Item 9

Information Item

Update on Audits

SUMMARY OF THE ISSUE(S):

The following is an overview of both the Commission's program compliance and internal audit processes and activities. Subjects covered include: Program Compliance Audits, Internal Audits, the State Leadership Accountability Act, and the Management Representation Letter for the Single Audit. Despite improvements, the Commission's external audit cycle remains higher than is desirable to ensure that the institutions and entities participating in the Commission's programs comply with applicable laws, policies, and contracts.

RECOMMENDATION:

This is an information item with no formal action required by the Commission.

BRIEF HISTORY OF KEY ISSUE(S):

The Commission has responsibility for the oversight and management of the state and federal financial aid programs it administers. The Commission evaluates the effective management of its programs through external audits of institutions and organizations that participate in the Commission's programs and through internal audits of internal controls and risk management procedures. Any findings identified through these reviews requires that corrective action be instituted and the financial liability, if any, be returned. For the closed 2013/14 and 2014/15 fiscal years, the program compliance auditors returned approximately $475,000 to the state's General Fund and found an additional $99,770 in institutional liability.

ANALYSIS:

Program Compliance Audits

The Program Compliance auditors perform independent assessments of the administration of the Commission's programs to provide assurance to the Commission that institutions are adequately administering Commission programs. Program Compliance audits can consist of a full audit that encompasses all aspects of program administration or a focused audit of a particular issue, such as whether Commission funds are deposited in an interest-bearing account. Institutions are selected for review based upon a variety of factors including the date of the prior review, the number of findings, the liability associated with findings, the number of recipients/dollar value of funds administered, cohort default rate/graduation rate ineligibility and volume/frequency of programs issues raised by staff and/or stakeholders.

A full program compliance audit will evaluate whether the institution has complied with the following areas of compliance:

- General Eligibility
- Applicant Eligibility
- Fund Disbursement and Refunds
- Record retention and File Maintenance
- Fiscal Responsibility

Issues that arise during a program compliance audit will be resolved by reference to:

- California Education Code
- Institutional Participation Agreement
- California Code of Regulations
- Federal laws and regulations
- School policies, procedures and catalogs
- Generally Accepted Accounting Principles

The program compliance staff use an audit sample of 40 randomly selected Cal Grant students that received payments from the institution in the academic year under review. Institutions that have fewer than 40 paid students will have every student audited. If a finding is discovered to have affected more than 10% of the sample, or if the review has uncovered a significant number of student eligibility and/or payment issues, the institution is required to perform a "portfolio review" of all of their Cal Grant students to determine if additional students had the same issue.

In response to the issue with unpaid competitive students, the program compliance audit was expanded to include the review of 40 randomly selected students that were not paid on the institution's Cal Grant roster. Institutions that have fewer than 40 unpaid students on the roster will have every student audited. This review is intended to identify institutional issues related to whether or not the student was eligible for a payment but was not actually paid during the academic year.

Generally speaking, program compliance audits are conducted on an academic year that has already been closed. For example, the program compliance staff is beginning to engage audits that will evaluate the 2014-15 academic year which closed December 31, 2015. As a result, program compliance audits lag behind the current academic year.

<u>Findings - Fiscal Audits</u>

The program compliance auditors have been performing fiscal audits of all institutions that were determined to be ineligible to participate in the Cal Grant Program as a result of failing to meet the cohort default rate and/or graduation rate thresholds found in Education Code section 9432.7(l). For the 2014-15 fiscal year, 44 institutions were audited resulting in $181,768.35 being returned to the Commission. An additional $9,842.00 in institutional liability resulted from two institutions that failed to appropriately reconcile Cal Grant funds. For the 2015-16 fiscal year, the Commission has engaged 33 institutions for review. Of these, 17 audits have closed resulting in $64,464.76 being returned to the Commission.

Findings - Full Audits

The program compliance auditors are also performing full field audits of Cal Grant participating institutions. For the 2014-15 fiscal year, 10 institutions were audited resulting in $12,606.23 being returned to the Commission. An additional $3,029 in institutional liability resulted from three institutions that failed to appropriately reconcile Cal Grant funds. For the 2015-16 fiscal year, there are 25 audits in process. Of these, there are 9 closed audits that have resulted in $39,181.10 being returned to the Commission and an additional $87,761.00 in institutional liability resulted from three institutions that failed to appropriately reconcile Cal Grant funds.

Unscheduled Audits

During the 2015-16 fiscal year, the Commission's audit staff has also been involved in two unscheduled reviews. The first was the review of all payments to Cal Grant recipients attending all ten campuses of Heald College. The Commission took action at its February 2015 meeting to withhold Heald College's Cal Grant payments for the Spring Quarter until that term ended in April 2015. Upon completion of the Spring term, Heald College was instructed to submit its accounting records and student transcripts to support its request for payment of Cal Grant funds. The Commission's auditors reviewed all of the records and payment requests for accuracy. This review lasted from April 2015 through early June when Cal Grant funds were disbursed.

In early July 2015, the Commission's audit staff made an unannounced audit of the Los Angeles Cal-SOAP Consortium. This audit required several trips to Los Angeles to interview the Cal-SOAP employees, employees of the fiscal agent California State University, Los Angeles, and the student tutors/employees of the high schools where tutoring services are being provided. The audit staff also requested and received a large volume of accounting documents related to the expenses being billed to the Cal-SOAP project including back-up documentation on salary, benefits, travel, mileage, phone charges, and other miscellaneous expenses. The auditors also requested and received documentation from the Consortium regarding its governance, including its board minutes. The draft audit issued in January 2016. The audit response was due on March 26, 2016. This audit is not yet final.

Internal Audits

Internal Audit Plan Activities

The role of the Internal Auditor is to assist the Commission in the discharge of its oversight responsibilities and to identify and mitigate risk as it relates to its operations and processes. In February 2015, the Commission reviewed the risk assessment and adopted a three-year audit plan which prioritized the high risk areas to be audited as follows:

1. Departmental Succession Planning
2. Personally Identifiable Information (PII) Protection (which includes Network Security)
3. Cal Grant Program – Dream Act New Applicant Eligibility
4. Information Technology Modernization
5. Information Security Program

The Internal Audit on departmental succession planning is under way. Although it was anticipated that this audit would be completed earlier, the timeline has slipped somewhat as a result of the Internal Auditor being re-directed to both the Heald College payment analysis and the Los Angeles Cal-SOAP audit. This audit will be reported to the Legislative, Audit and Budget Committee upon completion.

State Leadership Accountability Act

In addition, as a state body, the Commission must complete the reporting required by the State Leadership Accountability Act (formerly known as the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983). SLAA was enacted to reduce the waste of resources and strengthen accounting and administrative control. SLAA requires each state agency head to maintain effective systems of internal accounting and administrative control, to evaluate the effectiveness of these controls on an ongoing basis, and to biennially review and prepare a report on the adequacy of the agency's systems of internal accounting and administrative control. Through the SLAA, the Commission performs a risk assessment and develops a corrective action plan to address the identified risks.

For this reporting cycle, the Commission performed the risk assessment utilizing a confidential survey that was distributed to all CSAC managers and staff. Prior to release of the survey, one-hour informational sessions were held to provide employees with training on SLAA including an overview of the SLAA statute, risk analysis/evaluation and understanding internal controls.

All employees were subsequently sent a confidential survey asking that the employee identify, rank (high, medium, low), and comment upon areas of risk either within their specific Division or the organization. The risk assessment asked for input in the areas of: internal and external operational risks; internal and external reporting risks; internal and external compliance risks; and any observed fraud risks based upon the Department of Finance's "State Leadership Accountability Act Risks and Definitions." Survey respondents also had the ability to identify, rank and explain any other risks if unsure where such risk should be reported. After identifying the risk, respondents were asked to rate the risk as high for a risk that represents a substantial or significant impact to the identified area; medium for a moderate impact; and low for a minimal impact.

Upon completion of the survey, all uncategorized risks were assigned to the appropriate category of the "State Leadership Accountability Act Risks and Definitions." Each area of risk was scored based upon the designation of the risk as high (5 points); medium (3 points); or low risk (1 point) by survey respondents and the comments regarding each identified area of risk were summarized for review. The risk assessment score and comments were shared with CSAC managers to discuss and rank the top risks identified through the survey. Management within each division was given an opportunity to reflect and discuss risks and explain mitigating controls within their programs. Internal Audit staff analyzed the results of the risks to determine whether the risks identified were unique to the unit or common within the department-wide risk assessment.

Executive management was provided with the final ranking and scoring of the risks to determine those areas presenting the highest risk to CSAC. The three highest areas of significant risk were identified as key person dependence (succession planning); staff training, knowledge and competence; and technology (outdated, incompatible).

California Student Aid Commission

The Commission's SLAA report was timely submitted in December 2015. The Commission continues to work on its corrective actions in response to the identified risks. The next Corrective Action Plan is due June 30, 2016.

<u>Management Representation Letter for the Single Audit</u>

The Commission is also required to submit a management representation letter (MRL) as part of State's overall response to the Single Audit. The Single Audit Act and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires non-federal entities that expend equal to or in excess of $500,000 in federal awards within a fiscal year to have an audit performed in accordance with the Single Audit Act. The MRL is signed by the Commission's Executive Director and Chief of Administration and External Affairs. The most recent MRL was submitted in February 2016.

Staff will be available at the meeting to discuss this information and respond to questions.

RESPONSIBLE PERSON(S): Keri Faseler Tippins
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