

**Action/Information Item**

***California Student Aid Commission***

Approval of June 22, 2006, June 23, 2006 and July 26, 2007 Minutes

---

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

---

**CALIFORNIA STUDENT AID COMMISSION  
COMMISSION WORKSHOP**

**MINUTES  
JUNE 22, 2006**

---

A California Student Aid Commission Workshop was held on Thursday, June 22, 2006, at 3300 Zinfandel Drive, Rancho Cordova, California.

The following Commission Members were present:

Louise McClain, Acting Chair  
Rory Diamond (via Conference Call)  
Michele Dyke  
James Fousekis  
Daniel Friedlander  
Sally Furay  
Dean Johnston  
Alice Perez  
David Roth  
Joseph Yew

The following Commission Members were absent:

Josefina Baltodano  
J. Michael Ortiz

The following staff members of the California Student Aid Commission were present:

Diana Fuentes-Michel, Executive Director  
Keith Yamanaka, Chief Deputy Director  
Janet McDuffie, Interim Chief, Federal Policy and Programs Division  
Steve Caldwell, Chief, Governmental and Policy Division  
Robert Illa, Manager, Fiscal and Administration Branch  
Gloria Lopez, Commission Liaison  
Stephanie Britschgi, Support Staff

The following staff members of EDFUND were present:

Sam Kipp, President  
Martin Scanlon, Vice President/CFO, Finance and Administration Division  
David Reid, Vice President/Chief Counsel, Legal Services Division  
Len Hyde, Vice President, Default Management Division  
Jacque Silver, Vice President/CIO, Technology Solutions and Services Division  
Therese Bickler, Vice President, Loan Operations Division  
Diane Manning, Vice President, Audit Services Division

Others Present:

Catherine Brown, Special Counsel, Attorney General's Office  
Bill Connor, Consultant

**CALL TO ORDER**

Acting Chair McClain called the workshop to order at 8:41 a.m.

**PUBLIC COMMENT**

Acting Chair McClain asked for public comment. No comments were heard at this time.

**NEW BUSINESS**

Acting Chair McClain made the following announcements:

- Commissioner Johnston's appointment was approved by the Senate Rules Committee yesterday.
- Staff will be preparing Resolutions for our departed Commissioners – James Sandoval, Adele Levine and Charles Moore to be presented at a future Commission meeting.
- Introduced new appointment to the Commission – Ms. Alice Perez.
- Sam Kipp, EDFUND President introduced his two new Vice Presidents:
  - Martin Scanlon, Vice President/CFO, Finance and Administration Division
  - David Reid, Vice President/Chief Counsel, Legal Services Division

Acting Chair McClain asked for clarity on why the Workshop was being recorded. Ms. Catherine Brown, Special Counsel for the Commission stated that due to the Workshop being a public forum, it is recommended that the Commission have recorded minutes.

**ITEM 1 – GOVERNANCE OF THE COMMISSION**

Acting Chair McClain described the framework on the discussion of this item as:

1. Discussion of Commission's Policies and Procedures, including Structure of Meetings - The desired outcome of today's discussion is to show the difference between "operations policy" versus "regulations".
2. Discussion of Roles and Responsibilities of Officers of the Commission – Look at the "pros" versus the "cons" of having one-day meetings versus two-day meetings.
3. Discussion of Commission Standing Committee Descriptions and Responsibilities

Acting Chair McClain stated that it is her desire that the outcome of this item's discussion will show, as well as clarify the difference between the Commission's operations policies versus its regulations.

1. Discussion of Commission's Policies and Procedures, including Structure of Meetings - Look at the "pros" versus the "cons" of having one-day meetings versus two-day meetings. *What type of meeting structure did the Commission members want – a one full day meeting, one and half day meeting, or a two-day meeting?*

Commission Members provided the following discussion:

**Fousekis**

- Would like to see a list of reports that are provided to the Commissioners on a regular basis, including a current vacancy report.
- Need to identify the Commission's priorities – i.e. – Bureau of State Audits' audit, budget, etc.
- The Bureau of State of Audits is seeking more oversight of EDFUND.
- Would like each Standing Committee to develop a Committee Charter, using the Audit Committee Charter as a model.

**Johnston**

- Would like see a report detailing staff's key performance indicators, in priority order.

**Yew**

- Although the Commission has no control of the work demands from the Legislature and/or Administration, it is the Commissioner's responsibility to control staff's workload – i.e. - streamline demands.

**Furay**

- There is no true definition of what CSAC's "oversight" of EDFUND actually entails.
- Performance indicators vs. priorities are different - need key performance indicators to look at the measure operations.
- The Committee members need to "trust" what their Committee is trying to accomplish – which is not the case.
- In the developing the Roles and Responsibilities, need to look at: (1) what are the key indicator components, and (2) what are the goals.
- Differentiate how the Commission operates versus how the Committees operate.

**Friedlander**

- Opposes condensing the meetings into a one-day meeting. Supports 1½ to 2 day meetings.

**Roth**

- Supports one-day meeting.
- Meetings should be scheduled around a set of decisions that need to be made.
- Would like to see fewer reports, but rather see better reports that detail actionable/actual information.
- At the meetings, would rather hear more from the constituents and less from CSAC staff.

## Perez

- Would like to change meeting structure to 1½ days – have the first day begin in the afternoon, so members do not have to travel the night before and have the second day be a full day.
- Change meetings days to Wednesday and Thursday versus Thursday and Fridays. Will avoid Friday night travel.
- Need to breakdown what type of reports should be weekly vs. monthly.
- Need to create stability!
- Need to clearly define Roles and Responsibilities of the Commissioners – what do they entail?
- What are the limitations of authority for the Standing Committees?
- Executive Director Michel provides regular updates (via e-mail) to the Commissioners – she would like to see the same from Dr. Kipp/EDFUND.

2. Discussion of Roles and Responsibilities of Officers of the Commission – *What kind of policies did they want to see implemented? What is the limitation of authority for the Standing Committees?*

Commission Members provided the following discussion and revisions to Tab 1.B – Descriptions of Duties for Commission Officers as follows:

## For the Chair:

- Bullet #6 – Add “voting” to - Attending Standing Committee meetings as an ex-officio **voting** member.
- Bullet # 7 - Need clarification in the terms of the Chair and the delegation of authority of the Executive Director. Need executive limitation policy – describing what Executive Director is not authorized to do – then Chair would step in.
- Bullet #8 - Need to define what “leadership” means in the Chair’s description. As stated – only a “hint” of authority. Need more specific delegation authority included.
- Need to add – Communicate directly with Vice Chair on on-going key issues.
- Need to add – Development and approval of agenda for Commission meetings.
- Need to add – Maintain excellent relationship with Stakeholders and staff.

## For Vice Chair:

- Need to add more responsibilities, such as oversee Standing Committee work
- Communicate on a consistent basis with the Chair

## Continued discussion included:

- Add to policies – *Commission members have the opportunity to request that a subject – that is not otherwise discussed – be placed on an agenda for a future Commission/Committee meeting – IF it falls within the purview of the a Commissioner.*
- Need to look at basic roles and responsibilities of Commissioners as policymakers versus roles and responsibilities of the Executive Director of a State agency.

Chief Deputy Director Keith Yamanaka and Ms. Catherine Brown, Special Counsel for the Commission were asked to put of a draft of the Roles and Responsibilities of the

Commissioners, as well as revise the description of the duties for the Commission Officers to be presented at the September Commission meeting.

3. Discussion of Commission Standing Committee Descriptions and Responsibilities-  
*Revisions and Discussion on Tab 1.C included:*

- For teleconference meetings – Current Meeting Notices have not included a “local” address where the public may come and listen to the meeting. *Staff will notice the CSAC Headquarters office as a place where the public may attend to listen to the meeting.*
- For Standing Committees – Commissioners, with the exception of the Commission Chair, were advised that if they are not members of a Standing Committee, they may only participate as a “listener” on any Standing Committee meeting. This will avoid the Commission “as a Whole” – engaging in the deliberate process ahead of the meeting of the State body as a whole. *When polling Standing Committee/Commission Members for their availability, the Commission Liaison will include the following “footnote” – All Commission members, with the exception of the Commission Chair are welcome to attend meetings, even if they are not members of the Standing Committee; however only as an observer.*
- Committee Charters – Each Standing Committee should have an approved Committee Charter on file. *Each staff liaison will work with their Committee Chair to develop a Standing Committee Charter.*

**ITEM 3 – CONSIDERATION AND POSSIBLE ACTION TO CLARIFY THE COMMISSION’S PROCESS FOR APPROVING EDFUND’S DETAILED BUDGET**

Ms. Janet McDuffie, Chief of CSAC’s Management Services Division reported that the Bureau of State Audits (BSA) recommended that the Commission rescind action taken at its November 21, 2003 Commission meeting that provides delegation of the approval authority of EDFUND’s detailed operating budget to the EDFUND Board. Ms. McDuffie stated that it is BSA’s opinion that the action taken is inconsistent with both State law and the Operating Agreement between CSAC and EDFUND.

On **MOTION** by Commissioner Friedlander, **SECONDED** and **CARRIED**, the Commission unanimously approved to request to rescind the Commission’s delegation of the approval authority of EDFUND’s detailed operating budget to the EDFUND Board.

**ITEM 4 – SPECIAL COMMITTEE ON THE BUREAU OF STATE AUDITS REPORT UPDATE**

Ms. Diane Manning, Chief of CSAC’s Internal Audits Services/ Vice President of EDFUND’s Audit Services Division reported that the Commission’s Special Committee, which consists of Commission members – Louise McClain, Sally Furay, Dean Johnston and Josefina Baltodano, met on June 19, 2006, to discuss and consider all the aspects of the current roles and responsibilities of the Internal Auditor and Possible Recommendation to the California Student Aid Commission.

Ms. Manning reported that on June 16, 2006, the Commission submitted their 60-Day status report to the Bureau of State Audits (a copy of the letter sent to Ms. Elaine Howle, State Auditor was provided) and highlighted on the following:

- Finding #3 – Voluntary Flexible Agreement – Nothing has moved forward. However, Dr. Kipp and staff have meet with U.S. Department of Education staff in Washington D.C.
- Finding #5 – Operating Agreement – Staff will work on Exhibits B and D of the Operating Agreement
- Finding #8 – Business Plans and Budget Unaddressed Concerns – Martin Scanlon, Vice President/CFO, Finance and Administration Division and Len Hyde, Vice President, Default Management Division have reported that this will be completed prior to the July 26, 2006 Joint CSAC and EDFUND Workshop.
- Finding #11 – Executive Salary Determination – Legal consultants are being procured to provide a written legal opinion that proposed compensation policies would fully comply with all applicable federal and state regulations. The legal firm will be required to provide this opinion on proposed policies by August 18, 2006. The EDFUND Personnel, Evaluations and Nominations (PEN) Committee will recommend policies for the EDFUND Board of Directors approval at their August 2006 meeting. The Board will recommend policies to the CSAC's PEN Committee and the Full Commission at their September 2006 meeting.
- Finding #12 – Incentive Compensation – Unfortunately, the EDFUND President and CSAC Executive Director are unable to agree on the weights given to EDFUND's performance indicators and the methodology used. The same legal firm hired for Finding #11 will look at the issues and concerns, as well as look at the tax code conformity and comparable salaries. *The members of the Commission directed staff to have this finding completed by September 30, 2006.*
- Finding #13 – Spending Practices and Finding #14 – Travel Policy – Nothing has been completed; however spending practices and travel guidelines are being reviewed.
- Finding #16 – Closed Session Meetings – Item is closed – EDFUND has begun to keep minutes of closed sessions. The confidential minute-book will be available for monitoring by CSAC. It is recommended that if they are not, CSAC follow the same process.

CSAC staff indicated that they did not have an opportunity to review the June 16, 2006 report prior to the Commission adopting. Commission Fousekis recommended that CSAC meet again with the Bureau of State of Audits to discuss CSAC's action towards their findings.

**ITEM 5 – AUDIT COMMITTEE REPORT UPDATE**

Ms. Diane Manning, Chief of CSAC's Internal Audits Services/ Vice President of EDFUND's Audit Services Division reported that the CSAC Audit Committee met on June 20, 2006, to discuss and/or consider action on whether there should be Separate Internal Auditors for the California Student Aid Commission and EDFUND.

The Audit Committee agreed to separate the one CSAC/EDFUND Internal Auditor position into two separate positions. CSAC will hire a civil-service auditor to over see all CSAC internal audits, including the BSA. Ms. Manning will continue in her position as the Auditor for EDFUND and will oversee the external audits of their loan programs. Ms. Manning expressed her concerns with having one extra person she will have to communicate/work with in her role as auditor. Currently, she has been handling both sides and felt that the situation was working well. However, she also stated that due to additional audits being undertaken by her staff, she supports the Committee's recommendation for CSAC to have its own auditor. Staff recommended that this issue is internal and once the new CSAC auditor is hired, that he/she deal with the communication issue directly with Ms. Manning.

Staff reiterated that in their report, BSA stated that State law requires all State agencies to have their own internal auditors, or that conduct internal audits or internal audit activities to comply with the Standards for the Professional Practice of Internal Auditing.

On **MOTION** by Commissioner Furay, **SECONDED**, and **CARRIED**, the Commission unanimously approved the Committee's recommendation to separate the CSAC/EDFUND Internal Auditor position into two separate positions.

In addition, the Commission provided the following direction to staff:

- CSAC staff are to immediately begin the process to seek approval and subsequently, fill the Internal Auditor position.
- The Commission Chair and Vice Chair are to be involved in the filling of the CSAC Internal Auditor position.

Commissioner Johnston posed the question as what the reporting structure will be for the two positions. It was agreed that the position would report to Chair of the CSAC Audit Committee.

It is anticipated that it will take approximately three months to actually have a person in place. Therefore, CSAC requested permission to accept the Department of Finance's offer to enter into a contract with their Department to use one of their internal auditors until the position can be filled. This process will be similar to the current process being utilized with the Attorney General's Office for the use of one of the legal counsel.

Commissioner Perez requested that staff provide members of the Commission with their written Standing Committee reports/summaries prior to the scheduled meeting.

**ITEM 6 – DISCUSSION OF THE COMPOSITION OF THE EDFUND BOARD**

Acting Chair McClain led the discussion on the Bureau of State Audits' (BSA) Finding #18 – Composition of EDFUND Board with the question – How can CSAC exercise their State responsibilities if they are sitting on the Board that they are overseeing? The members of the California Student Aid Commission are appointees (by the State of California) and are expected to exercise their authority as State representatives.

Current practice exercised contains flaws such as:

- Potential conflict of interests
- Inappropriate to have the Chief Executive Officer (Executive Director) of the Commission as a voting member of the non-profit organization.
- At the inception of EDFUND, there were no Commissioners on their board, which resulted in mistrust issues within the Commission due to their not receiving regular updates from EDFUND.
- However, after placement of Commissioners on the Board, other Commissioners began to mistrust the Commissioners on the Board.

Recommendations to correct this issue:

- Re-establish the Chief Executive Officer (Executive Director) position on the Board, as a non-voting member.
- Have only one (versus the current five) member of the California Student Aid Commission as a Board member. It was suggested that the Vice Chair of the Commission be that member.

BSA did not cite this finding as a legal matter; however it was recommended that the abovementioned be approved.

Therefore, on **MOTION** on Commissioner Perez, **SECONDED** and **CARRIED**, Commissioner Furay recusing herself from voting, the Commission approved the following:

- Only one (1) Commissioner shall be appointed as a member of the EDFUND Board of Directors.
- The Executive Director of the California Student Aid Commission shall be a non-voting member of the EDFUND Board of Directors.

There being no further business, the California Student Aid Commission Workshop was adjourned at 3:16 p.m.

---

Louise McClain  
Acting Commission Chair  
(in the absence of Secretary Josefina Baltodano)

---

**CALIFORNIA STUDENT AID COMMISSION  
COMMISSION MEETING**

**MINUTES  
JUNE 23, 2006**

---

A meeting of the California Student Aid Commission was held on Friday, June 23, 2006, at 3300 Zinfandel Drive, Rancho Cordova, California.

Acting Chair Louise McClain called the meeting to order at 8:28 a.m.

The following Commission Members were present:

Louise McClain, Acting Chair  
Josefina Baltodano (via Conference Call)  
Rory Diamond (via Conference Call)  
Michele Dyke  
James Fousekis  
Daniel Friedlander  
Sally Furay  
Dean Johnston  
Alice Perez  
David Roth  
Joseph Yew

The following Commission Member was absent:

J. Michael Ortiz

**PUBLIC COMMENT**

Testimony on behalf of the financial aid stakeholders was given by:

- Ms. Louise Jones, President of the California Association of Student Financial Aid Administrators (CASFAA)
- Ms. Karen Micalizio, President of the California Community Colleges Student Financial Aid Administrators Association (CCCSFAAA)
- Ms. Donna Huber, President, California Lenders for Education (CLFE)

The representatives jointly communicated the following issues they are having with the California Student Aid Commission (Commission):

- The Commission's lack of a current Strategic Plan, which expired in 2005. They would like to have Stakeholders involved in the development of a new Strategic Plan.
- Commission's Uniform Policies in Advisory Bodies needs to be updated and they would like Stakeholders involved in the revision process.

- The Commission is not sending out their meeting notices, or meeting materials in a timely manner. This becomes problematic to the Stakeholders, when preparing their testimonies and/or materials.
- The Commission is not going through the proper regulatory and/or rulemaking process – specifically citing Underground Regulations. They feel that the Commission is in violation of the regulatory process.
- The Commission is providing inconsistent and incorrect information. They feel that the Commission is misleading at times in their information - provided Grant Operations Memo 2003-05 as an example.
- The Commission is not handled Cal Grant advances properly. Although the Commission proposed a change to this process, they feel that no evidence support any changes.
- The Commission's outreach campaign should be year-round.

In closing, they made a formal request to be placed on the September Commission meeting agenda, so they can discuss the financial aid side's point of views.

### ITEM 1 – APPROVAL OF THE APRIL 20-21, 2006 COMMISSION MEETING MINUTES

On **MOTION** by Commissioner Friedlander, **SECONDED** and **CARRIED**, the Commission approved by Roll Call Vote, the minutes of the April 20-21, 2006 Commission meeting with the following edits:

- Page 2, second paragraph, second line from bottom: change "an" to "and"
- Page 3, third paragraph, first line: delete "are"
- Page 4, fourth paragraph, second line: change "extraordinary" to "extraordinarily"
- Page 5, second paragraph, second line: insert "at" after "year"
- Page 5, Item three, first line: delete "at"
- Page 5, third paragraph, third line: delete "edits" ?????
- Page 11, first paragraph, second line: replace "same" with "some"
- Page 13, first paragraph, seventh line: change "acknowledge" to "acknowledged"
- Page 13, first paragraph, the meaning of the following is unclear: "Other members of the Central Valley, who are participating in the East Bay,..." Changed to read: Other Legislative and Congressional members from the Central Valley, who are participating with Cash for College events in the East Bay, are....
- Page 13, fifth paragraph, line three: insert "to" after "close"
- Page 21, first paragraph, line one: change "correspondences" to "correspondence"
- Page 25, last paragraph, line 2: insert "to" after conform
- Page 27, second paragraph, line one: replace "Administrative" with "Administration"
- Page 27, second paragraph, line three: delete the comma
- Page 27, second paragraph, last line: replace "to" with "with"
- Page 27, Topic number four, last bullet: replace "Contact" with "Contract"
- Page 28, third paragraph, last line: delete "of"

Commissioners Yew, Perez and Diamond abstained.

**ITEM 2 – CONSIDERATION AND APPROVAL OF STATE DATA CENTER CONTRACT**

Ms. Janet McDuffie, Chief of CSAC's Management Services Division reported that migration to move the Grant Delivery System from the Department of Technology (formerly Teale Data Center) to EDFUND is almost complete. Although a majority of CSAC's data center projects will now be handled by EDFUND, CSAC will need to continue to utilize some of the services provided to all State agencies from the Department of Technology, such as – data research, CalSTARS, etc. Therefore, staff is seeking approval for a contract of \$178,000 with the Department of Technology for required technology services.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission unanimously approved by Roll Call Vote, the authorization to the Executive Director to enter into an Interagency Agreement with the Department of Technology for the period of July 1, 2006 through June 30, 2007, for approximately \$178,000.

**ITEM 3 – CONSIDERATION AND APPROVAL OF CAL-SOAP CONSORTIUM CONTRACTS**

Ms. Janet McDuffie, Chief of CSAC's Management Services Division reported that the Commission's California Student Opportunity Access Program (Cal-SOAP) currently funds 16 Cal-SOAP Consortia throughout California. For Fiscal Year 2006-07, staff is recommending that budget allocations remain at the current levels as follows:

<b>Consortium</b>	<b>2006-07 Funding Recommendation</b>
Central Coast	\$300,000
Central Valley	\$370,000
East Bay	\$673,683
Greater Long Beach	\$300,000
Los Angeles	\$850,000
Merced	\$363,130
Northcoast	\$500,526
North Valley	\$445,650
Sacramento	\$455,834
San Diego	\$1,250,000
San Francisco	\$335,000
San Jose	\$620,511
Santa Barbara	\$642,833
South San Joaquin	\$366,000
SUCCESS	\$628,833
South County (Gilroy)	\$465,000
<b>Funding Total</b>	<b>\$8,567,000</b>

On **MOTION** by Commissioner Fousekis, **SECONDED** and **CARRIED**, the Commission unanimously approved by Roll Call Vote, the authorization to the Executive Director to execute contracts with the Cal-SOAP consortia for the period of July 1, 2006 through June 30, 2007, for the amount of \$8,567,000.

Commissioner Johnston requested that staff provide the Commission with a full report that shows each Cal-SOAP projects' funding, including CSAC's total funding vs. Consortia match funds. Commissioner Fousekis recommended that each Commissioner take an opportunity to visit one of their local Cal-SOAP Consortia to see what they actually do.

**ITEM 4 – CONSIDERATION AND APPROVAL OF OUTREACH FUNDING FOR 2006-07**

Mr. Steve Caldwell, Interim Chief of CSAC's Outreach and Public Affairs Division reported that in 2003, the Commission adopted a three-year comprehensive outreach plan to expand college access and opportunity through the Cal Grant Entitlement Program, and set aside \$25 million from the Student Loan Operating Fund for its support. The 2006-07 academic year will be the fourth year that CSAC seeks to fund a Cal Grant public awareness campaign and to support the California Cash for College application workshop campaign.

Staff recommends \$2,580,000 in funding for the Cal Grant Public Awareness Campaign and the California Cash for College program for the coming year. Two million dollars will be utilized for the upcoming Public Awareness Campaign, and \$580,000 will be utilized towards Cash for College.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission unanimously approved by Roll Call Vote, \$2,580,000 in funding for the 2006-2007 Public Awareness Campaign and California Cash for College.

Mr. Caldwell introduced Paula Rockwell, CSAC's new Research Manager to the Commission. Acting Chair McClain gave special recognition to CSAC's Outreach Staff for all of their outstanding outreach efforts throughout the year.

In closing, Commissioner Fousekis requested that staff provide a full report on the leftover funds available from the prior \$25 million approved. In addition, Commissioner Perez requested that staff put together a report that shows the type of goals that are set for students that are at risk – i.e. – Foster Youth, freshman drop-outs, disabled students, etc. In addition, she stated that she would support reaching out as early as 8<sup>th</sup> Grade.

\*\*\*\*\*

Prior to the Grant Advisory Committee Chair's Report, Executive Director Michel presented a message from the Governor's Office regarding the June 5, 2006 letter from Ms. Kate Jeffery, Director of Student Financial Support at the University of California's Chancellor's Office. In her letter, Ms. Jeffery states that the letter was written in collaboration with Ms. Mary Robinson from the California State University's Chancellor's Office, Ms. Mary Lindsey, from the Private Postsecondary Segment, Mr. Tim Bonnel from the California Community Colleges' Chancellor's Office and Ms. Veronica Villalobos from the Association of Independent California Colleges and Universities. The letter expresses their concerns regarding Assembly Bill 840 (Aramubula), which is currently before the State Legislature, and addresses the problems regarding the recent Transfer Entitlement Issue.

Executive Director Michel requested that CSAC staff receive written comments, such as this, in advance, so they have an opportunity to respond appropriately. Executive Director Michel explained that the Transfer Entitlement bill – Assembly Bill 840 (AB 840) will establish a new requirement for four-year institutions to validate on an annual basis, a random sample of at least ten percent of new and renewal transfer award recipients, who were California residents at the time of their graduation from a California high school, which is a requirement also known as the Transfer Entitlement.

Executive Director Michel explained that the June 5<sup>th</sup> letter from Ms. Jeffery, implied that CSAC supported the ten percent requirement. Executive Director stated that the Commission staff at no time supported the requirement; staff however, supports the relief that AB 840 would provide in terms of serving the students that were affected by this error.

Mr. Ricardo Soto, Chief Counsel at the Office of the Secretary for Education and Mr. Paul Navarro, Deputy Legislative Secretary for the Governor, asked Executive Director Michel to carry the following message:

AB 840 is currently on the Governor's Office. The ten percent validation requirement that is in AB 840, that the Governor will sign sometime this next week, was a "written requirement" for the legislation. In other words, the Administration sees that the ten percent validation requirement that is currently in AB 840, was a "requirement" for the Governor to sign.

Furthermore, Mr. Soto indicated that it is the Administration's expectation that the requirement would apply to high school seniors, and that CSAC would determine how this verification requirement would be applied.

Executive Director Michel stated that Commission staff are drafting requirements to be applied towards the 2007-2008 cycle of applications. It is important for the Commissioners to note that the Governor's position, in terms of AB 840, which they anticipate he will sign next week.

Staff will provide a full report to the Commission at its September meeting on steps that will be taken for high school seniors for 2006-2007, and 2007-2008. Executive Director Michel indicated that for the long-term, CSAC will be having Institutional Participation Agreement discussions with the various institutions.

**ITEM 10 – GRANT ADVISORY COMMITTEE CHAIR REPORT (*this item was taken out of order due to the request of Acting Chair Louise McClain*)**

Ms. Mary Lindsey, Chair of the Grant Advisory Committee (GAC) introduced herself, as well provided a brief overview of the composition of the GAC.

**ITEM 5 – CONSIDERATION OF CHANGES IN POLICY REGARDING HIGH SCHOOL GRADUATION REQUIREMENT FOR CAL GRANT ELIGIBILITY**

Mr. Max Espinoza, Chief of CSAC's Program Administration and Services Division and Mr. John Bays, Chief of CSAC's Information Technology Services Division reported that staff had extensive discussions regarding the impact of the California High School Exit Exam (CAHSEE) on Cal Grant eligibility. The primary concern was that of the high school graduation verification as being a high school graduate. At their last meeting, GAC presented the Commission with their recommendations on verifying passage of the CAHSEE. At that time, it was noted that there was no process in place that verified the students' completion of high school, as well as verification of passage of the CAHSEE. Therefore the Commission directed staff to provide a thorough analysis of the options to address these issues.

Mr. Espinoza stated that to obtain information about whether a student has passed the CAHSEE is insufficient for determining the student's eligibility for a Cal Grant Entitlement award. Passing the CAHSEE is not equivalent to graduating from high school; for example, a student could pass the CAHSEE and not complete the coursework necessary to graduate. Thus, CSAC should obtain information that the student has graduated from high school, rather than the more limited information about the student's passing the exit exam. Any court ruling affecting the exit exam requirement will not address the concerns involving the existing procedures relating to graduation from high school. Therefore, staff identified two general options for consideration by the Commission:

1. Rely on the current Institutional Participation Agreements to require participating Cal Grant postsecondary institutions to determine that a student has graduated from high school, not merely expects to graduate, before using Cal Grant funds to pay for that student.
2. Modify the current Commission process by requiring the Commission to determine that each potentially eligible Cal Grant student has graduated from high school before identifying the student as eligible for a Cal Grant.

Mr. Bays provided an overview of the pros and cons on each of the options and reported that staff recommended that the Commission consider adopting Option 1. Ms. Lindsey provided the GAC's recommends.

After consultation between Mr. Espinoza, Ms. Lindsey, Mr. Keith Yamanaka, CSAC Chief Deputy Director, and Ms. Catherine Brown, CSAC Special Counsel, the following motion was developed and agreed upon, and therefore presented to the Commission for approval - on **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission unanimously approved by Roll Call Vote, the following direction:

- For the 2006-07 Cal Grant Award year, staff to follow and enforce CSAC Operations Memorandum – 2003-05, including resolving any conflicting information in regards to high school graduation.
- Staff is to enforce Provision 1 through program compliance reviews of Cal Grant participating institutions.
- Staff to bring back a proposal for future years and to include a proposed timeline, for its consideration, which includes the scope, timing and nature of a study, in consultation with the Grant Advisory Committee, as its September meeting.

In addition to approving the motion, the Commission gave staff the following direction:

- CSAC's Program Compliance Unit needs to go back and check the high school elements – check eligibility factor/discrepancies.
- Staff is to work with GAC to wordsmith the award letters that add a caveat regarding their award is contingent on their actual receipt of a high school diploma – maybe provide copy of diploma – basically, a self certification/verification.
- Staff to work with GAC on addressing a new IPA.
- Staff to prepare and bring back options for improving the 2007-08 process.

## ITEM 6 – CONSIDERATION OF POLICIES TO IMPLEMENT AUDIT RECOMMENDATIONS ON DISBURSEMENT AND RECONCILIATION PROCESS

Mr. Max Espinoza, Chief of CSAC's Program Administration and Services Division reported that CSAC's Cal Grant Operations Branch's Cal Grant Disbursement and Reconciliation program recently was audited by CSAC's Internal Audit Branch. The following are the six (6) findings and recommendations:

1. **Advancing Cal Grant Funds** - The current practice of disbursing funds does not effectively manage the state's cash flow, resulting in excess funds being disbursed to and held by institutions.

Internal Audit's Recommendation: Reassess the current methodology of issuing advances and supplemental disbursements to institutions in an effort to improve cash flow for the State.

**CSAC Staff Recommendation #1:** No modifications to the current methodology for calculating and issuing term and supplemental advances for the 2006-2007/2007-2008 award years. *Estimated Implementation: Done*

2. **Reporting Cal Grant Disbursements & Reconciliation** - The timeframes in which institutions report disbursements and adjustments to CSAC often exceed the date defined in the Institution Participation Agreement (IPA), creating cash flow issues and impacting CSAC's ability to effectively forecast future cash flow needs.

Internal Audit Recommendation: Require institutions to report disbursements and make adjustments prior to the published reporting deadline for each award year. Also consider implementing additional reporting deadlines at the conclusion of each term.

**CSAC Staff Recommendation #2:** Improve the reporting of Cal Grant disbursements and reconciliation processes by enforcing the October 15<sup>th</sup> annual reconciliation deadline, and requiring institutions to reconcile payments 30-60 days after the end of each term with penalties for non-compliance. *Estimated Implementation: Phase I July 2006, Phase II July 2007, Phase III July 2008*

3. **Reporting & Collection of Interest Earned on Cal Grant Funds** - There is no mechanism in place to ensure the collection, tracking and reporting of interest earned on Cal Grant funds by institutions.

Internal Audit Recommendation: Require institutions to maintain Cal Grant funds in an interest bearing account. Additionally, modify the Grant Delivery System (GDS) to track interest remitted by institutions and develop formal procedures to ensure schools are remitting interest earned on Cal Grant funds.

**CSAC Staff Recommendation #3:** Require institutions to maintain Cal Grant funds in an interest bearing account and modify the Grant Delivery System (GDS) to track interest remitted with the development of procedures to ensure compliance. *Estimated Implementation: Short-term July 2006, Long-term July 2007*

4. **Closed Award Year Refund Processing** - Refunds received from institutions cannot always be recorded in the Grant Delivery System (GDS).

Internal Audit Recommendation: Modify GDS to allow the recording of refunds from institutions related to a closed award year. Develop formal procedures to require that refunds recorded in CALSTARS (the State's accounting system) be reconciled to GDS and any differences resolved.

**CSAC Staff Recommendation #4:** Modify GDS to allow the recording of refunds from institutions related to a closed award year and resolve reconciliation issues between GDS and the California State Accounting and Reporting System (CALSTARS). *Estimated Implementation: With the GDS Real-Time Enhancement - July 2007*

5. **Receiving and Processing Refunds from Institutions** - Refunds are not consistently handled in accordance with CSAC established procedures.

Internal Audit Recommendation: Document and reinforce established procedures to require institutions to remit all payments directly to the Fiscal and Administrative Services Branch. Currently, institutions occasionally send payments related to audit findings to the Program Compliance Branch.

**CSAC Staff Recommendation #5:** Modify the Program Compliance Branch and Fiscal and Administrative Branch procedures for requesting and receiving funds as a result of a school audit finding. *Estimated Implementation: July 2006*

6. **Year-End Invoice and Collection Processing** - CSAC lacks procedures, as required by the State Administrative Manual (SAM), to collect amounts owed from institutions.

Internal Audit Recommendation: Implement invoicing and follow-up procedures for collecting amounts owed to CSAC that are consistent with the guidelines defined in the State Administrative Manual.

**CSAC Staff Recommendation #6** – Cal Grant Operations and Information Technology Services Division to improve yearly invoicing and follow-up procedures for collecting amounts owed to CSAC that are consistent with the State Administrative Manual (SAM) by issuing a sequence of 30, 60, 90, and 120 letter with adherence to penalties for non compliance. *Estimated Implementation: Short-term October 2006. Long-term October 2007 – consideration and action.*

Ms. Lindsey provided GAC's recommendations to CSAC Staff's recommendation for each item. They agreed on staff's recommendation on Findings 1, 4, 5, and 6; however did not agree on staff's recommendation on Findings 2 and 3. After much discussion, the Commission approved staff's recommendation on Findings 1, 4, 5 and 6; however directed staff to meet again with the members of GAC to discuss revisions to staff's recommendation on Findings 2 and 3 and bring their recommendations back to the Commission at its September meeting for approval.

Therefore, on **MOTION** by Commissioner Perez, **SECONDED** and **CARRIED**, the Commission unanimously, by Roll Call Vote, staff recommendation 1, 4, 5, and 6, as follows:

1. No modifications to the current methodology for calculating and issuing term and supplemental advances for the 2006-2007 and 2007-2008 award years.
4. Modify the Grant Delivery System (GDS) to allow the recording of refunds from institutions related to a closed award year and resolve reconciliation issues between the GDS and the California State Accounting and Reporting System (CalSTARS). Estimated Implementation: with the GDS Real-time Enhancement – July 2007.
5. Modify the Program Compliance Branch and Fiscal and Administrative Branch procedures for requesting and receiving refunds as a result of a school audit finding. Estimated implementation: July 2006.
6. Cal Grant Operations and Information Technology Divisions to improve yearly invoicing and follow-up procedures for collecting amounts owed to CSAC that are consistent with the State Administrative Manual (SAM) by issuing a sequence of 30, 60, 90, and 120 letters with adherence to penalties for non-compliance. Estimated implementation: Short-term - October 2006. Long-term – October 2007.

In closing, the Commission directed staff to work with GAC to revise Recommendation 2 & 3 to bring back to their September meeting. For Recommendation 2 – need to address summer term timeframe. For Recommendation 3 – what type of interest accounts is applicable/best suited

#### **ITEM 7 – PERSONNEL, EVALUATION AND NOMINATIONS (PEN) COMMITTEE'S RECOMMENDATION TO DESIGNATE AND APPOINT C. MICHAEL COONEY AS A MEMBER OF THE EdFUND BOARD OF DIRECTORS**

Commissioner Sally Furay presented her nomination of C. Michael Cooney, former member of the California Student Aid Commission to the EDFUND Board of Directors.

On **MOTION** by Commissioner Johnston, **SECONDED** and **CARRIED**, the Commission unanimously approved by Roll Call Vote, the appointment of C. Michael Cooney to the EDFUND Board of Directors.

**ITEM 8 – ELECTION OF COMMISSION OFFICERS FOR 2006-2007**

Acting Chair McClain reported that the Personnel, Evaluation and Nominations Committee met on June 19, 2006, to revisit the nominations of officers of the Commission for the term July 1, 2006 through June 30, 2007 and presented the following for approval:

The members of the California Student Aid Commission unanimously, by Roll Call Vote, approved the new slate of officers for 2006-2007 as follows:

Chair	<b>James Fousekis</b>
Vice Chair	<b>Louise McClain</b>
Secretary	<b>Michele Dyke</b>
Treasurer	<b>Dean Johnston</b>

**ITEM 9 – CONSIDERATION AND APPROVAL OF RECOMMENDATION FOR A CONSULTING CONTRACT BY THE SPECIAL COMMITTEE ON RESPONSES TO THE BUREAU OF STATE AUDITS REPORT**

Commissioner Furay reported that the members of the Special Committee met and recommended that CSAC/EDFUND enter into a contract with a consultant to do the following:

- Review the Commission's 2005 Performance Review of EDFUND.
- Ascertain that all State and Federal all laws are being observed within CSAC/EDFUND.
- Assess the need of all the reports detailed in the CSAC/EDFUND Operating Agreement – Exhibit F
- Review and evaluate the level of oversight requests and CSAC's responses to the requests. In addition, the number of personnel involved in light of the increase of synergies between the CSAC and EDFUND.

If approved, the Committee would begin a Request for Proposal (RFP) process to conduct a study of the abovementioned to be reported back to the Commission's Fiscal Policy and Long-Range Planning Committee.

On **MOTION** by Commissioner Furay, **SECONDED** and **CARRIED**, the Commission unanimously approved, by Roll Call Vote, to develop a Request for Proposal to hire a consultant to:

- Review the Commission's 2005 Performance Review of EDFUND.
- Ascertain that all State and Federal all laws are being observed within CSAC/EDFUND.
- Assess the need of all the reports detailed in the CSAC/EDFUND Operating Agreement – Exhibit F
- Review and evaluate the level of oversight requests and CSAC's responses to the requests. In addition, the number of personnel involved in light of the increase In addition, the number of personnel involved in light of the increase of synergies between the CSAC and EDFUND.

The RFP is to be reviewed and approved by both CSAC and EDFUND staff prior to distribution.

Executive Director Michel recommended that the contracting process go through the California State process and that the contract be entered with the Commission. Commissioner Furay indicated that she would like to reserve judgment and would like to have a broad distribution of the RFP, with the option to choose the best suite consultant.

#### **NEW BUSINESS**

- Ms. Donna Huber from the California Lenders for Education (CLFE) spoke on behalf of the Loan Advisory Council (LAC). She testified that LAC has not met within the last two years and is concerned that the lack support that the Commission is giving to this Advisory Body.

Executive Director Michel indicated that LAC has met twice in 2006 (February 9, 2006 and April 11, 2006). In their attempt to schedule another meeting of LAC meeting, staff is currently facing quorum difficulties. Staff have sent out letters requesting nominations to the vacant positions, but have not heard back from the lenders. She will have staff provide the Commission with the progress report at their September meeting. Chair-Elect James Fousekis requested that the progress report be added to the September Commission agenda.

- Commissioner Friedlander publicly stated that for future meetings - if an audience member/association comes to the Commission to convey a message, which is not part of the Commission agenda for that meeting, and there is material being distributed - the Commission has the right to request that the audience member/association provide them the opportunity to review the materials and to chose to place them on a future agenda, so that there is an opportunity on both sides to view the facts and have a good discussion.

There being no further business, the meeting of the California Student Aid Commission was adjourned at 1:26 p.m.

---

JOSEFINA BALTOIANO  
SECRETARY

---

**JOINT CALIFORNIA STUDENT AID COMMISSION/EDFUND  
WORKSHOP  
MINUTES  
JULY 26, 2006**

---

A California Student Aid Commission Workshop was held on Wednesday, July 26, 2006, at 3300 Zinfandel Drive, Rancho Cordova, California.

The following Commission Members were present:

James Fousekis, Chair  
Michele Dyke  
Daniel Friedlander  
Sally Furay  
Louise McClain  
Dean Johnston  
J. Michael Ortiz  
Alice Perez  
David Roth (Via Conference Call)  
Joseph Yew

The following Commission Members were not present:

Josefina Baltodano  
Rory Diamond

The following EDFUND Board of Directors were present:

Sally Furay, Chair  
Patricia Hurley  
Wayne Sparks  
Frederick Weis  
Jennie Woo

The following EDFUND Board of Directors were not present:

Ryan Alcantara  
C. Michael Cooney  
Diana Fuentes-Michel (Ex-Officio)

The following staff members of the California Student Aid Commission were present:

Keith Yamanaka, Chief Deputy Director  
Janet McDuffie, Interim Chief, Federal Policy and Programs Division  
Steve Caldwell, Chief, Governmental and Policy Division  
Robert Illa, Manager, Fiscal and Administration Branch  
Stephanie Britschgi, Support Staff

The following staff members of EDFUND were present:

Sam Kipp, President  
Martin Scanlon, Vice President/CFO, Finance and Administration Division  
David Reid, Vice President/Chief Counsel, Legal Services Division  
Len Hyde, Vice President, Default Management Division  
Jacque Silver, Vice President/CIO, Technology Solutions and Services Division  
Therese Bickler, Vice President, Loan Operations Division  
Diane Manning, Vice President, Audit Services Division  
Linda Weir, Vice President, Client Services  
Sandra Byram, Board Liaison  
Carol Warmerdam, Assistant to the President

Others Present:

Janie L. Daigle, Deputy Attorney General, Office of the Attorney General  
Bill Connor, Consultant

**CALL TO ORDER**

Chair Fousekis called the workshop to order at 8:32 a.m.

**PUBLIC COMMENT**

Chair Fousekis called for public comment. No comments were heard at this time.

**NEW BUSINESS**

Commission Chair Fousekis thanked Commissioners Furay and McClain for their work in the development of today's meeting agenda.

He also announced that there will be a need for an additional Full Commission meeting (via teleconference) to discuss and approve emergency regulations for the recent Cal Grant appeals. He suggested Monday, August 21<sup>st</sup> and asked that each Commission member be available to participate in this meeting.

**ITEM 1 – UPDATE ON 2006 STATE BUDGET**

Ms. Janet McDuffie, Chief, CSAC Management Services Division and Mr. Robert Illa, Manager, CSAC Fiscal and Administration Branch provided an overview of the California Student Aid Commission's (CSAC) 2006-07 budgets that was signed by the Governor on June 30, 2006.

**State Operations** - The Commission's entire support budget of \$15.3 million continues to be funded through the Student Loan Operating Fund (SLOF). This is a \$1.8 million growth and includes:

- A support budget that includes \$1.569 million and 2.5 two year limited-term positions to support the GDS enhancements and \$276,000 in one-time funding to support the production and administration of the Student Expenses and Resources Survey (SEARS).

- \$30,000 for one-half position to implement a new State Facilities Nursing Grant Program

**Programs (Local Assistance)** - The Commission's budget includes the following program changes:

- 100 new loan assumption warrants for National Guard Assumption Program of Loans Education (APLE) Program
- 40 new loan assumption warrants for a newly established State Facilities Nursing Grant Program
- 100 new loan assumption warrants for State Nursing APLE
- Reduction of APLE loan assumption warrants from 8,000 to 7,400. The reduction of 600 warrants will be set aside exclusively for students participating in the Science and Math Teacher Initiative contingent upon legislation. The APLE Awards are effective with the upcoming 2006-07 academic year.
- The maximum award for new Cal Grant recipients attending private institutions has been restored from \$8,322 to \$9,708.

The budget for Cal Grants and Specialized Programs is over \$887 million. The on-going support budget for 2006-07, excluding the loan program and one-time expenses, is \$11.9 million, which is 1.3 percent of the program budget.

CSAC currently has 26 vacancies. Staff has begun recruitment for all, except for the Legal Counsel and Internal Audit positions, which CSAC is awaiting approval from the Department of Personnel Administration for the establishment of these positions. Commission Chair Fousekis directed staff to prepare a vacancy report that shows what is being done to fill the vacancies to be presented at the Commission's September meeting.

Mr. Steve Caldwell, Chief, CSAC Governmental Relations and Policy Division reported that August 18<sup>th</sup> is the last day for the Appropriations to pass bills on the floor. In addition, he provided an overview of the new Assumption Program of Loans Education (APLE) bills:

- Assembly Bill 476 (Baca) – Assumption Program of Loans for Education - Allows teachers already teaching to enter the APLE Program.
- Assembly Bill 751 (Chiu) - Regulation of purveyors of private college financial aid services. If this bill passes through, Assemblymember Chiu wants CSAC to create new units to support this program. *Commissioner Furay asked that the Commission take action on this bill at its next meeting scheduled in September. She also questioned whether CSAC should receive some type of input on the Federal side.*
- Assembly Bill 1399 (Garcia) - Cal Grant eligibility for children of active duty military. This bill would create extra competitive awards over the allocated 22,500.
- Assembly Bill 1452 (Nunez) -California Student Access Scholarship Endowment. This is a financial aid endowment program for transfer students, where the \$25 million will be matched by the schools.
- Assembly Bill 2262 (Baca) - Assumption Program of Loans for Education: career technical education. This bill is for APLE Vocational Education Teachers.

- Assembly Bill 2551 (Blakeslee and Liu) - Military benefits: National Guard Assumption Program of Loans for Education.
- Senate Bill 1309 (Scott) - Nursing education: grants, loan assumptions, and faculty recruiting and retention. Cal Grant N would provide a \$500 stipend for nursing students

## ITEM 2 – IMPLEMENTATION OF COMMISSION’S RESPONSE TO BUREAU OF STATE AUDITS (BSA) AUDIT RECOMMENDATIONS

Ms. Diane Manning, Vice President, EDFUND Audit Services Division and Ms. Janet McDuffie, Acting Chief, CSAC Federal Policy and Programs Division provided the following status on the BSA recommendations:

1. Higher Education Reconciliation Act - *On-going reports will be provided to EDFUND Finance & Budget Committee, EDFUND Board of Directors, CSAC Fiscal Policy and Long-Range Planning Committee Chair and CSAC Commission Chair.*
2. Other Federal Changes – *On-going reports will be provided to EDFUND Finance & Budget Committee, EDFUND Board of Directors and CSAC Fiscal Policy and Long-Range Planning Committee Chair.*
3. Voluntary Flexible Agreement – *Continued communication with U.S. Department of Education by EDFUND.*
4. Business Diversification – *On-going reports will be provided to EDFUND Board of Directors and Commissioners.*
5. Operating Agreement – *EDFUND Board Chair, Sally Furay will facilitate discussion during today’s Closed Session.*
6. Concerns Raised Regarding Accomplishment of Performance Goals – *Agreement has been made for 2005-06. Letter being finalized and will be distributed. Staff will need to work on 2006-07.*
7. Relinquishing Oversight Circumvented State Law – *Item Completed*
8. Business Plans and Budget Unaddressed Concerns – *EDFUND’s Finance & Budget Committee will meet on August 3<sup>rd</sup> to evaluate the 2006-07 draft business plan and budget. Commissioner Friedlander asked that CSAC staff be given appropriate time to review. Ms. McDuffie stated that staff has received and are currently reviewing the documents. Ms. Manning requested that CSAC staff bring any concerns to her prior to the August 3<sup>rd</sup> meeting, so they can be addressed prior to the meeting.*
9. Independently Verify Reports – *Evaluate as part of roles and responsibilities effort.*
10. Acting Upon Key Tasks in Performance Review – *Key tasks were outlined in the June 2005 Performance Review and were also cited by BSA and are being addressed in the implementation of BSA’s recommendations.*
11. Executive Salary – *Review of existing salary policy and determination process is currently underway by consultants – Watson Wyatt. Will obtain legal opinion that proposed policies fully comply with federal and state regulations.*
12. Incentive Compensation – *Hired Watson Wyatt to look at policies and processes. Will present findings to the EDFUND Personnel, Evaluations and Nominations Committee.*
13. Spending Practices – *Will Present draft policy to EDFUND Finance & Budget Committee on August 3<sup>rd</sup>. Recommendation will then be presented to EDFUND Board, then to Commission. Per Commissioner Fousekis – this item should be brought to CSAC’s Fiscal Policy and Long-Range Planning Committee prior to August 3<sup>rd</sup> meeting for approval.*

14. Travel Policy – *Will Present draft policy to EDFUND Finance & Budget Committee on August 3<sup>rd</sup>. Recommendation will then be presented to EDFUND Board, then to Commission. Per Commissioner Fousekis – this item should be brought to CSAC’s Fiscal Policy and Long-Range Planning Committee prior to August 3<sup>rd</sup> meeting for approval.*
15. Contracting Policies – *Will Present draft policy to EDFUND Board at August meeting. Board will then present recommendation to Commission at their September meeting.*
16. Closed Session Meetings – *Item completed.*
17. Internal Audit – *Janet will contract with State agency to utilize a temporary internal auditor. CSAC will probably not have a new auditor in place for a minimum of three months. Per Diane Manning, her staff is completing their final internal audit – for Grade Point Averages.*
18. Composition of EDFUND Board of Directors – *Item completed.*

Commission Chair Fousekis directed Ms. Manning and Ms. McDuffie to have a completed draft of the Request for Proposal (RFP) ready for review within the next ten (10) days. The final agreed upon RFP will need to be sent to both he and Chair Furay for their approval. In closing, Commission Chair Fousekis stated that the Commission’s goal is to have all of BSA’s findings completed within the next three to four months.

### **ITEM 3 – STATUS OF COMMISSION AND EdFUND JOINT EFFORTS**

Commission Chair Fousekis asked Mr. John Bays, Chief, CSAC Information Technology Services Division and Ms. Jacque Silver, Vice President, EDFUND Information Technology Services to provide an overview of their recently completed “joint” project – ITS Migration from Teale Data Center (State Data Center) to EDFUND. Commission Chair Fousekis expressed his appreciation for the joint efforts between CSAC and EDFUND management in completing this project. He further indicated that he would like to see joint ventures such as this to continue throughout CSAC and EDFUND. One example would be that once CSAC’s Legal Counsel is hired, that the CSAC Legal Counsel meets with EDFUND’s Legal Counsel on a weekly basis to discuss and collaborate on on-going issues. He would also like to see this occur with the Auditor positions, as well as within other areas between the entities.

### **ITEM 4 – 2006-07 OPERATING AGREEMENT [TOPIC 5 OF THE PROCESSES ESTABLISHED BY THE COMMISSION IN RESPONSE TO THE BSA AUDIT REPORT]**

Commissioner Furay reported that the Special Committee met on June 19, 2006, and requested that CSAC and EDFUND review the current Operating Agreement between CSAC and EDFUND and identify the parts that do not pertain to, nor depend on the definition of the Roles and Responsibilities of the two entities. Once those sections are identified, staff were directed to begin working on updating them. Ms. McDuffie reported that staff has not worked on the Operating Agreement since the last meeting.

Ms. McDuffie further explained that a new Operating Agreement needs to be in place by October 1, 2006. However, due to the requirement by the Administration for a 45-day review period, CSAC and EDFUND will be probably unable to meet this deadline. Commission Chair Fousekis agreed that there is a need for a new Operating Agreement. However, due to the timeframe, an extension would be acceptable, but should not be a year. Staff were directed to revise the Amendment/Extension of the Operating Agreement (Attachment 2) and be prepared to bring it forward to the Full Commission at their special teleconference meeting scheduled for August 21, 2006 for approval. Revisions should include:

- Extension date should read: January 31, 2007
- Add statement - *CSAC and EDFUND are currently evaluating all aspects of the Bureau of Audits' agreement and how they might affect the Operating Agreement. The final document will incorporate our results that we've reached.*

Once approval is received by the Full Commission, Ms. McDuffie will submit the extension to the Department of Finance and the Joint Legislative Budget Committee for their review.

Furthermore, he directed CSAC and EDFUND to work together to develop the non-Roles and Responsibilities pieces of the Operating Agreement and be prepared to present this to CSAC's Fiscal and Long-Range Planning Committee at their next meeting.

In closing, Commission Chair Fousekis stated that he would like CSAC and EDFUND Legal Counsels to work together in simplifying the Operating Agreement – i.e. – does everything have to be itemized in the Operating Agreement? The current composition acts as more of a constitution of the relationship between CSAC and EDFUND.

#### **ITEM 5 – ROLES AND RESPONSIBILITIES IN THE CSAC/EdFUND RELATIONSHIP [TOPIC 5 OF THE PROCESSES ESTABLISHED BY THE COMMISSION IN RESPONSE TO THE BSA AUDIT REPORT]**

Commissioner Furay began her presentation of the Roles and Responsibilities by thanking Commissioner Friedlander for his assistance in developing the agenda materials. She continued by providing an overview of the background materials of the relationship between the two entities (Tab 5.A – Pages 1 and 2), as well as the purpose of EDFUND and the reasoning for the development of the auxiliary.

Tab 5.A – Page 2 and 3 provides excerpts from the narrative portion of the BSA Report, Commissioner Furay highlighted on the following:

- "...based on our review of the ninth version of the two page draft document [Roles and Responsibilities], Student Aid **may** be inappropriately ceding some of its responsibilities to EdFund." *Does not say "are/is" – states "may be".*
- "In the September 17, 2005 draft document, Student Aid and EdFund present their delineation of each entity's role and responsibility for administering the FFEL Program. However, we have some concerns about some provisions the document contains. For example, it states that EdFund has the primary role in operating all aspects of the FFEL Program. However, federal law requires the guaranty agency that chooses to delegate the performance of the FFEL Program function to another entity to ensure that the other entity complies with the program requirements and to monitor its activities..." *Statement references Federal guidelines.*

- “The draft document also indicates that those in charge of technology at Student Aid and EdFund handle technological information development and coordination jointly. Yet state law requires Student Aid to maintain its responsibilities for, among other things, information development and coordination.” *Due to State regulations – can not complete this item.*
- ....
- “Furthermore, the draft document identifies the major oversight roles and responsibilities of Student Aid. However, the roles and responsibilities are vague and subject to interpretation. For example, the document states that Student Aid exercises its ultimate responsibility over the FFEL Program by annually approving the business plan, annual budget, and performance goals of EdFund, and by *appropriate* monitoring and verification of EdFund operations and support services. The document further states that Student Aid staff will work with EdFund in *appropriate* ways. However, *appropriate* is not defined in either instance. The document also does not specify the level of review that Student Aid will perform when verifying and monitoring EdFund’s business plan, annual budget, and performance goals or policy, either before or after its approval.” *Too vague - statute never defined, nor never delineated anything.*
- “...we also question the overall value of this document in resolving the long-standing tension and distrust that exists between Student Aid and EdFund...the chair of Student Aid...and the executive director stated that a major point of contention between the two entities is that there is **no consensus** on the appropriate level of oversight that Student Aid should exercise over EdFund.” *This statement reads like BSA sided with CSAC versus the Legislative Analyst’s Office.*
- ....
- “This **animosity** is based largely on the fact that EdFund officials **believe** Student Aid is attempting to micromanage EdFund operations and, in the process, is interfering with its business activities. On the other hand, Student Aid believes it has the duty under state and federal laws to be informed of and have the opportunity to review the impact and justification of major decisions made by EdFund, including budgeting; policy development; business strategies; communications with state, federal, and industry representatives; composition of the loan portfolio; and increases or decreases in personnel and the effect of those decisions on EdFund’s major business activities.” *Responsibility is within the Commission itself; therefore CSAC staff are not at fault. The members of the Commission allowed CSAC management to make the decision.*
- ....

Commissioner Furay continued by stating:

*“BSA offers helpful analysis of the need for more clarity that is included in the ninth version of the Roles and Responsibilities. BSA comments focus on: CAC maintaining its statutory responsibility; insufficient specificity in the ninth version concerning the meaning of words such as “oversight” (“oversee” in the statute) and “appropriate”; vagueness about levels of review; and the source of animosity stemming from differing interpretations and viewpoints of CSAC and EDFUND staff members. “*

She continued her presentation by presenting the following issues for discussion and/or decision to be made at today's Joint Workshop:

1. Breadth of responsibility given to the Commission by the enabling statute on issues concerning EDFUND and its operations. *What has been given?*
2. Decisions required to be made by the Commission on the relationship between CSAC and EDFUND. *What decisions have been made?*
3. Whether the Commission, while conforming to BSA's recommendation not to cede statutory authority to EDFUND and giving serious study and analysis to all of BSA's narrative comments, is the ultimate decision-maker on its statutory responsibility, unless the legislature formally determines otherwise in the future. *Is CSAC the ultimate decision-maker?*
4. How the Commission identifies the distinct statutory limits in state and federal law which prevail over the responsibility given to the auxiliary by the CA Non-profit Public Benefit Code, so all participants know their restrictions. *EDFUND has to operate under California Corporation Code, unless statute reads otherwise.*

Discussed ensued regarding the above items. In addition, Commission Chair Fousekis stated the need to begin the Request for Proposal (RFP) to hire a consultant to review, as it relates to the Operating Agreement, the roles and responsibilities of each entity, i.e. – CSAC and EDFUND, and asked for the opinions of each Commissioner and Board Member attending today's workshop. Comments/Opinions were:

- Commissioner Ortiz – In full agreement of contracting with a consultant.
- Board Member Hurley – Supports having the partners and constituents included in their review.
- Commissioner Dyke – Agrees that outside consultation is needed.
- Commissioner Roth – Agrees that expert advice is needed.
- Board Member Sparks – In his 34+ years student loan aid experience, he has found the student loan industry to be complex and acknowledges that this is challenging. In addition, his opinion is that all of this is subject to “interpretation” – specifically how some would interpret some of BSA's findings. It may be subject to “clarification” versus “conflict”.
- EDFUND President Kipp – Agrees that an outside consultant would be helpful. However, he cautioned the members that it would be a mistake to ignore their prior consultant's point of views. In addition, if a consultant is hired, it could be costly and could affect the Operating Agreement timelines – i.e. – would possibly allow the consultant only 45 days to begin their study, draft their report and provide their recommendations. He does not feel that is sufficient time to have a helpful report. Need to seriously consider the scope and value of their work. Cannot overlook the fact that there are two different statutes that need to be looked at – (1) the Loan Program is a Federal Program, and (2) What does accountability mean? What level of oversight or responsibility is required? Those answers are provided by all 36 of the existing guarantee agencies.
- CSAC Chief Deputy Director Yamanaka – Does not recommend hiring a consultant who is going to tell the members what their actual responsibilities are. Need to keep in mind that the Commissioners are “State Officials” and their duties are clearly defined in the State's statutes. Their fiduciary responsibility is to the State of California and what is within the State's interest. Need to define what you actually want the consultant to accomplish.

- Board Member Woo – She is troubled by today’s discussion and feels that it is all about politics and power, and who has the actual authority to make decisions. If EDFUND wants to stay in business, they will need to keep in mind - “What is their purpose and what can it run? What is the actual problem? It is her opinion that there is something wrong in the structure of the set up CSAC and EDFUND, because the same issues keep coming up over and over again. Something needs to change.
- Board Member Weis – Acknowledged all of Board Chair Furay’s work in preparing this agenda item. Feels that the responsibility falls on the Commission, which is where it belongs. If the members of the Commission choose to hire a consultant, then they should be driving the “train”, not CSAC staff. He feels it is unrealistic to have any consultant meet the timeframe noted by EDFUND President Kipp. It is his opinion that as a business, EDFUND has been successful; however as an organization, it has not.
- Commissioner Friedlander – Felt it was ironic that BSA would criticize the use of the words and terms, such as “appropriate” in the Operating Agreement was in proper; when their core of their central findings is that the “Commission may have inappropriately ceded its responsibility”. The Commission is the publicly accountable governing body who is to set policy in this issue area. It is his opinion that this issue of oversight be dealt within the RFP, from two different perspectives – a legal analysis and a management analysis. It is essential to have outside consultants and that the Commission makes the best decisions with the information provided. In the legal analysis - via the Attorney General’s Office – suggests utilizing the Legislative Counsel, who constantly analyzes every statute that exists.
- Commissioner Perez – Favors hiring an outside consultant. Old issues need to be resolved. The RFP needs to be specific on what needs to be resolved. What needs to be determined are the appropriate “checks and balances”, and who’s responsible for ensuring that they take place. Need to enforce that the two entities work together.
- Commissioner Chair Fousekis – Need to move forward with the RFP. Discussion of the timeframe will need to take place during the process.
- Board Chair Furay – Could we formally visit the two Legislative Chairs – Assemblymember Carol Liu and Senator Jack Scott to discuss/explain what is going on within the two entities and what we are doing to satisfy BSA? In addition, maybe meet with members of the Joint Legislative Audit Committee. Asked Commissioner Friedlander, as the Chair of CSAC’s Governmental Relations Committee, if he could coordinate these meetings.

Commission Chair Fousekis asked that Ms. Manning provide him with a copy of transcripts for the June 23 2006 Commission meeting, so he can review (during the lunch break) what the Commission actually approved for the RFP. After reviewing the transcript, Commission Chair Fousekis determined that the Commission authorized the development of the actual text, along with the amount of the RFP. Therefore, he concluded this discussion by providing the following direction to staff:

- Authorized Ms. McDuffie and Ms. Manning to work together in the development of the RFP. The final RFP will be presented to the Commission for their approval at their August 21, 2006 meeting.

- Draft RFP to be forwarded to Commission Chair Fousekis, Commissioner Furay, and Commission Johnston for their review and approval. A copy should also be provided to Commissioner Friedlander for his input and consultation.
- Designated staff liaisons, Mr. Yamanaka and Ms. Manning, to act as the contract managers.
- Two Commissioners (Furay and Johnston), along with staff liaisons, will interview each finalist.
- Finalist to be selected by the members of the CSAC Audit Committee.
- Tentative award date to be September 2, 2006, with the selected firm to announced at the September Commission meeting.

Public Comments were heard from:

- Mindy Bergueron, CASFAA President-Elect- Most of the stakeholders are unaware of this. Asked for open communication.
- Donna Huber, President, California Lenders for Education – Appreciates efforts by CSAC and EDFUND for their continued communication efforts.
- Tim Bonnel, representing CCCSFAAA – Concerned in the culture difference within the entities. CSAC and EDFUND need to focus on student services by getting the students and colleges what they need. Don't compromise that level of service. He feels that within the last few years, CSAC has become more of an enforcement agency versus a student support services agency.
- Bill Conner, Consultant for the California Student Aid Commission – Would like clarification on what actual type of RFP will be in place – global?

#### **ITEM 6 – PLANNING FOR COMMISSION'S PERFORMANCE REVIEW OF EdFUND**

Commission Chair Fousekis requested that staff bring the timeline (Tab 6.A) to CSAC's Fiscal and Long-Range Planning Committee for their approval.

The open session of the Joint California Student Aid Commission and EDFUND Workshop was recessed at 1:20 p.m. The members then went into Closed Session to discuss proprietary matters, pursuant to Education Code section 629525(g)(2) and (3). The Closed Session of the Joint California Student Aid Commission and EDFUND Workshop was adjourned at 4:48 p.m. Commission Chair Fousekis reported that no actions were taken.

There being no further business, the Open Session of the Joint California Student Aid Commission and EDFUND Workshop was adjourned at 4:52 p.m.

---

Michele Dyke  
Secretary