

Action/Information Item

***Joint California Student Aid Commission
and EDFUND Board of Directors Workshop***

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 Sally Furay, Chair of the EDFUND Board of Directors, will lead the discussion of this item. She prepared Tabs 5.A and 5.B.

Commission staff prepared Tab 5.C for Commission consideration.

Recommended Action: Information Only

Discussion Leader:

Sally Furay, Chair
EDFUND Board of Directors

7/17/2006

**Roles and Responsibilities in the CSAC/EdFund Relationship
Background Materials and Items for Discussion
CSAC/EdFund Joint Workshop
July 26, 2006**

Introduction

Materials have been developed for the Joint Workshop discussion of the relationship between CSAC and EdFund, especially that part of the relationship which concerns the Loan Program. It would be extremely beneficial if members of the Commission and the EdFund Board would carefully review these materials in advance.

The focus of the discussion will be the three pages following this introduction. Items included for discussion and background are:

1. The three pages immediately following, which include:
 - a) Summary of the statute which allowed the California Student Aid Commission to establish EdFund nine years ago (January, 1997) to provide services for the Commission's participation in the Federal Family Education Loan Program. Commissioners or EdFund Board members who wish to review the statute itself will find it on the 3rd page of the ninth version of Roles and Responsibilities; a short passage from Title 34 of the federal regulatory requirement is also included;
 - b) Summary of BSA recommendation and comments;
 - c) Suggestions for discussion and/or Commission decision at the Joint Workshop.
2. A copy of the ninth version of Roles and Responsibilities; the ninth draft is the first two pages only; the 3rd page copies the statute which enabled CSAC to establish EdFund; and the last two pages are background materials which illustrate what began the Roles and Responsibilities discussion/analysis in April of 2005. This ninth version of Roles and Responsibilities is not being proposed for action at the Joint Workshop. Given the BSA formal recommendation and related comments, summarized below, it needs revision in accord with discussion/decisions at the Joint Workshop itself or subsequently.
3. Other materials not included for discussion at the workshop may assist participants in analyzing the current relationship of CSAC and EdFund with respect to the Loan Program, if anyone wishes to review them. Members of the Commission and the EdFund Board have received via e-mail in the past several months a number of documents illustrating the differing views of CSAC and EdFund management and staff on various aspects of roles and responsibilities. The Legislative Analyst's Report to the legislature last winter points out that CSAC/EdFund tensions go back many years, and will continue to cause problems - according to the LAO Report - unless, again according to the LAO recommendation, the structure is changed legislatively. Others believe that clearer delineation by the California Student Aid Commission of issues described below in the suggestions for discussion could go a long way towards ameliorating the problems.

Roles and Responsibilities in the CSAC/EdFund Relationship
 Background Materials and Items for Discussion
 CSAC/EdFund Joint Workshop
 July 26, 2006

I. Summary of Enabling Statute (CA EdCode, Section 69522)

- A. Purpose: CSAC may establish an auxiliary for the purpose of:
 - 1. Providing operational and administrative services...for FFEL Program
 - 2. Providing other activities approved by CSAC and determined by CSAC to be related to student financial aid
 - be consistent with CSAC's mission
 - be consistent with purposes of HEA of 1965 and amendments.

- B. Type and Limitations
 - 1. Auxiliary will be a Nonprofit Public Benefit Corporation, subject to the CA Corporations Code.
 - 2. If conflict between the Corporations Code and enabling statute, statute prevails.

- C. Implementation: Commission requirements:
 - 1. Maintain responsibility for:
 - financial aid program administration
 - policy leadership
 - program evaluation
 - information development and coordination.
 - 2. Implement and effectuate the work of the auxiliary so as to enhance the administration and delivery of CSAC programs and services.
 - 3. Conduct regular performance evaluations in furtherance of its fiscal and fiduciary responsibilities for approved programs.
 - 4. Oversee development and operations of EdFund in a manner ensuring broad public input/consultation with representatives of financial aid, colleges and universities, and state agencies.

- D. Implementation: EdFund requirements:
 - 1. Provide operational and support services essential to administration of FFEL.
 - 2. Provide other permitted activities related to student financial aid which are determined by CSAC to be consistent with its mission.

- E. Operating Agreement, approved by Commission and sent to CA Department of Finance for review and comment. EdFund operations are limited to services prescribed in the Operating Agreement.

II. Federal regulatory requirement: Title 34, Part 682: FFEL Program, Section 682.401 Basic program agreement

(16) Guaranty agency administration
 In the case of a State loan guarantee program administered by a State government, the program must be administered by a single State agency, or by one or more private nonprofit institutions or organizations under the supervision of a single State agency. For this purpose, "supervision" includes, but is not limited to, setting policies and procedures, and having full responsibility for the operation of the program.

II. Comments by Bureau of State Audits

- A. Formal recommendation: "Ensure that the roles and responsibilities it [CSAC] delineates for itself and EdFund do not inappropriately cede its statutory responsibilities to EdFund" (p. 34 of BSA Report).

B. Excerpts from narrative portion (pp. 31-32 of BSA Report):

- "...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."
- "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..."
- "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."
- "...the document states that it is EdFund's role to represent the State's FFEL Program with industry and trade associations and similar groups, including communication with Education [DOE] concerning federal reporting, operational communication, development of the VFA, and program compliance. Although we acknowledge that EdFund needs to play a role in these areas, Student Aid is ultimately responsible for the FFEL Program and needs to have a strong presence."
- "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."
- "...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."
- They also stated that oversight means different things to different people. Consequently, there will continue to be animosity between the two entities unless Student Aid and EdFund can reach an accord on the level of oversight performed by Student Aid."
- "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."
- "Thus, even if the entities were to reach agreement on specific and detailed language within the document, there is nothing to guarantee that they will implement their respective roles and responsibilities."

BSA offers helpful analysis of the need for more clarity than is included in the ninth version of Roles and Responsibilities. BSA comments focus on: CSAC 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 by CSAC and EdFund staff members.

III. Issues for Discussion and/or Decision at Joint Workshop

A. As a foundation for discussion, the Commission may wish to reach some level of consensus on the following issues:

1. Breadth of responsibility given to the Commission by the enabling statute on issues concerning EdFund and its operations.
2. Decisions required to be made by the Commission on the relationship between CSAC and EdFund.
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.
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 Nonprofit Public Benefit Code, so all participants know their restrictions.

B. At what levels and in what detail does the Commission choose to exercise its statutory, decision-making responsibility relative to:

- Financial aid program administration
- Policy leadership
- Program evaluation
- Information development and coordination

More specifically, what duties should EdFund perform, and what duties should CSAC FPPD division (or its equivalent) perform with respect to development of business matters on the list cited by BSA as well as on other issues (see bullets below). What is the balance between the requisite level of expertise and the requisite level of monitoring and assuring compliance for each item in the list below? How does the Commission delineate what its own staff does and what EdFund staff does? Obviously, the Commission itself maintains ultimate responsibility and approval, but the tension comes from differing EdFund/CSAC staff views on who does what within the processes identified by BSA, as well as on other issues. The Commission has never focused on nor made a decision about management/staff authority in these matters unless a particular dispute has come before the Commission for resolution. Hence, there are numerous differing interpretations of who has responsibility to do what on:

- EdFund annual business goals
- EdFund budgeting
- EdFund policy development
- Business and marketing strategies
- Composition of the loan portfolio
- Increases or decreases in personnel and the effect of those decisions on EdFund’s major business activities
- Communications with state, federal, and industry representatives
- Operating Agreement development.

C. On another level: What does it mean to “oversee the development and operations of the auxiliary”? (Ed.Code 69522). What does it mean to say “The auxiliary organization shall provide the operational and support services essential to the administration of FFEL”? (Ed.Code 69522). How does the guaranty agency (CSAC) implement its “full responsibility for the operation of the program”? (Title 34, Pt.682)? How can all this be determined without leaving it to individual interpretations and decisions by present/future EdFund management/staff and/or present/future CSAC management/staff, as has happened up to this point? How is the “distrust” between the two staffs, noted by BSA, pertinent to these issues? Finally, how does the Commission determine all this?

Ninth Version: 11/25/2005

Roles and Responsibilities **EdFund Board of Directors and EdFund Oversight**

Introduction: On May 23, 2005, the California Student Aid Commission requested that the EdFund Board of Directors provide recommendations to the Commission on the Roles and Responsibilities of the EdFund Board of Directors. Earlier drafts have been discussed in public meetings by Commissioners, the EdFund Board, Commission and EdFund staffs, and interested members of the public. This ninth draft of the first two pages was prepared by the Chairs of CSAC and the EdFund Board, the Executive Director, and the Interim President, with the assistance of Secretary Alan Bersin's legal counsel; included are some of the suggestions by leaders of the financial aid communities. Further discussion at the November 18 CSAC meeting led to minor changes, and Commission consensus on the draft, without final adoption.

Roles and Responsibilities of EdFund Board for Operation of EdFund

1. The EdFund Board is the Board of Directors of a California nonprofit corporation which is the auxiliary of a state agency. Therefore, as specified in Education Code Section 69522(b), EdFund has all the powers and duties of a state nonprofit corporation, except that, if the Nonprofit Public Benefit Corporation Law conflicts with the Education Code, the Education Code prevails.
2. The California Student Aid Commission (CSAC) declares that the powers and duties of the EdFund Board include but are not limited to the following operational and support aspects of the role of the EdFund corporation/auxiliary:
 - As the Commission's specified loan entity, and under Commission oversight, EdFund has the primary role in operating all aspects of the Commission's *FFEL* programs, for example, default management, loan operations, marketing strategies, client services, loan default programs, human resources for EdFund "at will" employees, EdFund public affairs, and the like. EdFund manages its operations in a manner which ensures broad public input and consultation with its stakeholders.
 - EdFund initiates development of the annual business plan, proposes priorities, identifies clearly the basis for projected annual percentage increases, choices and locations for expansion, portfolio risks, marketing plans, and other high-level issues within the loan program. These planning and budget materials are forwarded for Commission substantive review and approval. Simultaneously, EdFund initiates development of the annual budget which implements the business plan, proposing it for Commission approval, in accord with an annual timing plan approved by the Commission.
 - EdFund initiates policy development for all major aspects of EdFund operations, seeking input whenever appropriate, from stakeholders such as the Loan Advisory Committee, California Lenders for Education (CLFE), CASFAA, CCCSFAA, UC system, CSU system, Community College System Office representing all community colleges, and the independent and proprietary segments. Major policies and substantive changes to those policies which affect the mission and future of the Commission's loan program or have major financial impact require approval by the Commission itself.
 - Technological information development and coordination are handled cooperatively by those in charge of technology at CSAC and EdFund.
 - Because of its professional expertise and day-to-day operations in these areas, EdFund's role encompasses representing the Commission's loan program with industry and trade associations and similar groups, including communications with the federal Department of Education concerning federal reporting, operational communication, VFA development for the Commission, and program compliance. EdFund is responsible for managing all aspects of its business relationships with its clients.
 - In order to improve service to students and other clients, EdFund facilitates, through the joint Internal Audit division, internal audits of EdFund management and programs, reporting findings to the Joint Audit Committee of the Commission and EdFund. The Joint Audit Committee shall be responsible for questions regarding compliance with applicable laws and regulations, including potential conflicts of interest, and shall act pursuant to the internal charters and policies of CSAC and EdFund.

- In situations where the expertise of the President and/or senior management of EdFund could be helpful to the Commission in the legislative arena, the Commission expects these individuals to be called upon in the areas of their expertise.
- EdFund is accountable to the Commission for all aspects of its operations and support programs, as defined in the Operating Agreement.
- Other roles and responsibilities may be designated by the Commission or by statute.

Major Commission Oversight Roles and Responsibilities

1. The Commission exercises its ultimate responsibility over the loan program by direct annual approval of the business plan, annual budget, and performance goals of EdFund, and by appropriate monitoring and verification of EdFund operations and support services throughout the year, as defined in the Operating Agreement.

2. Commission staff members assist the Commission in its responsibility for financial aid program administration, policy leadership, program development, and information coordination and development. As designated by the Commission, CSAC staff work with EdFund in appropriate ways, in accord with the roles and responsibilities defined in this document. In general, the oversight function is to monitor and verify, as follows:

- Since the Operating Agreement is the document which specifies the broad elements and the details of the relationship between the Commission and its auxiliary, there must be concurrence between CSAC and EdFund management and staffs about what the Operating Agreement says and the roles and responsibilities it defines. To preclude confusion and discord during the year, the Commission itself, directly or through one of its designated committees, will resolve issues of disagreement prior to approval of the final Operating Agreement by the Commission.
- When the annual business plan, budget, and performance goals have been developed by EdFund staff, Commission oversight staff reviews these documents for conformance with the Operating Agreement, but EdFund retains its primary role to make and implement business decisions, subject to review and approval by the entire Commission. Differences in interpretation or viewpoint between EdFund and CSAC staff on which resolution cannot be reached shall be resolved by the appropriate Commission committees or the Commission itself.
- Major policies initiated and developed by EdFund, after review and approval by the Commission, are monitored by CSAC oversight staff for conformance with approved policy.
- Implementation of fiscal oversight involves statutory requirements which are relatively detailed (Education Code 69526). The key to successful oversight in financial matters is development of a system with the least duplication possible, while ensuring that Commission and EdFund staffs implement specific statutory requirements. The Commission itself or a Commission committee will provide for an analysis of the current fiscal oversight system in order to assure that, as far as feasible, duplication is at a minimum while statutory requirements are met. Again, any differences of opinion and viewpoint in this process are resolved by the appropriate Commission committees or the Commission itself.
- The Commission itself has ultimate responsibility for the statutorily required “regular performance evaluations” of the operations of EdFund. The objectives, methodology, scope, and timeline of such performance reviews must be specifically approved in advance by the full Commission, and subsequently adhered to as approved. The Commission expects that the general standards and fieldwork standards for performance audits prescribed in the U.S. General Accounting Office’s Government Auditing Standards be applied to evaluations of EdFund’s operations even though “evaluations” are performed as opposed to “performance audits.” The Internal Auditor may be asked by the Commission to monitor the conduct and progress of the evaluations.
- Other aspects of oversight as developed over time by the Commission or a Commission committee acting on behalf of the Commission.

Conclusion: The California Student Aid Commission expects and requires cooperation between the Executive Director of the Commission and the President of EdFund, as well as the staffs of the Commission and EdFund, to implement these roles and responsibilities.

APPENDIX I: RELEVANT STATUTES

Roles and Responsibilities

EDUCATION CODE SECTION 69522

(a) (1) The commission may establish an auxiliary organization for the purpose of providing operational and administrative services for the commission's participation in the Federal Family Education Loan Program, or for other activities approved by the commission and determined by the commission to be all of the following:

- (A) Related to student financial aid.
- (B) Consistent with the general mission of the commission.
- (C) Consistent with the purposes of the federal Higher Education Act of 1965 (Public Law 89-329) and amendments thereto.

(2) The activities approved by the commission under this subdivision shall not include either of the following:

- (A) The issuance of bonds.
- (B) Loan origination or loan capitalization activities. This paragraph shall not preclude the commission or the auxiliary organization from undertaking other permitted activities that are related to student financial aid in partnership with institutions that conduct loan origination or loan capitalization activities.

(b) The auxiliary organization shall be established and maintained as a nonprofit public benefit corporation subject to the Nonprofit Public Benefit Corporation Law in Part 2 (commencing with Section 5110) of Division 2 of Title 1 of the Corporations Code, except that, if there is a conflict between this article and the Nonprofit Public Benefit Corporation Law, this article shall prevail.

(c) (1) The commission shall maintain its responsibility for financial aid program administration, policy leadership program evaluation, and information development and coordination. The auxiliary organization shall provide operational and support services essential to the administration of the Federal Family Education Loan Program and other permitted activities that are related to student financial aid, if those services are determined by the commission to be consistent with the overall mission of the commission.

(2) The implementation and effectuation of the auxiliary organization shall be carried out so as to enhance the administration and delivery of commission programs and services. The commission shall conduct regular performance evaluations of the operation of auxiliary organizations in furtherance of its fiscal and fiduciary responsibilities for approved programs.

(d) (1) The operations of the auxiliary organization shall be conducted in conformity with an operating agreement approved annually by the commission. On and after January 1, 2002, the commission may approve an operating agreement for a period not to exceed five years. Prior to approval, the commission shall provide the proposed operating agreement to the Department of Finance for its review and comment. The operations of the auxiliary organization shall be limited to services prescribed in that agreement.

(2) Prior to approval of any amendment to an existing operating agreement or any new operating agreement with an auxiliary organization or subsidiary auxiliary organization for the purpose of delineating new services or activities authorized pursuant to subdivision (a), the commission shall provide the Director of Finance and the Joint Legislative Budget Committee with at least 45 days advance notice in writing that includes a description of the proposed operating agreement. If the Director of Finance or the Joint Legislative Budget Committee notifies the commission regarding issues of concern with the proposed operating agreement, the commission shall convene a meeting of appropriate representatives from the commission, the Department of Finance, and the Legislature to resolve those issues.

(e) The commission shall oversee the development and operations of the auxiliary organization in a manner that ensures broad public input and consultation with representatives of the financial aid community, colleges and universities, and state agencies.

EDUCATION CODE SECTION 69513.1

The commission may delegate to the director any power, duty, purpose, function, or jurisdiction that the commission may lawfully delegate, including the authority to enter into and sign contracts on behalf of the commission. The director may redelegate any of those powers, duties, purposes, functions, or jurisdictions to his or her designee, unless by statute, or rule or regulation, the director is expressly required to act personally.

APPENDIX II Roles and Responsibilities

Background Materials

Because of current law, the roles and responsibilities of the EdFund Board cannot be separated from Commission authority inherent in law. Although the word “oversight” is used only once in the statute, it is adopted in this document as “shorthand” for Commission overall responsibilities with respect to its auxiliary, EdFund.

Existing Situation:

Managerial staffs of the Commission and EdFund currently operate out of divergent views of the roles and responsibilities of the Commission and EdFund, particularly at the staff level. In a recent analysis of the current approaches to roles and responsibilities by Commission and EdFund staffs, the following differences were evident.

Brief summary of managerial staff comments:

CSAC: Commission managerial staff chose a narrow interpretation of the enabling statute, conceptualizing the relationship between the Commission and EdFund Board by offering six broad categories describing the FFEL program. Those six categories focused on direct initiation of major components of EdFund operations by the Commission and CSAC staff, with input and advice solicited from EdFund managerial staff. Issues of CSAC staff initiative included business decisions, policies, marketing, performance standards and measurements, financial management, future projections, loan portfolios, and cost-effectiveness.

EdFund: EdFund managerial staff chose a broader interpretation of the statute, focusing on their perception that EdFund is most beneficial to the Commission when it can achieve high performance goals and provide diversified income through services consistent with the Commission’s mission and approved by the Commission. EdFund envisions the optimum structure for oversight as one wherein the Commission can articulate its expectations for EdFund, then monitor and verify how those expectations are reflected in performance goals and performance outcomes, without the Commission or its staff performing the work themselves.

These summary comments evidence that managerial staffs of the two entities have totally different perspectives on how the Commission should define roles and responsibilities. These divergent interpretations are irreconcilable. The Commission must decide between these perspectives.

Analysis

Education Code 69522 clearly indicates the role of the Commission to “maintain its responsibility for financial aid program administration, policy leadership program evaluation, and information development and coordination.” The statute also clearly indicates the Commission’s responsibility to see that “The implementation and effectuation of the auxiliary organization shall be carried out so as to enhance the administration and delivery of commission programs and services.” Hence, the Commission has two primary obligations with respect to its auxiliary: first, to maintain its responsibility for and oversight of EdFund, and second, to make sure that it creates a system and adopts practices which enable EdFund’s loan services to function with the highest degree of effectiveness for students, for stakeholders, and for the state of California.

In order to meet its statutory obligations, the Commission must decide what responsibilities it wants to reserve to itself, what responsibilities it considers to be part of EdFund’s statutory operating and support role under appropriate Commission oversight, and what it wants to delegate to the Commission’s Executive Director, and through the Executive Director, to CSAC staff. The Commission has full authority to make such decisions.

Underlying Principles

- EdFund is a wholly owned subsidiary of the California Student Aid Commission, which has a statutory obligation of appropriate oversight and direction of EdFund.
- The Commission has a corollary statutory obligation to enhance, through EdFund, the Commission’s loan program, in California and nationally, in a highly competitive market.
- The Commission has the right to clarify the relationship between CSAC and EdFund, and to specify the level of responsibility for each entity within that relationship, as long as the Commission maintains its ultimate responsibility.

Conclusions

1. Sustaining EdFund's value as a stable, competitive, customer-driven, performance-based entity which serves students and generates revenue can best be met by clarifying EdFund's authority to operate effectively and competitively, while ensuring the Commission's appropriate oversight and responsibility and EdFund's accountability.

2. The roles and responsibilities of the EdFund Board cannot be separated from the Commission's oversight obligations and the EdFund Board's accountability obligations. This oversight and accountability can be achieved through development by the Commission, as expeditiously as possible, of a comprehensive plan for EdFund oversight which does not rely on potentially changing staff initiatives of either entity. Such an oversight plan establishes guidelines that clarify areas of responsibility of the EdFund Board. It also eliminates ambiguity of responsibilities so that oversight management never slides into operational management.

Comments on the Conclusions

First conclusion:

It is indisputable that EdFund, in the eight years of its existence as the Commission’s auxiliary has had enormous success. The recently approved Commission Performance Review of EdFund notes that “EdFund has become one of the nation’s leading providers of student loan services under the FFEL program. EdFund currently processes approximately \$7 billion a year in federal student loans and administers an outstanding loan portfolio worth more than \$24 billion.” The performance review further cites that, with Commission support, EdFund’s growth rate has been over 20%, its loan default rate has been cut in half, loan collection recoveries and annual revenues almost doubled, all done while maintaining a superior audit record with the federal Department of Education. The Commission and the State of California need continuation of EdFund’s success. Thus, there is compelling evidence for the first conclusion.

Second conclusion:

It is clear to the drafters of these recommendations that the roles and responsibilities of the EdFund Board and the Commission’s critical role in oversight and fiscal and fiduciary responsibility for its auxiliary cannot depend on shifting patterns when there are personnel changes. Such an approach to a major responsibility is unacceptable. A systemic approach to EdFund Board Roles and Responsibilities, Commission oversight and EdFund accountability is essential. Thus, there is compelling evidence for the second preliminary conclusion. The Commission needs to develop a thought-out, organized, coordinated, comprehensive way of implementing the entire process of identifying roles and responsibilities, and of establishing guidelines clarifying what oversight means and what it does not mean. Ideally, though the focus in this document is on Commission responsibility for EdFund, a broad Commission oversight plan could include oversight of grants, outreach, and other Commission programs as well.

CALIFORNIA STUDENT AID COMMISSION

ADMINISTRATION

MEMORANDUM

DATE: JULY 19, 2006

TO: COMMISSIONERS

FROM: JANET MCDUFFIE
CHIEF, MANAGEMENT SERVICES DIVISION AND
ACTING CHIEF, FEDERAL POLICY & PROGRAMS DIVISION

SUBJECT: ROLES AND RESPONSIBILITIES IN THE CSAC/EDFUND
RELATIONSHIP

The following information is provided to facilitate your review and discussion regarding the Roles and Responsibilities in the CSAC/EDFUND Relationship, Agenda Item 5 of the July 26, 2006 Joint Commission/EDFUND Board Workshop.

Enclosed is "CSAC Staff's Analysis of the Ninth Version of the Roles and Responsibilities Document," which was previously provided to you on May 24, 2006.

CSAC staff concurs with the recommendations contained in the recent Bureau of State Audits (BSA) audit report. When responding to the questions raised related to the Roles and Responsibilities document, CSAC staff recommends that the Commission include the implementation of the BSA recommendations in the finalized draft of the Roles and Responsibilities document.



DRAFT DISCUSSION PAPER**CSAC Staff's Analysis of the
Ninth Version of the Roles and Responsibilities Document**

CSAC staff is providing this analysis to the Commission to assist with an open discussion regarding the Roles and Responsibilities.

The Bureau of State Audits (BSA) recommended that in order to manage the FFEL Program in a manner that benefits the State, the Commission should ensure that the roles and responsibilities it delineates for itself and EDFUND do not inappropriately cede its statutory responsibilities to EDFUND. CSAC staff agrees with BSA's finding, recommendation and their comment that the roles and responsibilities are vague and subject to interpretation.

The text of the ninth version of the Roles and Responsibilities proposal is indicated in **bold**, with CSAC staff's analysis indicated in *italics*.

Ninth Version: 11/25/2005

Roles and Responsibilities
EdFUND Board of Directors and EdFUND Oversight

Introduction: On May 23, 2005, the California Student Aid Commission requested that the EdFUND Board of Directors provide recommendations to the Commission on the Roles and Responsibilities of EdFUND Board of Directors. Earlier drafts have been discussed in public meetings by Commissioners, the EdFUND Board, Commission and EdFUND staffs, and interested members of the public. This ninth draft of the first two pages was prepared by the Chairs of CSAC and the EdFUND Board, the Executive Director, and the Interim President, with the assistance of Secretary Alan Bersin's legal counsel; included are some of the suggestions by leaders of the financial aid communities. Further discussion at the November 18 CSAC meeting led to minor changes, and Commission consensus on the draft, without final adoption.

Response: *This introductory paragraph inaccurately states that this proposal of Roles and Responsibilities was prepared by a team that included the Commission's Executive Director. Executive Director Diana Fuentes-Michel did not assist in preparing this proposal. Executive Director Michel participated in a meeting with Alan Bersin, Secretary of Education, and agreed that if BSA affirmed their position, then she would follow direction from the Commission. The introduction also indicates that the public discussions included CSAC staff. While CSAC staff was in attendance during these meetings, the majority of the previous concerns raised by CSAC staff and provided to the Commission based on the sixth draft of the Roles and Responsibilities have not been addressed in this ninth draft.*

DRAFT DISCUSSION PAPER

CSAC Staff's Analysis of the Ninth Version of the Roles and Responsibilities Document

Roles and Responsibilities of EDFUND Board for Operation of EDFUND

1. **The EDFUND Board is the Board of Directors of a California nonprofit corporation which is the auxiliary of a state agency. Therefore, as specified in Education Code Section 69522(b), EDFUND has all the powers and duties of a state nonprofit corporation, except that, if the Nonprofit Public Benefit Corporation Law conflicts with the Education Code, the Education Code prevails.**

***Response:** Despite its status as a nonprofit corporation, the authority of the auxiliary organization is limited. Taking precedence over the Corporations Code, the Education Code expressly limits the operations of the auxiliary organization law to the services prescribed in the operating agreement. (Educ. Code, § 69522 (d)(1) ["The operations of the auxiliary organization shall be limited to services prescribed in [the operating agreement]."]; Educ. Code, § 69522(b).) Further, the Commission is statutorily required to maintain its responsibility for financial aid program administration, policy leadership, program evaluation, and information development and coordination. (Educ. Code, § 69522(c)(1).)*

2. **The California Student Aid Commission (CSAC) declares that the powers and duties of the EDFUND Board include but are not limited to the following operational and support aspects of the role of the EDFUND corporation/auxiliary:**

***Response:** The law expressly provides that the Commission may create an auxiliary organization to provide operational and administrative services for the Commission's participation in the loan program and other approved activities (relating to diversification). (Educ. Code, § 69522(a)(1).) Further, if the Commission determines that certain essential operational and support services are consistent with the overall mission of the Commission, the auxiliary organization may provide those services. (Educ. Code, § 69522(c)(1).)*

The Education Code specifically provides that "[t]he operations of the auxiliary organization shall be limited to services prescribed in [the operating agreement]." (Educ. Code, § 69522(d)(1).) Therefore, any services described in this document must be included in the Operating Agreement.

- **As the Commission's specified loan entity, and under Commission oversight, EDFUND has the primary role in operating all aspects of the Commission's FFEL programs, for example, default management, loan operations, marketing strategies, client services, loan default programs, human resources for EDFUND "at will" employees, EDFUND public affairs, and the like.**

DRAFT DISCUSSION PAPER**CSAC Staff's Analysis of the
Ninth Version of the Roles and Responsibilities Document**

Response: *The Commission is still responsible for financial aid program administration, policy leadership, program evaluation, and information development and coordination. The Roles and Responsibilities document does not define appropriate oversight. Appropriate oversight includes 1) access to the auxiliary's systems and records for the purposes of closely monitoring its activities; 2) review and analysis of the auxiliary's performance and achievement of goals; 3) proper validation of information and reports submitted by the auxiliary; and 4) timely and engaged involvement in the development of key performance drivers such as the Loan Program Business Plan and Budget in order to ensure that the State's interest in the loan program are fully addressed and protected. While Commissioners are State officials, the CSAC staff must be intimately involved to ensure that the State's interests are addressed and protected, and that the Commissioners are informed before making any decisions regarding the FFEL Program.*

- **EDFUND initiates development of the annual business plan, proposes priorities, identifies clearly the basis for projected annual percentage increases, choices and locations for expansion, portfolio risks, marketing plans, and other high-level issues within the loan program. These planning and budget materials are forwarded for Commission substantive review and approval. Simultaneously, EDFUND initiates development of the annual budget which implements the business plan, proposing it for Commission approval, in accord with an annual timing plan approved by the Commission.**

Response: *As proposed, all policy formulation, and operations would be determined by EDFUND; all planning, external relations and representations would be conducted by EDFUND; and budgets and business plans would be prepared by EDFUND.*

It should be recognized that as a part-time body, the Commission might not have the time to perform a detailed analysis of loan program financial and policy issues. The Commission can and should rely upon its State staff to perform the detailed analysis required and provide recommendations to the Commission on business proposals. However, this proposal implies that CSAC staff review is unnecessary to contribute to leading and managing the State's Loan Program and leaves open the likelihood that State interests will not be properly identified or addressed. This is not appropriate given that the Commission is statutorily required to maintain its responsibility for financial aid program administration, policy leadership, program evaluation, and information development and coordination.

Historically, CSAC staff's participation in the development process has come at the time of the proposal's inclusion in meeting agendas, which does not allow sufficient time to address CSAC staff's concerns or make necessary adjustments. CSAC staff has requested earlier involvement in the development of these documents and suggested a re-design of the loan program business goals and performance metrics for 2006-07.

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- **EDFUND initiates policy development for all major aspects of EDFUND operations, seeking input whenever appropriate, from stakeholders such as the Loan Advisory Committee, California Lenders for Education (CLFE), CASFAA, CCCSFAAA, UC system, CSU system, Community College System Office representing all community colleges, and the independent and proprietary segments. Major policies and substantive changes to those policies which affect the mission and future of the Commission's loan program or have major financial impact require approval by the Commission itself.**

Response: CSAC staff concurs that internal policies involving EDFUND's daily operations and affecting EDFUND employees are the responsibility of the EDFUND Board and EDFUND Executive Management. However, as noted previously, it is often difficult to identify when policy issues involving internal operations cross over into State policy issues. Seemingly benign operational issues may, to the uninformed, have nothing to do with State policy, yet implicate significant State policy considerations. For example, operational issues which may have a direct effect on the costs EDFUND incurs or the revenues deposited in the SLOF are State policy issues because they involve the expenditure or receipt of State funds.

The Commission is the responsible entity for administration of the State's loan program. The, considerations regarding "major policies and substantive changes" affecting EDFUND operations that could affect, with positive or negative consequences, the mission and future of the State's loan program, are the responsibility of the Commission. Without advanced review and analysis by the Commission, as fully advised by its State-employee staff, to ensure full disclosure of and accounting for all State policy issues prior to any consideration for approval, EDFUND would have almost total authority for and control of the State's loan program with all financial risk residing with the State. This is not appropriate.

Additionally, an increase in the Commission's reliance on EDFUND's performance in the policy development/setting arena without the involvement of CSAC staff is inappropriate because the business interests of EDFUND might be divergent from those of the State or the public interest.

- **Technological information development and coordination are handled cooperatively by those in charge of technology at CSAC and EDFUND.**

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Response: CSAC staff concurs with the continued effectiveness and success of a joint CSAC/EDFUND approach related to development and coordination of information technology projects and/or systems. CSAC staff also continues to support a joint CSAC/EDFUND approach in other areas concerning the State's loan program. However, it must be fully understood that technology must be employed consistent with the business and programmatic goals, plans and finances of the Commission. The use of technology and the investment in technology must be subject to the same leadership, oversight and controls as all other aspects of the Commission's activities and responsibilities. EDFUND's use of technology to support the Commission's programs must be consistent with the Operating Agreement. CSAC staff feels the wording of this bullet supports the spirit of this item, but is not descriptive of how the actual process works since technology affects other divisions within the Commission's operations. CSAC staff is available to work with the Committee to further define this bullet.

- **Because of its professional expertise and day-to-day operations in these areas, EDFUND's role encompasses representing the Commission's loan program with industry and trade associations and similar groups, including communications with the federal Department of Education concerning federal reporting, operational communication, VFA development for the Commission, and program compliance. EDFUND is responsible for managing all aspects of its business relationships with its clients.**

Response: CSAC staff concurs and supports the EDFUND Board's and Executive Management's responsibility for the day-to-day management of internal operations.

However, the communication of information about a State program, including the communication of State policy, is appropriate only for a State entity. The loan program is a State program. Communication of State policy, especially to federal, state, or local government officials, is a State function that is inappropriately undertaken by a non-State entity. Representation on behalf of the State cannot be delegated. The BSA audit indicates that, although EDFUND needs to play a role in these areas, the Commission is ultimately responsible for the FFEL Program and needs to have a strong presence.

Based on this perspective, any proposed reduction in or elimination of the Commission's responsibilities for policy-setting considerations, or increase in the Commission's reliance on EDFUND's performance in the policy-setting arena is inappropriate as it invests these responsibilities in a nongovernmental entity and nongovernmental personnel having; 1) no accountability to the State, 2) no obligation to perform in the public interest, and 3) an incentive to act in the business interests of EDFUND, which may differ from those of the State.

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The Commission's Performance Review of EDFUND noted that "Through a joint staff workgroup, direct contact with, and outreach to, federal and state governmental agencies can be carried out most effectively and efficiently through 'one voice' ensuring a consistent message."

- **In order to improve service to students and other clients, EDFUND facilitates, through the joint Internal Audit division, internal audits of EdFUND management and programs, reporting findings to the Joint Audit Committee of the Commission and EDFUND. The Joint Audit Committee shall be responsible for questions regarding compliance with applicable laws and regulations, including potential conflicts of interest, and shall act pursuant to the internal charters and policies of CSAC and EDFUND.**

Response: *CSAC staff concurs that it is appropriate that the EDFUND Internal Audits Division perform internal audits of EDFUND.*

However, it is unclear as stated in this proposal point whether this includes performance evaluations of EDFUND as stated in the statute. The statute clearly indicates that the Commission is responsible for conducting regular performance evaluations of the operation of EDFUND. Although the Commission/EDFUND's Internal Auditor is designed to be a non-partial position, the Internal Auditor is a paid employee of EDFUND. As such, placing the responsibility for conducting regular performance reviews of EDFUND's operations under the purview of EDFUND's Internal Audit division could represent a conflict of interest, and therefore is inappropriate. Additionally, questions regarding compliance should not be the sole responsibility of the Joint Audit Committee for similar reasons as those stated above for the Internal Auditor. The Commission needs to retain its oversight responsibility in these areas.

- **In situations where the expertise of the President and/or senior management of EDFUND could be helpful to the Commission in the legislative arena, the Commission expects these individuals to be called upon in the areas of their expertise.**

Response: *CSAC staff concurs that the expertise of EDFUND be called upon to complement the policy and legislative expertise within the Commission. As the Commission is responsible for policy development, coordination and leadership under the statute, this point of the proposal should clarify the Executive Director's discretion regarding soliciting assistance from EDFUND and clarify the role of the Executive Director in representing the Commission.*

- **EDFUND is accountable to the Commission for all aspects of its operations and support programs, as defined in the Operating Agreement.**

Response: *CSAC staff concurs that EDFUND is accountable to the Commission for all aspects of its operations and support programs as defined in the Operating Agreement.*

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Further, the Higher Education Act (Section 436) specifies that a guaranty agency that delegates the performance of any of its FFEL functions to another entity shall not be relieved of its duty to comply with the requirements of the Act, and is still required to monitor the activities of the other entity for compliance. Therefore, to ensure EDFUND's compliance with Commission directives and the Operating Agreement, there should be further discussion and clarification of potential consequences if EDFUND is not accountable for any failure or noncompliance with Commission directives or the Operating Agreement. Per the current Operating Agreement, all performance risk lies with the State and the Commission without any consequences when EDFUND is found in noncompliance to the agreement.

EDFUND's performance towards the State's loan program requires independent oversight and evaluation. This oversight and evaluation must be independent from direct or indirect influence by EDFUND.

Under these Roles and Responsibilities, State oversight would be limited to verifying whether EDFUND accomplished its planned goals rather than performing any oversight in terms of determining and directing EDFUND to carry out its delegated operational duties in the best interest of the State. In addition, the Commission previously had been cited by the Bureau of State Audits for not having a system in place to provide adequate oversight of the activities of its auxiliary, and for not having the resources to adequately protect the public funds entrusted to it. In response to the previous audits, the Commission took several actions to ensure that it has adequate oversight of its auxiliary both at the Commission and staff levels. Oversight must be adequately defined or it puts the Commission at risk of future audit findings regarding oversight.

- **Other roles and responsibilities may be designated by the Commission or by statute.**

Response: *The legislation enabling the creation of the public nonprofit auxiliary maintains that the Commission is to remain the designated guaranty agency with ultimate policy and fiduciary responsibility for the loan program. The law does not allow the Commission to delegate any of the State's authority to a non-State entity. However, the Commission may authorize EDFUND to engage in limited operational and support services for the loan program.*

Major Commission Oversight Roles and Responsibilities

- 1. The Commission exercises its ultimate responsibility over the loan program by direct annual approval of the business plan, annual budget, and performance goals of EDFUND, and by appropriate monitoring and verification of EDFUND operations and support services throughout the year, as defined in the Operating Agreement.**

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Response: *It should be recognized that as a part-time body, the Commission itself might not have the time nor resources necessary to perform detailed analysis of loan program financial and policy issues. However, the Commission can and should rely upon its staff to perform the detailed analysis required and provide recommendations to the Commission on the State's Loan Program.*

The Commission must clarify what "monitoring" means to ensure that State oversight is not inappropriately limited. A constricted interpretation of monitoring would inappropriately limit State oversight of a State program.

- 2. Commission staff members assist the Commission in its responsibility for financial aid program administration, policy leadership, program development, and information coordination and development. As designated by the Commission, CSAC staff work with EDFUND in appropriate ways, in accord with the roles and responsibilities defined in this document. In general, the oversight role is to monitor and verify after the fact, as follows:**

Response: *The term "appropriate" is undefined. These roles and responsibilities prohibit CSAC staff involvement in oversight of significant portions of the loan program, and thus limit State oversight of a State program. As stated in the BSA audit report, federal law and regulations make it clear that the Commission is responsible for ensuring compliance and, therefore, it should not be negotiating oversight issues with EDFUND. CSAC staff disagrees that the oversight role is to monitor and verify after the fact. The BSA audit indicates that the Commission is currently not providing sufficient oversight, due to dismissing several policy and fiscal concerns in the Loan Program Business Plan and EDFUND budget raised by staff responsible for analyzing these issues, independently verifying EDFUND reports and not performing an adequate assessment of the financial risks in the loan portfolio.*

A non-State entity that has a contract under which it receives millions of dollars of State funds should not be recommending 1) that significant limits should be placed on the involvement of professional, career State employees whose obligations to the People of the State are to exercise oversight over a State program, and 2) that complete oversight of its contract functions should be exercised only by the part-time members of the State entity with which it contracts.

Moreover, a State body like the Commission should not acquiesce to the demands of its non-State auxiliary organization that the Commission exclude its State-employee staff from significant aspects of development, review, analysis, and oversight of significant contract functions, and take over sole responsibility to review and approve significant contract functions that will result in millions of dollars of State funds flowing into the control of this non-State entity.

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The business plan, annual budget, performance goals and major policies are key business drivers for the State's participation in the FFEL program. This proposal effectively places the operational and policy control of EDFUND in EDFUND, and relegates CSAC staff's role for validating the key business drivers for the State's loan program to "after the fact" verification and/or recommendations to the Commission for action or correction.

Again, this is a State program. The program must be administered with full awareness of the wide range of special State policy issues and interests that confront this program, and the general policy issues and interests that confront any State program. It must be administered consistently with the public accountability that is the fundamental requirement of any State program. EDFUND is organizationally unable to provide this by itself.

The Commission must not be dependent upon a nongovernmental entity such as EDFUND to formulate the policy and management control of the State's loan program as the business interests of EDFUND might be divergent from those of the State. While EDFUND provides valuable support services, the Commission and the State need the independent ability to evaluate issues and options and formulate policies for the State's loan program.

- **Since the Operating Agreement is the document which specifies the broad elements and the details of the relationship between the Commission and its auxiliary, there must be concurrence between CSAC and EDFUND management and staffs about what the Operating Agreement says and the roles and responsibilities it defines. To preclude confusion and discord during the year, the Commission itself, directly or through one of its designated committees, will resolve issues of disagreement prior to approval of the final Operating Agreement.**

***Response:** It is the Commission, through CSAC staff, that is responsible for developing the agreement. Consultation with EDFUND should occur after the initial draft of the agreement is developed. The Commission is the sole entity authorized to exercise the State's authority in administering the loan program. The EDFUND Board's proposal, however, allows EDFUND to identify and establish the terms of the Commission's Operating Agreement.*

- **When the annual business plan, budget, and performance goals have been developed by EDFUND staff, Commission oversight staff reviews these documents for conformance with the Operating Agreement, but EDFUND retains its primary role to make and implement business decisions, subject to review and approval by the entire Commission. Differences in interpretation and viewpoint between EDFUND and CSAC staff on which resolution cannot be reached shall be resolved by the appropriate Commission committees or the Commission itself.**

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Response: *This proposal indicates that rather than a cooperative effort involving the staffs of both the Commission and EDFUND, it assumes that CSAC staff have nothing of sufficient added value during the development of these business drivers and assigns all responsibility regarding the business, operational and policy aspects of the State's Loan Program under the control of EDFUND with all financial risks residing with the State.*

CSAC staff agrees that the responsibility for reviewing the annual business plan, budget and performance goals to ensure conformance with the Operating Agreement should be done by CSAC staff. In addition, CSAC staff concurs that if differences of opinion and viewpoint among CSAC and EDFUND staff cannot reasonably and timely be resolved, then the appropriate Commission committees or the Commission as a whole should become involved. CSAC staff has already provided an initial draft of Proposed Business Goals and High Level Organizational Metrics for 2006-07 to facilitate discussion. CSAC staff has been on record requesting earlier involvement and suggested a process.

As noted above, it is not appropriate for an entity with a contract with the State involving millions of dollars of State funds to urge the part-time State overseeing body to exclude its professional staff from oversight and take sole responsibility for that oversight.

As also noted above, a State body should not acquiesce to the demands of its non-State auxiliary organization that the State body exclude its career, professional State-employee staff from significant aspects of oversight and take over sole responsibility for oversight of a significant contract that will result in millions of dollars of State funds flowing into the control of this non-State entity.

- **Major policies initiated and developed by EDFUND, after review and approval by the Commission, are monitored by CSAC oversight staff for conformance with approved policy.**

Response: *CSAC staff concurs that Commission oversight staff should monitor EDFUND for conformance with approved policies.*

However, this proposal asserts that major policies will be initiated and developed by EDFUND, implying that CSAC staff will have no involvement during the planning and development stages of the policies. As proposed, EDFUND would have total control of initiating and developing policies for the State's loan program with all financial risk residing with the State. The business interests of the State and EDFUND might be divergent, and the Commission's obligation is to protect the interests of the State and the public funds entrusted to it. See also relevant comments above.

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- Implementation of fiscal oversight involves statutory requirements which are relatively detailed (Education Code 69526). The key to successful oversight in financial matters is development of a system with the least duplication possible, while ensuring that Commission and EDFUND staffs implement specific statutory requirements. The Commission itself or a Commission committee will provide for an analysis of the current fiscal oversight system in order to assure that, as far as feasible, duplication is at a minimum while statutory requirements are met. Again, any differences of opinion and viewpoint in this process are resolved by the appropriate Commission committees or the Commission itself.**

***Response:** Currently, the Federal Fund and the SLOF are accounts maintained by the State Treasurer's Office. CSAC staff has the responsibility of managing the state accounts and EDFUND staff must manage funds passing through EDFUND. Therefore, there is some necessary duplication of effort. Statute requires an independent audit of EDFUND's financials. This audit is conducted after the close of the federal fiscal year (September 30). In addition, the State Controller's Office requires an independent audit of the Federal Fund and the SLOF based on the state's fiscal year (June 30). For the past three years, one auditing firm has conducted both audits.*

These financial audits do not make determinations as to the appropriateness of any particular purchase in relation to FFEL Program requirements, business plans or goals. Nor do they address the effect business decisions have on the loan portfolio, defaulted claims and other revenues for which the Commission has responsibility. The Commission can and should rely upon its staff to perform the detailed analysis required and provide recommendations to the Commission on the State's Loan Program. See also relevant comments above.

- The Commission itself has ultimate responsible for the statutorily required "regular performance evaluations" of the operations of EDFUND. The objectives, methodology, scope, and timeline of such performance reviews must be specifically approved in advance by the full Commission, and subsequently adhered to as approved. The Commission expects that the general standards and fieldwork standards for performance audits prescribed in the U.S. General Accounting Office's Government Auditing Standards be applied to evaluations of EDFUND's operations even though "evaluations" are performed as opposed to "performance audits." The Internal Auditor may be asked by the Commission to monitor the conduct and progress of the evaluations.**

***Response:** The performance evaluation is intended to independently evaluate EDFUND's performance in achieving goals as established and approved by the Commission, to independently ensure accountability of the State's assets, and to ensure the effective, efficient and appropriate use of resources. The performance review is a tool to be used by the Commission in determining the future direction of the State's loan program.*

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Although the Commission/EDFUND's Internal Auditor is designed to be a non-partial position, the Internal Auditor is a paid employee of EDFUND. As such, providing the EDFUND Internal Auditor the authority to directly or indirectly influence the scope of the performance evaluation would be inappropriate, and could present a potential conflict of interest.

The Commission is the designated guaranty agency for the State under the FFEL Program. While EDFUND provides services to the Commission under the Operating Agreement, any potential liability solely resides with the State. Therefore, on behalf of the State, the Commission must independently exercise appropriate oversight and leadership.

- **Other aspects of oversight as developed over time by the Commission or a Commission committee acting on behalf of the Commission.**

Response: *More detail should be provided to allow for CSAC staff to respond. Depending on the "aspects of oversight developed over time", CSAC staff suggests that the appropriate State control agencies be involved to ensure compliance with applicable State requirements.*

Conclusion: **The California Student Aid Commission expects and requires cooperation between the Executive Director of the Commission and the President of EDFUND, to implement these roles and responsibilities.**

Response: *CSAC staff concurs that more cooperation between Commission and EDFUND staffs is needed to implement these roles and responsibilities and move forward with successfully developing a new operating agreement.*

EDFUND management must recognize the authority of the Commission as EDFUND works on the Commission's behalf.