshop efforts and generated approximately 90,000 telephone inquiries. The workshops netted close 10,000 returned surveys with an estimated 20,000 students served through the workshops.

#### **AGENDA ITEM 2.4 - PRELIMINARY DISCUSSION FOR NEXT YEAR'S PUBLIC AWARENESS CAMPAIGN**

The Committee briefly commented on the need to discuss funding for next year's public awareness campaign at the June meeting. Steve Caldwell stated that the Commission set aside \$25 million for three years, and this year was approximately \$8 million for the grants and the public awareness campaign, which was \$2 million and that approximately \$550,000, was dedicated to the California Cash for College campaign. It was determined that the Commission would need to evaluate the prior expenditures and results and then consider future funding. The current grant period ends in June.

#### **Governmental Relations Committee Meeting**

#### **AGENDA ITEM 3.1 - APPROVAL OF MARCH 14, 2006 MINUTES**

On **MOTION** by Commissioner Dyke, **SECONDED** and **CARRIED**, the Committee of the Whole approved the minutes of the March 14, 2006 Governmental Relations Committee meeting.

**AGENDA ITEM 3.2 - STATE LEGISLATIVE UPDATE**

Steve Caldwell, Chief, Governmental Relations and Policy Division, reported on the status of the legislative process and provided a short summary of recent bill activity titled Tab 3.2a.

Mr. Caldwell summarized several bills and noted that many were currently being amended including:

- **AB 2813** (De La Torre) which would add to the current Cal Grant programs by: 1) doubling the number of Cal Grant awards; 2) providing tuition and fees to Cal Grant B students in their first year of attendance; 3) increase the maximum age for students in the Community College Cal Grant Transfer Entitlement program from 24 to 27. The Commission has supported increases to the number of Cal Grant competitive awards, as well as providing tuition and fees to Cal Grant B students in their first year of attendance.
  - Kenny Evans from the California State Student Association testified in favor of AB 2813 and a letter was presented from Karen Yelverton-Zamarripa of the California State University, sponsors of the legislation.
  - Mary Robinson from the CSU also spoke in favor of the bill.

On **MOTION** by Commissioner Roth, **SECONDED** and **CARRIED**, the Committee of the Whole **ADOPTED** a **SUPPORT** position on AB 2813.

- **AB 1751** (Speier) which would increase the number of Cal Grant Competitive awards to 34,000. On **MOTION** by Commissioner Friedlander, **SECONDED** and **CARRIED**, the Committee of the Whole **ADOPTED** a **SUPPORT** position on AB 1751.
- **SB 1709** (Scott) the College Opportunity Act which includes many provisions to move California further toward reaching the goals of the Master Plan for Higher Education. No action was taken on this bill.
- **AB 751** (Chu) which would address organizations that participate in scholarship scam operations. No action was taken on this bill.
- **SB 1264** (Alquist) which would move the March 2<sup>nd</sup> Cal Grant Deadline to June 30<sup>th</sup>. Mary Lindsey, GAC Chair, summarized the Committee's discussion related to moving the Cal Grant deadline. Several issues of concern were expressed including consideration of various segments and colleges' spring priority enrollment deadlines and the fact that high school counselors would not be on campus in June to remind students and help them fill out the necessary forms. Karen Micalizio of CCCSFAAA testified that this change would greatly benefit Community College students. No action was taken on this bill.
- **SB 1383** (Ortiz) which would allow students who have not yet passed the CAHSEE to receive Cal Grant awards. No action was taken on this bill. Commissioner Johnston made a motion to support SB 1383, but upon further discussion, there was no second so the committee held off on taking a position on this bill.

The Committee heard a presentation from Mary Lindsey, GAC Chair related to the 17 recommendations the committee discussed related to implementation of Commission policy on verification of Cal Grant qualifications and the CAHSEE.

On **MOTION** by Commissioner Fousekis, **SECONDED** and **CARRIED**, the Committee of the Whole voted to direct Commission staff to work with the California Department of Education (CDE) to move toward utilizing the database that the CDE is currently developing that will include data related to students who have taken and passed or failed the CAHSEE.

Additionally, the Commission directed staff to convene a GAC meeting to discuss these issues.

Executive Director Michel also spoke to the fact that the Administration, through the Office of the Secretary for Education, is continuing to work with the CAHSEE and verification issues. The Governor's position is currently unknown on both issues.

### **AGENDA ITEM 3.3 - FEDERAL ISSUES UPDATE**

Steve Caldwell, Chief, Governmental Relations and Policy Division, referred to the information included in the Commissioners' agenda binders and provided a brief summary on any changes.

### **AGENDA ITEM 3.4 - DEVELOPMENT OF A COMMISSION POLICY ON COMMISSION RESOLUTIONS**

The Committee briefly discussed the staff recommendation to continue to bring ideas for resolutions and recognitions to the Commission on a case-by-case basis for the Commission's consideration.

On **MOTION** by Commissioner Roth, **SECONDED** and **CARRIED**, the Committee of the Whole **ADOPTED** the staff recommendation.

There was no public comment for the Governmental Relations Committee.

### **Audit Committee Meeting**

### **AGENDA ITEM 4.1 - AUDIT UPDATE**

Commissioner Johnston stated that the Audit Committee had been busy with the BSA performance audit which would be discussed later during the Commission meeting. Commissioner Johnston then asked Diane Manning, Chief Audit Executive, to provide the audit update.

**External Audit Update**

Ms. Manning indicated that this will be a very short update. She stated that on March 30, 2006, KPMG issued the audited financial statements of the Operating Fund and Federal Fund and EDFUND. The Commission has, therefore, met the federal compliance requirement to have the FFEL Program financial statements audited by March 31. Ms. Manning explained that this unusually late issuance was due to BSA's unwillingness to share information regarding their findings during the conduct of the performance review with KPMG. BSA allowed KPMG to attend their performance review exit meeting; at which time KPMG obtained sufficient comfort that no matters identified by BSA would have a material impact on the financial statements being audited by KPMG. Ms. Manning informed the Commission that the current contract with KPMG has ended and she will be issuing a Request for Proposal for financial audit services.

Ms. Manning informed the Commission that BSA has completed their annual compliance audit of the FFEL Program for the fiscal year ended June 30, 2005. BSA's statewide compliance audit report has not yet been issued but is expected to be publicly released later in April.

Ms. Manning also stated that the USED Region IX auditors will be performing a limited two week review of selected FFEL Program activities in August.

**CSAC Internal Audit Update**

Ms. Manning informed the Commission that Internal Audit is currently performing an audit of the grade point average collection process. The audit includes testing of the accuracy of the GPA data that resides in the Commission's Grant Delivery System. Ms. Manning anticipates the audit report to be released in June.

Commissioner Johnston asked what will be the next internal audit conducted. Ms. Manning stated that the next audit involved a review of the California Education Code requirements that must be satisfied in order for a student to receive Cal Grant funds.

**Legal Proceedings**

Catherine Brown, Commission staff counsel, stated that there are no legal matters to report to the Commissioners at this time.

**Fiscal Policy and Long-Range Planning Committee**

**AGENDA 5.1 - LOAN ADVISORY COUNCIL REPORT**

Janet McDuffie, Acting Chief of Federal Policy & Programs Division, reported that the Loan Advisory Council (LAC) held a teleconference meeting on April 11, 2006 to discuss the Legislative Analyst's Office (LAO) recommendation regarding how the State administers grant and loan financial aid programs. Ms. McDuffie provided the following synopsis of the issues raised during the discussion.

1. There was a question as to the significance of LAO's recommendation given that not all of LAO's proposals over the years have been adopted. Executive Director Michel reported that no one in the Legislature has introduced a bill yet which is where change would occur, but the Legislature is scrutinizing the budget and has questions about continuing to support Cal-SOAP and the Cal Grant Program through the Student Loan Operating Fund, although historically, the Legislature has strongly supported programs that benefit students.
2. Members were concerned about the perception within the financial aid community about the Commission and EDFUND's stability. EDFUND President Kipp indicated that his staff works with schools every day to assure them that EDFUND continues to deliver high quality service.
3. There was concern about EDFUND's ability, under the proposed structure, to adapt its technology to remain competitive. President Kipp remarked that technology enhancements are essential. The real focus is on growing the core business and continuing to work closely with customers and provide tangible benefits to borrowers.
4. Members expressed concern about LAO's proposal to increase oversight and do not want it to hinder EDFUND's ability to be successful in a highly competitive industry. Executive Director Michel indicated that there is a high level of scrutiny regarding accountability, and assured the committee that on the Cal Grant side, the accountability measures are in place. President Kipp commented that, in general, the loan program is one of the most heavily regulated and subject to various rigorous audits and he believes the organizational structure needs to provide a relative degree of autonomy with accountability.
5. Members did not agree on a single agency model. They felt that it does not matter what the source of student financial aid delivery is as long as it is integrated.
6. Although there were no recommendations, there was general discussion on the uses of the Student Loan Operating Fund.

Ms. McDuffie remarked that, in order to increase the quality of dialogue between LAC and the Commission, LAC should bring forth the ideas and policy issues they feel are most important and, in turn, the Commission could direct the committee as to what advice it wants to receive. Committee Chair Baltodano expressed appreciation for the good work of the committee and indicated that the Commission looks forward to a more involved time together.

**AGENDA ITEM 5.2 - TENTATIVE TIMELINE FOR APPROVAL OF OPERATING AGREEMENT, 2006-07 LOAN PROGRAM BUSINESS PLAN & BUDGET AND PERFORMANCE REVIEW OF EDFUND FOR FFY 2005-06**

Ms. McDuffie presented a tentative timeline for approval of the Operating Agreement, 2006-07 Loan Program Business Plan and Budget, and Performance Review of EDFUND for 2005-06.

Ms. McDuffie remarked that the current Operating Agreement needs to be revised. The agreement is tied to the roles and responsibilities that the Commission still needs to work

through. She also indicated that, in terms of the Loan Program Budget and Business Plan, the Commission's June 2005 Performance Review noted that budgetary controls need to be enhanced. As the student loan business becomes more competitive, the operating margins decline. Furthermore, as the State appropriates money from the Student Loan Operating Fund for a variety of State programs, joint planning between the Commission and EDFUND is more essential. She pointed out that the Commission must ensure that the State's interests are fully addressed and protected, and in order to do that, it is essential that Commission staff be involved in all stages of the Loan Program Business Plan and Budget.

Ms. McDuffie noted that the timeline also includes the next performance review of EDFUND for which Commission staff expects to bring a proposed plan to the Commission for approval in November to be implemented in January 2007.

Chair Sandoval commented that the timetable is unrealistic as it does not address the need to clarify roles and responsibilities first, nor does it deal with outstanding issues from the June 2005 Performance Review. He noted that the development of an Operating Agreement is one of the Commission's highest priorities but it must be done with the proper sense of direction to meet the expectations of the State.

Executive Director Michel remarked that Commission staff is attempting to inform the Commission that there are only a certain number of meetings prior to the deadlines, and there are additional requirements placed on the Commission as it relates to consultation with the Department of Finance and the Legislature. Those discussions must have a beginning point, which is why staff is presenting a tentative timeline based on the existing schedule of meetings and existing set of understandings. Staff still has the responsibility of bringing forward the requirements and looks to the Commission for guidance in terms of the involvement of EDFUND, the EDFUND Board and the Commission.

There was additional discussion regarding the need to discuss the outstanding issues prior to establishing a timeline. It was noted that the next day, the Commission will discuss its processes in response to the BSA audit findings and recommendations, including the process for developing a new Operating Agreement. The Commission would consider the tentative timeline as an informational item and would not take action.

### **AGENDA ITEM 5.3 - UPDATE ON SPACE PLANNING**

Ms. McDuffie reported that the building leases for the Commission and EDFUND will expire in the next eighteen months and Commission and EDFUND staffs have been looking at options in terms of staying within the same facilities or relocating. She explained that this agenda item is being presented in both the open and closed sessions of the Commission meeting because the Bagley-Keene Open Meeting Act allows for the Commission to discuss lease negotiation information in closed session, but requires that prior to the closed session, the potential locations under negotiation, and the persons involved in the negotiations, must be disclosed to the public.

Ms. McDuffie reported that the lease negotiations pertain to the following three facilities in Rancho Cordova:

1. Commission Headquarters – 10811 International Drive, Second Floor;
2. CSAC South – 10834 International Drive, Suite 100; and
3. EDFUND – 3300 Zinfandel Drive.

She also presented the following options under consideration:

1. Renewing the current leases;
2. Relocating to the Mather Commerce Center in Rancho Cordova; or
3. Relocating to the Arena Corporate Center in the Natomas/Sacramento area.

Ms. McDuffie explained that EDFUND will lead the negotiations on its current facility and the California Student Aid Commission will work through the Department of General Services on a sublease to the EDFUND lease for the space to be occupied by Commission staff.

#### **AGENDA ITEM 5.4 - VOLUNTARY FLEXIBLE AGREEMENT (VFA) UPDATE**

Ms. McDuffie explained that the Voluntary Flexible Agreement (VFA) is being presented in both the open and closed session because it was anticipated that that the U.S. Education Department (USED) would tentatively approve the VFA and begin the 30-day comment period, at which time the VFA would be a public document and the information could be presented in open session. However, that has not happened yet and, therefore, the more detailed presentation will be provided during the closed session. No action was taken during the open session.

#### **OTHER BUSINESS**

Chair Sandoval indicated that with the resignation of Commissioner Levine, there is a vacancy in the Personnel, Evaluation and Nominations (PEN) Committee; therefore, he has asked Commissioner McClain to fill that position.

#### **CLOSED SESSION**

Chair Sandoval reconvened the Full Commission and recessed into Closed Session to discuss and possibly take action on business matters of a proprietary nature pursuant to California Education Code, section 69525(g)(3) and pursuant to California Government Code, section 11126(c)(7) the Commission will meet to discuss lease negotiations of real property.

#### **RECONVENING OF THE FULL COMMISSION**

Chair Sandoval reconvened the Open Session of the Commission meeting at 5:40 p.m., and reported from the Closed Session pursuant to the California Education Code, section 69525(g)(3) and California Government Code §11126(c)(7). No action was taken during the Closed Session.

Chair Sandoval recessed the Commission meeting at 5:40 p.m.

**RECONVENING OF THE FULL COMMISSION**

The meeting of the California Student Aid Commission reconvened on Friday, April 21, 2006, at 3300 Zinfandel Drive, Rancho Cordova, California.

Chair James Sandoval called the meeting to order at 8:44 a.m.

The following Commission Members were present:

James Sandoval  
Louise McClain  
James Fousekis  
Josefina Baltodano  
Michele Dyke  
Daniel Friedlander  
Sally Furay  
Dean Johnston  
J. Michael Ortiz

The following Commission Members were absent:

Rory Diamond  
David Roth  
Joseph Yew

**PRESENTATION OF COMMISSION'S RESOLUTIONS**

The Commission presented the following resolutions:

- The Education Financing Foundation of California
  - Caroline Boitano
  - Ellen Cunningham
  - Art Hughes
- Jacqueline Tsang, former Deputy Director
- Maria Elena Serna, former Commissioner

**AGENDA ITEM 1.3 - ADOPTION OF PROPOSED REGULATIONS FOR THE STATE NURSING ASSUMPTION PROGRAM OF LOANS FOR EDUCATION (SNAPLE)**

The Commission continued its discussion regarding the SNAPLE.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission **ADOPTED** the proposed regulations for the SNAPLE program, in spite of misgivings cited by Commission discussion. The Commission directed the Executive Director and staff to work with the Legislature regarding the legislative issues.

**AGENDA ITEM 4 - 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**

Commissioners received as background information correspondences between Secretary for Education Bersin and the Executive Director regarding the transfer entitlement issue. Executive Director Michel provided a brief history regarding the transfer entitlement issue. She further explained that Commission staff made a recommendation to her that a comprehensive review or risk assessment of Cal Grant policies and procedures, including business rules to ensure compliance with statutory requirements, be performed. Executive Director Michel indicated that working with the former Chief Deputy Director, Jackie Tsang, Commission staff put together a procurement process to identify a contractor. As stated by Executive Director Michel, Chair Sandoval directed Commission staff to hold any further action and refer it to the Audit Committee.

Chair Sandoval stated that the two questions before the Commission are: 1) the need for a comprehensive review or risk assessment and 2) how should that assessment be completed? Chair Sandoval agreed that a comprehensive review needs to be completed, however, he questioned if the work could be accomplished by CSAC staff and the audit unit.

Executive Director Michel pointed out that there was an expectation from Secretary Bersin that the Commission provide assurances to the Governor's Office specifically that in 2006-07 there are no additional errors in the Transfer Entitlement Program. Working with the former Deputy Director it was determined that Commission staff outside of the audit staff could not absorb the additional workload and the risk assessment should be completed in a timely manner.

As a point of clarification, Chair Sandoval asked if the risk assessment was intended to be on the entire Cal Grant Delivery system and not just the transfer entitlement. He continued by stating that he believes that statements made by Commission staff in the past indicated that they were one-hundred percent confident that the error would not be repeated in the future. Chair Sandoval asked if the request went beyond the commitment that was made to Secretary Bersin.

Mr. Espinoza stated that he was concerned with the statement "one-hundred percent certain." Mr. Espinoza explained that Commission staff is certainly doing everything they can to ensure that there are not any issues and that is why they are asking for this risk assessment. He continued by explaining a risk assessment performed by an outside entity that is not wedded to any of the processes is recommended.

John Bays, Information Technology Division Chief explained that the Grant Delivery System was converted from a mainframe system in 1997, while there have been many changes much of the original data remains the same.

Commissioner Johnston expressed his concern regarding the potential cost and pointed out that the Commission has an internal audit unit that he personally trusts. Commissioner Johnston stated that while he had not seen the list of State contractors, he was concerned that the risk assessment would be too complicated and State contractors would not have experience in this area.

Chair Sandoval agreed with Commissioner Johnston and questioned whether a comprehensive risk assessment could be completed for \$100,000.

Executive Director Michel asked Commissioners if they would like staff to provide more detailed information.

Commissioner Fousekis expressed his concern that the Commissioners were debating a recommendation made by the Program Chief, Information Technology Chief and Executive Director. He stated that voting against this is the biggest risk. Commissioner Fousekis indicated that we should start with \$100,000, and if it cannot be completed, additional funding should be approved.

Commissioner Sandoval emphasized that he believes a comprehensive risk assessment needs to be done; however, it would not be prudent to approve a project without knowing the final costs.

Commissioner Furay requested more detail regarding the project. Executive Director Michel explained that Commission staff does not currently possess the resources to complete a comprehensive risk assessment and are seeking approval to contract with an outside party to review business rules and requirements and a road map to the statute to determine compliance. Executive Director Michel continued by explaining that it is high level and is not an audit; it is a risk assessment similar to the security risk assessment that was performed by consultants earlier this year. Commission staff is requesting this to be completed quickly so that they can focus on any issues identified by the consultants.

At the request of Commissioner Furay, Chief Audit Executive, Diane Manning listed the scheduled upcoming audits. Mr. Espinoza stated that the risk assessment is a Commission staff proposal to help provide assurances that the business rules and requirements from SB 1644 that led to the transfer entitlement issue are reviewed. Mr. Espinoza cautioned the Commission that waiting until the internal audits are completed places the Commission in a high risk situation.

Chief Deputy Director Keith Yamanaka indicated that the issue is that Commission staff has recommended that a risk assessment be completed; if the Commissioners feel that this can be completed by the internal audit unit within their schedule than that would be the Commissioners' decision.

Commissioner Johnston agreed, stating that staff needs to talk to the auditors and bring a recommendation to the Commission and not ask the Commissioners to ferret out the issue because that is ridiculous and the Commission wants cooperation before bringing proposals forward.

Mr. Espinoza explained that staff looked at the current audit schedule and determined that all the components that staff wanted reviewed in the risk assessment would not be covered by the current audit schedule.

Chair Sandoval stated that the Commissioners could in principal vote on a comprehensive risk assessment, but unless the Commission staff could ensure that it could be completed for less than \$100,000 than the Commission should just vote in principal only.

Mr. Yamanaka stated that Commission staff could not be certain that the risk assessment would be completed for under a \$100,000 and it is appropriate for the Audit Committee to move forward, as originally intended, and make a recommendation to the Commission.

Commissioner Fousekis stated that Ms. Manning should be involved in the process. Executive Director Michel pointed out the BSA finding on the subject of a conflict of interest regarding the current internal auditor. Commissioner Fousekis explained that regardless of what BSA auditors concluded, Ms. Manning is currently the Internal Auditor and should be kept informed.

Community College Chancellor's Office representative, Tim Bonnel, and GAC Chair and FIDM representative, Mary Lindsey, explained that one of the goals of GAC within their workgroups is to perform a comprehensive review of SB 1644, and all the regulations and the pieces of the education code. They informed the Commissioners of the importance of involving the school community.

On **MOTION** by Commissioner Fousekis, **SECONDED** and **CARRIED**, the Commission voted to authorize Commission staff, in consultation with the Internal Auditor to proceed to a risk assessment of the transfer entitlement award issue and procedures, to be done at a cost of less than \$100,000, and if it cannot be done for that amount that staff report back to Commissioners immediately to take other action.

## **COMMISSION REVIEW OF BUREAU OF STATE AUDITS (BSA) AUDIT REPORT**

Chair Sandoval began the discussion by thanking the Special Committee that was assembled to respond to the BSA report which consisted of Chair Sandoval, EDFUND Board Chair Furay, Commissioner Johnston, EDFUND Board Member Weis and Internal Auditor Diane Manning. Chair Sandoval explained the process for responding to the BSA audit. He indicated that the Special Committee previously requested and received input from Commission and EDFUND staffs in addition to Commissioners and EDFUND Board members. The Special Committee reviewed the raw material and incorporated it into the response to BSA including the rebuttal. Chair Sandoval indicated that he explained to BSA that neither himself nor the Special Committee had the authority to make determinations as to what the specific actions would be taken in response to the recommendations; however, they would be referred to the appropriate governance body and in some cases that would be the EDFUND Board and in other cases the Commission to decide the specific actions. Chair Sandoval explained that his commitment to BSA was to develop a process for acting on BSA's recommendations at today's Commission meeting. He stated that with Ms. Manning's assistance a Commission "Process Document" had been prepared as a proposed Commission process for acting on the BSA recommendations.

Chair Sandoval indicated that the creation of EDFUND, by the State of California, created a wonderful opportunity. He proceeded to state that EDFUND has proven itself to be very successful in providing service to students not only in the State of California but throughout the nation. Chair Sandoval stated that the success of EDFUND has brought with it an opportunity for the State to realize the benefits of off-loading its obligation to support the Grant Delivery System, a large portion of the outreach program in the State of California and more recently to pay for a portion of the State grant program. Chair Sandoval stated that the Commission's responsibility is to ensure that the EDFUND corporation is overseen in a manner that is consistent with State standards and also to ensure that an environment is created for EDFUND to continue to be successful.

### **1. Topic: Higher Education Reconciliation Act**

BSA Finding: The federal Higher Education Reconciliation Act of 2005 could make it difficult for the FFEL Program to generate an operating surplus.

BSA Recommendations: To determine if it remains beneficial for the State to participate in the FFEL Program as a guaranty agency, the Legislature should:

- Closely monitor Student Aid and EDFUND to ensure that they are able to remain competitive with other FFEL Program guaranty agencies.
- Closely monitor the Operating Fund to ensure that the FFEL Program is generating a sufficient operating surplus so that it can supplement funding to Student Aid's other services and programs. If it is unable to generate a sufficient operating surplus, the Legislature should require Student Aid to dissolve EDFUND and contract with another guaranty agency to administer the FFEL Program. The contract should include, among other things, a provision that allows Student Aid to receive a share of the revenues generated by the guaranty agency, which then could be used to supplement funding for Student Aid's other financial aid programs. In addition, the contract should include a provision for Student Aid to hire external auditors to ensure that the guaranty agency is complying with federal laws and regulations. Alternatively, the Legislature could reconsider the need for a state designated guaranty agency.

Student Aid should continue to reassess the fiscal impact on the FFEL Program caused by changes in the federal Higher Education Act and the recent announcements made by some large guaranty agencies that they will pay the federal default fee for borrowers.

Chair Sandoval's Summary Response: ...given the potential impact on the market of anticipated federal default fee decisions, the Student Aid Commission intends to monitor EDFUND's forecasts and market assumptions closely.

Proposed Commission Process: Request the EDFUND Board to require at its quarterly meetings explicit information on the effectiveness of EDFUND forecasts and market assumptions from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee and the Chair of the Commission.

Chair Sandoval opened up the discussion regarding Topic 1.

Executive Director Michel stated that Commission staff did not receive the "Commission Process Document" until yesterday so it did not allow sufficient time for the Commission staff to fully vet with the Commission Chair or the various Commissioners, responses regarding the recommended Commission processes. Executive Director Michel continued by indicating that the BSA report indicates the State's interests need to be adequately protected and based on the report, the State's interests are not being protected. She further indicated that Commission staff believes they should be involved in the Commission processes to provide the necessary identification and consideration of potential loan program policy issues that affect the State and which the State must address. While EDFUND is relied upon to be experts in the FFEL Program the Commission needs to rely on the Commission staff to be the experts on State policy issues and therefore, protecting State interests.

Executive Director Michel reminded Commissioners that based on the letter from the State Auditor Elaine Howell, BSA indicated the process should include a time table. Ms. Howell's letter indicated that the BSA auditor is requesting a response within a 60-day period, a six-month period and one-year period.

In response to Topic 1, Executive Director Michel stated that the process does not fully address BSA concerns. The report should be provided to the Executive Director and staff for review and comments in addition to the Chair of the Commission and the Chair of the Fiscal Committee.

Chair Sandoval responded by indicating that it was implicit in the process that Commission staff will be supporting both the Chair of the Commission's Fiscal Policy Committee and the Chair of the Commission in receiving the information from the EDFUND Board, and that the Commission would make it more explicit.

Additionally, Commissioner Fousekis suggested that a team be established to address the Legislature on this issue. This team would consist of the Executive Director, the EDFUND President, the Chair of the Commission, the Chair of the Audit Committee, and the Chair of the Governmental Relations Committee, and possibly the Chair of the EDFUND Board. Chair Sandoval indicated that he would follow up with Commissioner Fousekis regarding the process for proceeding with the hearing responses. Commissioner Fousekis expressed concern that the appropriate people be available for the hearings.

Chair Sandoval responded by indicating that he has already expressed an interest and has made calls to ensure that the Commission along with those folks suggested by Commissioner Fousekis is involved in the hearings. He continued by indicating that they will run into Bagley-Keene issues and may not be able to have pre-meetings but they will need to take it one step at a time. A lot of it will be based upon availability and we have to have our story straight, and that was the Commission's attempt in terms of talking points distributed yesterday regarding the major findings.

Commissioner Furay pointed out that the Commission Process for Topics 1 and 2 are the same and could be reviewed, discussed and approved at the same time.

## **2. Topic: Other Federal Changes**

BSA Finding: Other federal changes caused EDFUND to shift its strategy for collecting on defaulted student loans.

BSA Recommendation: Student Aid should monitor EDFUND'S progress toward reducing its reliance on defaulted loan consolidations.

Chair Sandoval's Summary Response: EDFUND has already adapted its collection strategies to conform the HERA (Higher Education Reconciliation Act of 2005) even though the Act's new collection provisions take effect on October 1, 2006 and then later in 2009...., and the Student Aid Commission will monitor the actual collection revenues and the financial impact upon the Student Loan Operating Fund.

Proposed Commission Process: Request the EDFUND Board to require at its quarterly meetings specific information on EDFUND default collections from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Processes:

Topic 1: Request the EDFUND Board to require at its quarterly meetings explicit information on the effectiveness of EDFUND forecasts and market assumptions from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee and the Chair of the Commission.

Topic 2: Request the EDFUND Board to require at its quarterly meetings specific information on EDFUND default collections from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee.

Commissioners Friedlander and Ortiz **ABSTAINED**.

### **3. Topic: Voluntary Flexible Agreement**

BSA Finding: Student Aid may have lost the opportunity to receive millions in federal revenue because it failed to renegotiate its Voluntary Flexible Agreement promptly.

BSA Recommendations: The Legislature should closely monitor Student Aid's progress toward completing critical tasks including the renegotiation of its Voluntary Flexible Agreement with the U.S. Department of Education...

Student Aid should ensure that critical tasks, including the renegotiation of its Voluntary Flexible Agreement with the U.S. Department of Education ...are completed.

Chair Sandoval's Summary Response: The ability to successfully conclude negotiations is to a large degree determined by the U.S. Department of Education...

Proposed Commission Process: Await action by the U.S. Department of Education, while keeping in touch with federal officials. EDFUND management will report immediately to the Board and Commission any new developments in the negotiations.

Chair Sandoval opened up the discussion regarding Topic 3.

Executive Director Michel reminded Commissioners that in a recent meeting with Department of Finance (DOF), DOF suggested that the Commission elevate the VFA conversation to the Administration on behalf of the Commission. She suggested that the Commission may want to consider DOF's suggestion to demonstrate that the Commission has taken every appropriate action to ensure that a VFA is in place. President Kipp stated he attended the meeting with DOF and indicated that it might be appropriate to elevate to DOF once the VFA is forwarded to the U.S. Secretary of Education; however, not before because it would be perceived as "arm twisting" or a lack of confidence in the USED staff that staff works with on a regular basis. President Kipp concluded that the Commission and EDFUND are almost at that point and he has no problem doing it at that time but as a general response it would be a mistake.

Chair Sandoval indicated that the Commission tried to emphasize the sensitivity of the VFA negotiations with BSA, and the Commission does not want to misstep and compromise the Commission's ability to finalize a VFA that is in the Commission's favor.

The Commissioners discussed adding language to involve the California Administrative officials only after the VFA has been forwarded to the U.S. Secretary of Education and not before. Commissioner Furay stated that any new developments regarding the VFA, will be discussed automatically by President Kipp to Executive Director Michel.

On **MOTION** by Commissioner McClain, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 3: Await action by the U.S. Department of Education, while keeping in touch with federal officials. If necessary, involve California administration officials once the Voluntary Flexible Agreement is forwarded by the Department's staff to the U.S. Secretary of Education. EDFUND management will report immediately to the Board and Commission any new developments in the negotiations.

Commissioners Friedlander and Ortiz **ABSTAINED**.

#### **4. Topic: Business Diversification**

BSA Finding: Efforts to increase revenue through business diversification have not succeeded.

BSA Recommendations: The Legislature should closely monitor Student Aid's progress toward completing critical tasks including ...the development of a business diversification plan.

Student Aid should ensure that critical tasks, including ...the development of a diversification plan, are completed.

Chair Sandoval's Summary Response: The Student Aid Commission intends to work with EDFUND to accomplish its business diversification objectives while taking into consideration the current financial position of the Student Loan Operating Fund and the limitations placed in the 2004 state law.

Proposed Commission Process: The Commission has several possible alternatives:

- Establish a joint Commission/Board Committee as has happened twice in the past;
- Delegate further exploration to the Commission and its staff;
- Delegate further exploration of this issue to the EDFUND Board and its management;
- Contact with a specialist agency to explore business diversification opportunities.

Progress should be reported semi-annually at Commission and Board meetings until such time as the Commission determines such reports are not longer needed.

Chair Sandoval stated that the fundamental idea is that we proceed to develop a business diversification plan with an understanding that there is a real and concrete limitation in terms of funding, but the financial reality should not prevent us from proceeding with the plan development. At this point, Chair Sandoval opened up the discussion regarding Topic 3.

Executive Director Michel pointed out that the statute requires the Joint Legislative Budget Committee (JLBC) to approve a business diversification plan and suggested that as part of the

process there should be an inclusion of the JLBC and recognition that the State would also like involvement of DOF and the Administration. The Director reminded Commissioners that the Commission was criticized severely during the recent budget hearings that negotiations had occurred without DOF's or the Administration's knowledge.

Commissioner Fousekis stated that the Legislature should also be involved; however, with limited funds he was concerned about options and requested President Kipp's input.

President Kipp recognized that looking for new opportunities is never a waste of time; however, he stated that the range of opportunities that may be available is limited. President Kipp stated that the main point is developing some kind of diversification plan. He continued by indicating that he does not have a problem with the process at the moment; however, he stated that we are far better off of having conversations, discussions and the rest with various possible parties.

President Kipp pointed out that several studies have been completed and have identified alternatives that have not materialized; at this stage, to engage in a wholesale planning effort does not make a lot of sense. He stated that we need to continue to gather market intelligence and investigate possible diversification opportunities.

Executive Director Michel stated that BSA asked the Commission to identify the person or persons responsible for each of the recommendations.

The Commissioners discussed forming a special committee to discuss business diversification. It was pointed out that a special committee was formed previously and they liked the idea of a collaborative effort; however, it was determined that one person should be assigned the task.

President Kipp indicated that business diversification is one of the expectations for the new Chief Fiscal Officer (CFO) to accomplish in the first 12 months. President Kipp continued by indicating that part of the reasons the specific CFO was selected was because of the promising possibilities the person can offer.

Commissioner Fousekis stated that appointing one person the task of diversification was a good approach but the expectation is the person would report to the Commission either in open or closed session of the status at every meeting so that the Commission has the oversight that the BSA wants and the Commission will be able to inform BSA of the status. Commissioner Fousekis added that the CFO should coordinate with the Executive Director to ensure she is updated.

President Kipp agreed that there should not be a problem with the expectation of reporting at each Commission meeting.

Chair Sandoval stated that BSA will be looking for a timeline for completion of a business diversification; therefore, one of the first things that the CFO should do is to deliver a timeline

On **MOTION** by Commissioner McClain, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 4: Delegate diversification exploration to the EDFUND Chief Financial Officer. The CFO will report to the EDFUND Board, Commission, and Executive Director at each regularly scheduled meeting with the goal of developing a diversification plan.

Commissioners Friedlander and Ortiz **ABSTAINED**.

## **5. Topic: Operating Agreement**

BSA Finding: Student Aid and EDFUND have been unable to agree on a new operating agreement for the FFEL program that delineates their respective roles.

BSA Recommendation: Student Aid should ensure that the roles and responsibilities it delineates for itself and EDFUND do not inappropriately cede its statutory responsibilities to EDFUND.

Chair Sandoval's Summary Response: The Student Aid Commission decided to renew the existing single-year operating agreement until it makes a final determination about the appropriate roles and responsibilities of both organizations. The Commission believes the two issues – the operating agreement and the roles and responsibilities upon which it must be crafted – are inextricably intertwined.

Beginning with a more detailed clarification of the respective roles and responsibilities of the Commission and EDFUND, the Student Aid Commission will work to develop policies and definitions to ensure that its own oversight mandate and EDFUND's operational role are managed effectively under both with state and federal law.

Proposed Commission Process: The Commission has several alternatives:

- Establish a joint Commission/EDFUND Board Committee on roles and responsibilities.
- Ask CSAC financial and oversight staffs to act quickly to identify and list all activities of their oversight operations, along with costs and personnel required to accomplish the activities; request the EDFUND Board to ask EDFUND management to do the same. Hire an outside financial/legal consultant to review these lists and the cost data identify required conformance with state statutes, and ascertain whether there is unnecessary duplication of tasks.
- Establish a separate joint Commission/EDFUND Board Committee to oversee timely development of other aspects of a new operating agreement.
- Combine operating agreement issues and roles and responsibilities in one committee.
- Cross-reference to Topic 10.

Chair Sandoval began the discussion by indicating that the Operating Agreement is directly tied with roles and responsibilities. He explained that feedback from BSA indicated that the current roles and responsibilities draft document is too broad and leaves too much to interpretation in terms of the degree of autonomy that EDFUND has and, therefore, the roles and responsibilities document does not go far enough in delineating between specific responsibilities between Commission and EDFUND staffs.

Executive Director Michel explained that establishment of a joint committee on roles and responsibilities is in direct conflict with the BSA report, which indicates that the Commission is responsible and should not be negotiating oversight with EDFUND and if a consultant is hired to review information, it should be contracted through a Commission contract to ensure that the State's oversight of EDFUND meets both federal and state requirements. She concluded by stating that a State function should be maintained in the process.

At the request of Commissioner Johnston, Commissioner Furay explained the process for developing the ninth draft of the roles and responsibilities.

Chair Sandoval suggested combining the Operating Agreement, roles and responsibilities, and performance review into one committee to complete.

Commissioner Fousekis expressed concern that BSA will want to see action and he supports the timeline that Ms. McDuffie provided yesterday and suggested that the Commission should try to meet it.

Chair Sandoval agreed that BSA wants to see action; however, he does not think the Commission should restrict itself to a specific timeline until it is known that they can meet the timeline.

Commissioner Furay stated that she liked the idea of incorporating into the motion (identification and list of all activities of oversight operations, etc.) in some form; however, Chair Sandoval indicated that this could be an action of the committee itself and does not necessarily need the approval of the full Commission. He added that if Commissioner Furay agreed to chair the committee, he did not see the need to add this particular issue to the motion for approval.

On **MOTION** by Commissioner Baltodano, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topics 5, 9 and 10: Establish a Special Committee co-chaired by Commissioners Sandoval and Furay. This committee is responsible for developing a final draft of roles and responsibilities and a new draft Operating Agreement for review and approval by the Board and Commission. This Special Committee is also responsible for overseeing completion of the 2005 Performance Review tasks (see Topic 10). Additionally, this Special Committee is responsible for overseeing the establishment of appropriate verification and reporting processes and expectations of the oversight division. (Topic 9) The Special Committee may appoint subcommittees to assist in carrying out its responsibilities.

Commissioners Friedlander and Ortiz **ABSTAINED**.

Executive Director Michel stated that the specific roles the Commission wants staff to do should be specified.

## 6. Topic: Concerns Raised Regarding Accomplishment of Performance Goals

BSA Finding: Student Aid has not fully addressed concerns raised by an assessment of EDFUND's accomplishment of performance goals.

BSA Recommendation: Student Aid should follow through on issues raised by its staff regarding EDFUND's operations.

Chair Sandoval's Summary Response: The Student Aid Commission's executive director and the EDFUND president are working to review the methodology for measuring year-end performance under the performance goals and metrics agreed to by the Student Aid Commission and EDFUND. Meetings to discuss the measurement standards are already scheduled for April 2006 and the Commission will await the results of those meetings before developing its actions related to the assessment of EDFUND's performance goals.

Proposed Commission Process: When recommendations are received from the Executive Director of the Commission and the EDFUND President, set policy on performance goals, methodology, and metrics for the 2006-2007 federal fiscal year.

Chair Sandoval asked Executive Director Michel and President Kipp when the Commission will receive their recommendation. President Kipp and Executive Director Michel indicated that a meeting is scheduled on April 24, 2006 between staffs. Chair Sandoval stated that he expects a recommendation by June 1, 2006.

The Commissioners agreed that the recommendation should be provided to the Fiscal Policy and Long-Range Planning Committee for discussion and recommendation to the Commission.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 6: The Executive Director and EDFUND President will provide policy recommendations on performance goals, methodology, and metrics for the 2006-07 federal fiscal year. This information will be provided to the Commission's Fiscal Policy and Long-Range Planning Committee by June 1, 2006 after review by the EDFUND Board at its mid-May 2006 meeting.

Commissioners Friedlander and Ortiz **ABSTAINED**.

## 7. Topic: Relinquishing Oversight Circumvented State Law

BSA Finding: Student Aid circumvented state law by erroneously relinquishing a key oversight responsibility to the EDFUND Board.

BSA Recommendation: Student Aid should rescind its delegation of the approval authority of EDFUND's detailed operating budget to the EDFUND board.

Chair Sandoval's Summary Response: To the extent that the Commission's action has been interpreted as delegating the approval of the budget to EDFUND, such delegation was not the Commission's intent. Consequently, the chair will schedule action for the Commission to clarify its intent.

Proposed Commission Process: At the Commission's June meeting, the Chair of the Commission will schedule action to clarify the Commission's intent.

Chair Sandoval indicated that the language in the previous motion to establish a review of the Capital Utilization Plan needs to be changed in order to make it clear that the review and final approval of the budget needs to be completed by the Commission and has not been delegated to the EDFUND Board. He stated that this would be discussed at the June Commission meeting.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 7: At the Commission's June meeting, the Chair of the Commission will schedule action to clarify that the final review and approval of the Capital Utilization Plan, including the budget, needs to be done by the Commission and has not been delegated to the EDFUND Board.

Commissioners Friedlander and Ortiz **ABSTAINED**.

## **8. Topic: Business Plans and Budget Unaddressed Concerns**

BSA Finding: Student Aid approved EDFUND's federal fiscal years 2005 and 2006 business plans and budget despite several unaddressed concerns.

BSA Recommendation: Student Aid should follow through on issues raised by its staff regarding EDFUND's operations.

Chair Sandoval's Summary Response: The chair of the Student Aid Commission intends to direct the Commission's Fiscal Policy Committee to establish process and appropriate dates for the evaluation of Commission staff recommendations on the EDFUND business plan and budget to ensure the timely submission and consideration of these recommendations.

Proposed Commission Process: The Commission's Fiscal Policy Committee will seek recommendations from EDFUND management and CSAC staff and propose to the Commission a schedule to ensure timely submission and consideration of EDFUND's business plan and budget.

Chair Sandoval stated that the Commission is asking the Executive Director and the President to develop an agreed upon timeline for submission of the Loan Program Business Plan & Operating Budget, and in doing so, to consider the recommendations by Commission staff that had not been entertained by the Commission, and the timeline for submission of the recommendations should be completed by June 1<sup>st</sup>, which will allow sufficient time for the Fiscal Policy and Long-Range Planning Committee to review it prior to the June 22<sup>nd</sup> Commission meeting.

Executive Director Michel stated that Commission staff provided a Business Plan and Budget timeline in November and has not received a direct response.

Commissioner Furay clarified to the Commission that the topic refers to previously unaddressed items. She suggested that the items left unaddressed should be reviewed between staffs as part of the 2006-07 process as it would be helpful.

President Kipp indicated that a June 1, 2006 deadline could be met; however, he was not sure that it should be built on a proposal that was offered by CSAC staff which is different from EDFUND Board's expectations.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 8: The Commission's Fiscal Policy Committee will seek recommendations from EDFUND management and CSAC staff and propose to the Commission a schedule to ensure timely submission and consideration of EDFUND's business plan and budget. This proposed schedule will be submitted to the Commission by June 1, 2006.

Commissioners Friedlander and Ortiz **ABSTAINED**.

### **9. Topic: Independently Verify Reports**

BSA Finding: Student Aid does not independently verify the reports submitted by EDFUND.

BSA Recommendation: Student Aid should require staff to independently verify the accuracy of the reports submitted by EDFUND.

Chair Sandoval's Summary Response: The Student Aid Commission concurs with the Report's recommendation and will establish appropriate verification and reporting processes, including examining whether the operating agreement needs to address such processes.

In light of the finding posed in this audit, the Commission is committed to revising and clarifying its roles and responsibilities, including the expectations of the oversight division.

Proposed Commission Process: Combine this issue with processes established in Topic 5.

### **10. Topic: Acting Upon Key Tasks in Performance Review**

BSA Finding: Student Aid has not acted upon key tasks identified in its performance review of EDFUND.

BSA Recommendation: Student Aid should complete key tasks outlined in the June 2005 mandated performance review of EDFUND.

Chair Sandoval's Summary Response: The chair of the Student Aid Commission intends to request the members of the Commission to convene a committee to oversee the timely development of a new operating agreement. The operating agreement is the means by which the vast majority of the Commission's actions with respect to the performance review recommendations are to be adopted. To inform that process, the Commission will review the key tasks outlined in the June 2005 performance review and direct its staff and EDFUND to develop action plans in accordance with its conclusion.

Proposed Commission Process: This issue will be addressed by the Special Committee described in Topic #5.

Commissioner Furay stated that Topics 9 and 10 were addressed in a previous motion and that the Commission could move on to the next topic.

## 11. Topic: Executive Salary Determination

BSA Finding: EDFUND's policy does not meet federal requirements for executive salary determination; nor does it comply with its own policy.

BSA Recommendation: 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.

Chair Sandoval's Summary Response: Consistent with the findings in this Report, the Commission will request the EDFUND Board of Directors to evaluate the compensation comparison methodology and to employ expert counsel to advise it on whether the comparison methodology it adopts satisfies federal requirements for tax-exempt organizations.

We agree that EDFUND should comply with its policy requirement that the executive committee of the Board maintain detailed minutes describing the salary determination process, including the avoidance of a conflict of interest by any board member, as required by its Bylaws and corporate policy.

Proposed Commission Process: Officially request the EDFUND Board to seek advice of outside legal counsel on the adequacy of the compensation comparison methodology used by EDFUND in meeting federal requirements for nonprofit tax-exempt organizations. Ask EDFUND's Board to affirm to the Commission that the Board's executive committee will keep detailed minutes describing its salary process.

Commissioner Furay stated as the EDFUND Board Chair this should not be a problem and she would schedule it for discussion at the next Board meeting.

Ms. McDuffie stated that this process merely asks the EDFUND Board to affirm their compliance and that is not monitoring. She suggested that EDFUND report to the Commission.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 11: Officially request the EDFUND Board to seek advice of outside legal counsel on the adequacy of the compensation comparison methodology used by EDFUND in meeting federal requirements for nonprofit tax-exempt organizations. Ask EDFUND's Board to report to the Commission that the Board's executive committee will keep detailed minutes describing its salary process.

Commissioners Friedlander and Ortiz **ABSTAINED**.

## 12. Topic: Incentive Compensation

### BSA Findings:

- Student Aid's policy regarding EDFUND executive incentive compensation is flawed. Student Aid allows EDFUND's Executive Management Team to receive substantial

bonuses even with an operating deficit. The policy specifically excludes certain loan program revenues and expenses.

- The board's determination of the total bonus amount for vice presidents appears inconsistent.
- EDFUND uses high-level organizational metrics to measure its performance and award incentive compensation to non-executive employees.

BSA Recommendations:

Student Aid should:

- Ensure that EDFUND determines bonuses for its president in accordance with Student Aid's policy.
- Modify its policy statement and guidelines memorandum entitled "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.
- 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 of 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 non-executive employees.

Chair Sandoval's Summary Response: The chair of the Student Aid Commission will schedule meetings for the Commission to examine its policy for the approval of incentive compensation and make corresponding changes in the Operating Agreement.

Proposed Commission Process: In the light of the BSA comments, request the EDFUND Board to review with its management, all aspects of the incentive compensation policy approved by the Commission in August, 2002, and propose appropriate adjustments to the Commission's PEN Committee and the Commission for their review and approval before the end of the fiscal year, so that any changes may become effective in fiscal 2006-2007.

Commissioner Furay stated that EDFUND is already discussing this issue with BSA and requested guidelines.

Commissioner Baltodano questioned whether there would be any anticipated disconnect with what we are going to be paying the new CFO given BSA's concerns.

President Kipp replied that he didn't think so and that EDFUND made no promises. He stated that EDFUND simply explained that currently it is discretionary and we emphasized "discretionary" incentive program involving executive staff and there is no way of either assuring or guaranteeing any particular amount.

On **MOTION** by Commissioner Baltodano, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 12: Officially request the EDFUND Board to seek advice of outside legal counsel on the adequacy of the compensation comparison methodology used by EDFUND in meeting federal requirements for nonprofit tax-exempt organizations. Ask EDFUND's Board to report

to the Commission that the Board's executive committee will keep detailed minutes describing its salary process.

Commissioners Friedlander and Ortiz **ABSTAINED**.

### 13. Topic: Spending Practices

BSA Finding: EDFUND's imprudent spending practice.

#### BSA Recommendations:

Student Aid should:

- 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 expense related to non-employees attending its company functions.
- Ensure that reimbursements to commissioners for their expenses are not excessive.

Chair Sandoval's Response: The Commission will request the EDFUND Board of Directors to propose for the Commission's consideration a policy that governs the expenses and scope of the employee conferences, employee recognition events, and the appropriate costs of annual Board of Director workshops.

Proposed Commission Process: Commission process is already identified in the Chair's Summary Response above.

Chair Sandoval stated that there does need to be consideration of the nonprofit status of EDFUND, but ultimately the Commission will have the final say about the policy.

Ms. McDuffie suggested clarification regarding how the monitoring would be carried out.

Commissioner Furay stated that Topic 13 should be considered when EDFUND management and Commission oversight staff put together a list to be considered with the roles and responsibilities discussion.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 13: The EDFUND Board would be asked to propose for the Commission's consideration a policy that governs the expenses and scope of employee conferences, and recognition events, and appropriate costs of annual Board of Directors Workshop.

Commissioners Friedlander and Ortiz **ABSTAINED**.

#### 14. Topic: Travel Policy

BSA Finding: Student Aid did not ensure that EDFUND's travel policy was fiscally conservative; in some instances, EDFUND and Student Aid did not comply with their travel policies.

BSA Recommendation: Student Aid should amend its operating agreement to require EDFUND to establish a travel policy that is consistent with the State's policy.

Chair Sandoval's Summary Response: The findings and recommendations in the Report with respect to EDFUND's travel policies will be reviewed and deliberated by the Commission. In that review, the Commission intends to consider EDFUND's status as a nonprofit corporation and its competitive role in the marketplace. Additionally, the chair of the Commission and the chair of the EDFUND Board will direct management in each organization to establish processes to ensure compliance with the travel policy exceptions noted in the Report.

Proposed Commission Process: The Commission will request of the EDFUND Board a complete review of all aspects of the current travel policy, with current practice and any adjustments or changes to be fully explained and documented prior to submission to the Commission for its review and approval.

On **MOTION** by Commissioner Fousekis, **SECONDED** but **NOT VOTED ON**, the Commission moved the following Commission process.

Topic 14: The Commission will request the EDFUND Board to complete a review of all aspects of the current travel policy, with current practices, any adjustments or changes to be fully explained and documented prior to submission to the Commission for its review and approval.

#### 15. Topic: Contracting Policies

BSA Finding: EDFUND contracting policies are vague and lead to frequent non-compliance.

BSA Recommendations:

Student Aid should:

- 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.

Chair Sandoval's Response: EDFUND is in the process of improving its contracting policy to require documentation to be maintained by contract officers, to improve the quality of information provided for sole source justifications and cost-benefit analysis, and to ensure that work is not initiated or approved in advance of obtaining signed contract documents. The chair will request a report to be submitted to the Commission with respect to actions taken by EDFUND.

Proposed Commission Process: The Commission will request the EDFUND Board to revise and tighten EDFUND's contracting policies in the immediate future, and submit a report to the Commission by its September, 2006 meeting that this has been accomplished and reviewed by the EDFUND Board.

Commissioner Furay indicated that this topic has almost been completed, but since a new CFO and general counsel will be on-board soon, they should have an opportunity to review and comment.

Chair Sandoval requested that if possible, this should be provided to the Commission prior to the June meeting; however, if the new staff members have not started we have until the September meeting.

Executive Director Michel commented that BSA recommended that the policies be approved by the Executive Director and while BSA's report did not recommend compliance with State contracting policies, Commission staff review should be a part of the process. Additionally, she stated that the process does not specifically address an amendment to the Operating Agreement.

Commissioner Furay responded that these issues would be dealt with by the Special Committee.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 15: The Commission will request the EDFUND Board to revise and tighten EDFUND's contracting policies in the immediate future and submit a report to the Commission by its September 2006 meeting that this has been accomplished and reviewed by the EDFUND Board.

Commissioners Friedlander and Ortiz **ABSTAINED**.

## **16. Topic: Closed Session Meetings**

BSA Finding: The EDFUND Board has violated state law governing closed session meetings.

BSA Recommendations: Student Aid should ensure that EDFUND complies with the Bagley-Keene Act record-keeping requirements by maintaining a confidential minute 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.

Chair Sandoval's Summary Response: We agree that the EDFUND Board should have been maintaining a confidential minute book of the matters discussed in its closed sessions. The EDFUND Board started complying with that requirement with its 2006 meetings.

Proposed Commission Process: EDFUND has already begun to keep minutes of closed sessions, as of the beginning of 2006.

Chair Sandoval stated that EDFUND has already started keeping minutes so when BSA comes back they will furnish them with the minutes.

Executive Director Michel questioned how the Commission would monitor or ensure compliance.

Commissioner Fousekis suggested that the minutes be made available to Commission staff.

On **MOTION** by Commissioner Baltodano, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 16: EDFUND will keep minutes of closed sessions as of the beginning of 2006 and make them available to Commission staff.

Commissioners Friedlander and Ortiz **ABSTAINED**.

### **17. Topic: Internal Audit**

BSA Finding: The independence of the internal audit functions at Student Aid and EDFUND may be compromised.

#### BSA Recommendations:

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.
- Ensure that it complies with IIA (Institute of Internal Auditors) and government auditing standards that require an external assessment of its internal audits unit.

Chair Sandoval's Summary Response: The internal auditor was temporarily placed in charge of the Legal Division's invoices and employee timesheets while the search for a replacement vice president of legal services is underway. Because of BSA's concern that this might create a potential impairment of the internal auditor's independence, EDFUND discontinued that practice. The Report also finds that the internal auditor should not have an executive management role in either the Student Aid Commission or EDFUND. While the internal auditor's participation as an executive management team member could enhance executive's awareness of essential compliance issues, we will evaluate whether it would be more appropriate for this role to be advisory and non-voting. The Student Aid Commission must also examine whether it requires its own separate internal auditor.

Proposed Commission Process: The Commission's Joint Audit Committee will review all aspects of the current roles and responsibilities of the internal auditor, and recommend to the Commission whether there should be separate internal auditors for the Commission and EDFUND.

Commissioner Fousekis suggested that for Topics 17 and 18 the Commission should seek outside consultation from our auditors. Ms. Manning reminded Commissioners that the advice would have to come from auditors that do not provide the opinion on our financials.

Executive Director Michel commented that it should be the Commission's Audit Committee to make the recommendation and not the Joint Audit Committee due to a potential conflict of interest.

On **MOTION** by Commissioner Fousekis, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 17: The Commission's Audit Committee will review all aspects of the current roles and responsibilities of the internal auditor, and recommend to the Commission whether there should be separate internal auditors for the Commission and EDFUND.

Commissioners Friedlander and Ortiz **ABSTAINED**.

### **18. Topic: Composition of EDFUND Board**

BSA Finding: The composition of the EDFUND Board could impair Student Aid's decision making.

#### BSA Recommendations:

Student Aid should:

- 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 non-voting member.

Chair Sandoval's Summary Response: In the context of the findings in this Report that Student Aid Commission members or the executive director serving as EDFUND Board of Directors may impact their independent decision-making roles, the Commission will evaluate the appropriate composition of the EDFUND Board.

Proposed Commission Process: The Commission's PEN Committee, with outside assistance as needed, will review all aspects of the composition of the board of a nonprofit corporation, the issue of a state agency with an auxiliary entity, and the needs of the Commission itself for both oversight and information – then offer a recommendation to the Commission.

Commissioner Furay stated that the composition of the PEN Committee should be considered to ensure no Board members are involved in the decision.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Commission **APPROVED** the following Commission Process:

Topic 18: The Commission's PEN Committee, with outside assistance as needed, will review all aspects of the composition of the board of a nonprofit corporation, the issue of a state agency with an auxiliary entity, and the needs of the Commission itself for both oversight and information – then offer a recommendation to the Commission.

Commissioners Friedlander and Ortiz **ABSTAINED**.

Chair Sandoval concluded by stating that all Commissioners are invited to participate in any discussions related to any of the topics in any Committee.

**OTHER BUSINESS**

The Commissioners discussed not making any changes to the Committees until the new slate of officers is approved.

**PUBLIC COMMENT**

No public comment.

The meeting of the California Student Aid Commission was adjourned at 12:20 p.m.

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Josefina Baltodano  
Secretary