

December 31, 2019

Keely Martin Bosler, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Student Aid Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Lilly Myers, Deputy Director, Fiscal & Administration, at (916) 464-8030, [lilly.myers@csac.ca.gov](mailto:lilly.myers@csac.ca.gov).

## **GOVERNANCE**

### **Mission and Strategic Plan**

Founded in 1955, the California Student Aid Commission ("Commission") is the primary state agency for the administration of state-authorized student financial aid programs available to students attending all segments of postsecondary education. These include grant, scholarship, and loan assumption programs supported by the state and the federal government. The Commission's primary programmatic responsibility is the administration of the Cal Grant Program. The Commission's mission is to make education beyond high school financially accessible to all Californians.

During the 2018-19 academic year, the Commission distributed approximately \$2.8 billion in financial aid to nearly 400,000 California college students through the Cal Grant Program, Middle Class Scholarship and eight specialized and loan forgiveness programs. The Commission also administered the Student Opportunity and Access Program (Cal-SOAP) and Every Kid Counts, grant programs focused on college readiness and affordability; and Cash For College, a financial aid education program.

The Commission provides policy leadership on financial aid issues and is also responsible for disseminating information statewide about student financial aid programs; reporting to the Legislature, the Governor, postsecondary educational institutions and other state and federal administrative agencies regarding all aspects of student financial aid in California; and, conducting student financial aid research.

The Commission has the statutory authority to appoint a chief executive officer to oversee its programmatic responsibilities and to employ other employees as necessary (hereinafter the Executive Director, managers and staff shall be referred to as "CSAC"). The Commission currently has 126.50 authorized positions in its workforce.

### **Control Environment**

## **ONGOING MONITORING**

As the head of California Student Aid Commission, Marlene L. Garcia, Executive Director, is responsible for the overall establishment and maintenance of the internal controls and monitoring systems.

### **Executive Monitoring Sponsor(s)**

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Student Aid Commission internal controls monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:

Lilly Myers, Deputy Director, Fiscal and Administration Services Division.

### **Monitoring Activities**

Through ongoing monitoring processes, the Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Commission is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

The Commission conducted a comprehensive review of internal control systems in State Fiscal Year 16/17 performed by an internal auditor (retired annuitant) from outside the Commission. The review findings were minimal and corrected promptly. The Commission plans to continue using external reviewers in the future to further to improve upon the results from the 16/17 review and to meet or exceed expectations and requirements with internal control systems.

The Executive Director is responsible for the overall establishment and maintenance of the internal control systems.

The Deputy Director, Fiscal and Administrative Services Division, Lilly Myers, is responsible for the department-wide risk assessment. The Department of Finance State Leadership Accountability Act lifecycle model will be used for ongoing monitoring.

### **Addressing Vulnerabilities**

The Commission encourages staff to speak with their supervisors if they discover an issue or risk that should be addressed. When risks to the Commission are identified, or otherwise come to the attention of CSAC management, they are presented during CSAC weekly Executive Management meetings. Executive Management discuss the issues, evaluate the risks, and determine priorities. An action plan and timeline to mitigate the issues are developed. A key manager is identified for each Division to address the issue and the Deputy Director of each Division is responsible for updating the progress of the action plan at later Executive Management meetings.

Implementation of design and test control procedures that have been developed are confirmed and documented. The Deputy Director of Fiscal and Administrative Services reports the information to the Executive Director and Chief Deputy Director monthly until deficiencies are satisfactorily addressed.

The Commission, from Commissioners to the Executive Director to managers and to team members, is governed by a conflict of interest code (regulation) and by an established code of conduct (policy) in the workplace, titled "Employee Standards of Conduct Policy." Ethics training is provided and completed annually for the Commission. This information is tracked and collected by an assigned Ethics

Coordinator. Employees are encouraged to report any concerns to their managers or the EEO Officer/ Personnel Officer. In addition, there is an annual notice sent to employees and posted throughout the Commission offices regarding the State Auditor's Whistleblower program.

The Commission has enhanced its recruitment efforts beyond postings on the CalCareers website by placing advertisements in more specialized publications designed to reach populations with interest in the position. Staff development and training opportunities are provided to CSAC employees on a regular basis as funding permits, whether through division or unit specific trainings, or through individualized training plans developed by managers with the employee during the creation of an Individual Development Plan.

As required by SPB, CalHR and MOU rules and guidelines, the Commission managers monitor staff performance through discussions with employees, completion of probation reports, and annual performance appraisals. Guidelines set forth in the CalHR Supervisors Guide to Employee Performance are adhered to and practiced as a standard within the Commission. Accountability of staff is enforced through these guidelines and standards. An open line of communication between managers and employees is encouraged. The Human Resources unit counsels and guides the managers using these standards, rules and guidelines as department best practices. Employees are encouraged to speak with their manager or HR with any concerns regarding workload, unfair practices, or any other concerns.

### **Information and Communication**

Monthly meetings of all managers include updates of action plans to mitigate risks. Managers are expected to communicate with their staff on these risks. Discussion of relevant risks is included in semi-annual meetings of CSAC. As needed, and depending on the significance of the risk, information about risk and mitigation are distributed to all staff via email.

The Deputy Director, Fiscal and Administrative Services Division is responsible for documenting and monitoring the risks and reporting a summary to the Executive Director and Chief Deputy Director.

The manner in which the Commission identifies reliable and relevant information varies depending upon methods of collection and the source. Specifically, reliable and relevant information is gathered through day-to-day business operations; strategic and program planning; statistical/data analysis; communication internally and with external stakeholders; and through formal investigations as needed. Depending upon the situation, the reliable and relevant information may be used for short- and long-term planning, in management discussions and decision making, and in its communications internally or with external stakeholders.

The Commission leadership team and staff communicate with external stakeholders and/or parties utilizing numerous methods and processes. For example, external stakeholders/parties can be communicated with via meetings (Commission meetings and private meetings), conference calls, emails, letters, speaking at conferences, trainings, social and traditional media, newsletters and announcements provided to list serve subscribers, etc. These communication efforts are directed by the leadership team from the top down and there are set procedures/processes for effective communication with these external stakeholders/parties.

## **MONITORING**

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Student Aid Commission monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Lilly Myers, Deputy Director, Fiscal & Administration.

The California Student Aid Commission is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Student Aid Commission systems of controls and monitoring.

When Commission-wide risks are identified they are discussed during Senior Executive meetings. An action plan is developed to mitigate the risk and key persons are identified for each impacted division to address the issue and report back to the Senior Executives at the next meeting. Meetings are routinely held at two week intervals but ad hoc meetings are scheduled as necessary.

On a quarterly basis, the Commission will require reports from each unit. The designated key person for each unit is expected to report to management on at least a monthly basis the specific risks, the mitigating actions, and the results. The Deputy Director of Fiscal Administrative Services Division will be responsible for documenting and monitoring the risks and reporting a summary to the Chief Deputy Director and Executive Director. The Commission also encourages staff to speak with their supervisor if they discover an issue that should be addressed to better assist the Commission with fulfilling its mission, goals, and objectives.

Further, the Commission has an Internal Auditor to test the control procedures that have been designed, developed, and implemented. The Deputy Director of the Fiscal Administration Services Division will report the information to the Chief Deputy Director on at least a monthly basis until deficiencies are satisfactorily addressed.

The Commission strives to reduce the risks inherent in our work through ongoing monitoring. The Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the California Student Aid Commission risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, questionnaires, and consideration of potential fraud.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, and potential impact of remediation efforts.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the California Student Aid Commission risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

### **Risk Identification**

CSAC previously performed a risk assessment utilizing a survey that was distributed to all CSAC managers. Prior to release of the survey, CSAC provided the managers with an overview of the SLAA statute, risk analysis/evaluation and training on understanding internal controls, with a presentation provided by staff members of the Department of Finance Office of State Audits and Evaluations.

All managers were subsequently sent a confidential survey asking that they identify, rank (high, medium, low), and comment upon areas of risk either within their specific Division or the organization. The risk assessment sought 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.

### **Risk Ranking**

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 and ranked based upon the designation of the risk as high, medium or low and discussed among Executive Management in meetings. Each risk previously identified was weighed, discussed and considered to find the highest on-going risks to the Commission for inclusion in this report. All identified risks will be addressed, however five areas of significant risk to the Commission's mission were identified this year as described below.

## **RISKS AND CONTROLS**

### **Risk: Staff - Key Person Dependence**

In performing its daily operations, the Commission relies on staff members with subject matter expertise in various key areas to perform functions. As a result of retirements, transfers/promotions to other agencies, extended leaves or separations, the Commission has lost staff and historical knowledge in critical areas.

This loss of key staff and their historical knowledge about the Commission interrupts ongoing business operations and continuity, causing the Commission to spend valuable time and effort locating alternative information sources, recreating missing processes and increasing workloads on remaining staff until new staff may be hired and trained. This results in re-prioritization of projects, and places the Commission achieving objectives at risk.

#### **Control: A**

Within each Division, management will identify critical areas of key person dependency and assign a key staff member to lead in the development of written processes or procedures to ensure

back-up staff is trained so that the Commission can maintain effective continuity in key positions. The identified key people will document and systematically list what they are working on to help manage the risk. The Commission's Workforce Development Plan was completed in mid-2018. The Commission's Succession Plan draft is currently being reviewed and evaluated by management. The Commission has provided formal training to staff and leadership and continues revising and updating in-house trainings. Development of written procedures, policies and desk manuals also continues.

### **Risk: Staff - Training, Knowledge, Competence**

Related to the issue of Key Person Dependence, there is a need for additional training, as identified in the annual staff survey, for both new staff and existing staff in the areas of program knowledge, administrative policies and procedures, professional development and personal development.

Both the Commission leadership and staff reported that staff knowledge and/or abilities were not in line with the job requirements in some areas and suffered due to lack of training, written policies, procedures and/or desk manuals.

The lack of training, knowledge transfer, written policies, procedures or desk manuals and the lack of professional development for staff negatively impacts operational efficiency and employee morale and increases the risk to the Commission's continuity of operations and goals.

#### **Control: A**

The Commission's Training Officer continues to serve multiple functions, such as acting as the Upward Mobility coordinator and Training coordinator. The Training Officer continues to utilize the CalHR Core Competency Model matrix to identify the skills required for each position. The Training Officer continues to ensure Commission employees are identified, trained, and equipped with the knowledge to continually advance employee skills and improve performance productivity and service. Training and development opportunities will help prepare employees for upward mobility by strengthening their competencies.

The Training Officer continues to provide oversight of in-house training programs and recommendations to leadership on training needs for staff and leadership. In-house training has been implemented by either an external vendor to train staff/leadership or internal subject matter experts, who are utilized to mentor/train on Commission programs and business processes. Additionally, staff receive on-the-job training regarding Commission programs and business processes as necessary.

#### **Control: B**

Within each Division, management identifies critical areas of training, competence and knowledge and assigns a key staff member to lead in the development of written processes or procedures to ensure back-up staff are trained so that the Commission can maintain effective operations. The Commission continues to provide training and develop knowledge, skills, and competencies appropriate to each classification. In-house, on-the-job, and outside trainings are provided in accordance with the Workforce Development Plan; along with written procedures, policies and desk manuals. Cross training within Divisions, webinars/teleconference training and assignment of

mentors to new staff will also mitigate risk.

**Control: C**

Although the Commission's ability to provide outside training opportunities for staff is restricted due to budgetary constraints, the Commission has been actively monitoring the expenditures for training with each Division Chief and encouraging each Division Chief to expend the funding that has been allocated to training for staff. This has led to a year-over-year increase in employee training opportunities.

The Commission continues to offer and provide professional and personal development through contracted vendor trainings, in-house training, and on-the-job training. Individual Development Plans (IDPs) are monitored and a system for notifying management staff to develop, review, and submit the information to the Human Resources Unit is in place. Human Resources continues to track IDPs and reviews the IDPs to ensure that the training requested is appropriate, prerequisites are met, and registration is processed.

**Risk: FI\$CAL Maintenance and Functionality**

The Commission began using FI\$Cal in July 2017. Now that the Commission is integrated into FI\$Cal, the implementation risk is mitigated. However, the maintenance and functionality risks that were identified in earlier SLAA reports remains. The Commission's Accounting Unit has continued to incur staffing shortages, as two Senior Accounting Officers and a Manager have left. Additionally, some of the current staff are not as familiar with accounting year end procedures and processes that take an increased level of accounting and computer technical training for staff to perform successfully. In particular, technical training is needed regarding how to properly download and present data (data conversion) from the FI\$Cal system.

Furthermore, some training received by Commission accounting staff during the initial FI\$Cal implementation phase has been updated or processes have changed, which has provided challenges to a small staff that now requires additional training. Additionally, the Commission has encountered some systematic problems or bugs with the FI\$Cal system. The changes and shortages in accounting staff mean there are limited subject matter experts for the FI\$Cal system.

The Commission's claim schedules are generated through the antiquated Grant Delivery System, which processes several hundred thousand payments during each academic year, and the claims schedules must be manually entered into the FI\$Cal system. This manual entry process may lead to errors in the FI\$Cal system that must be identified and reconciled before month end closing processes may move forward. It is this lack of integration with existing Commission systems that presents a risk.

**Control: A**

Commission accounting staff will continue to work with FI\$Cal, Department of Finance (DOF), State Controller's Office (SCO), and State Treasurer's Office (STO) staff for ongoing technical assistance and guidance. Additionally, accounting staff will continue to work with FI\$Cal and DOF staff by attending technical assistance labs held at DOF, communicating with DOF SMEs via telephone and via email. Commission staff will also continue to attend FI\$Cal classes or labs for technical assistance when offered and as time permits. Staff will utilize every available job aid,

technical assistance and SME as often as possible to adequately learn the FI\$Cal process for their job function.

**Control: B**

Additional management staff have also been assigned to help facilitate the workload and navigate through the new complexities of FI\$Cal with the control agencies being integrated into the system. These managers have taken on this role in addition to their regular workload causing them to work additional hours. Moreover, the Commission has not had a permanent Chief over its Fiscal and Administrative Services Division or an Accounting Manager over the Accounting Unit for some time now. These vacancies are in the process of being filled and will help to alleviate some of the risk.

**Control: C**

Administrative staff will keep track of a \$2.8 billion-dollar budget via spreadsheets until all information can be adequately and accurately entered into FI\$Cal. In the absence of the Legacy system CALSTARS the Commission developed its own spreadsheets to manage the accounting, procurement and budgetary workload. We have implemented the role mapping and the separation of duties (SOD) which has clearly outlined our internal controls for approvals. However, as things progress, there has been some SOD improvement, however with multiple vacancies, the Commission continues to fall behind--additional work is and will be needed, and with the limited staff on hand, the Commission struggles with the daily and monthly functions in FI\$Cal.

**Risk: Technology - Compatibility - Implementation**

The current Grant Delivery System (GDS) has been the primary data base and data management system for processing and awarding financial aid/grants. As reported in the prior SLAA report this legacy system's technical architecture, software design, business rules and processes were established in the 90's or earlier. As documented previously and reiterated here there are many risks with the outdated and inflexible system, including some of the following higher risks:

- Ineffective and inflexible system support tools, design and maintenance;
- Inability to recruit and retain knowledgeable staff; and
- Inability to effectively execute succession planning.

Other problematic risks include: GDS interactions are not standardized and thus are difficult to update, and there are many manual processes supporting GDS to continue its operation. The Commission has already embarked on the Grant Delivery Modernization (GDSM) Project that will effectively address the risk components noted above. The GDSM will modernize, automate and standardize the components of the current GDS.

**Control: A**

The Commission started the GDSM project as of October 2018, with the California Department of Technology (CDT) acting as project oversight. The project also received funding for 2019/2020 fiscal year. CSAC completed the first phase of development of this project by December 2019. The next phase has begun and is expected to be completed in November 2021. The Commission contracted with several different contractors to complete and implement all phases of the GDSM

Project. The Commission is acting as system integrator.

**Control: B**

The Commission has:

- Completed its network refresh project;
- Updated database servers and database version;
- Continues to manage and address CDT, Office of Information Security audit findings;
- Made great strides in implementing monitoring tools for all Commission systems. These efforts resulted in improvements in awareness and responsiveness to performance issues with the Commissions critical systems;
- Executed hardware/software upgrades that result in, and will continue to result in, increased system stability and performance;
- Hired a new Information Security Officer;
- Procured data masking software for databases and will be implementing soon. Data will be encrypted at rest and in motion;
- Procured cloud servers from Amazon Web Services;
- Implemented Disaster Recovery by improving backup/restore procedures; and
- Implemented Identity Management system for improved and secure external user management.

**Control: C**

The Commission completed the implementation of its Enterprise Service Management Tool, ServiceNow. ServiceNow supports the Commission's Change and Release Management Programs and continues to explore opportunities to integrate ServiceNow and GDSM to streamline functionality and processes. Finally, the Commission continues to strengthen its Enterprise Architecture Program and is ensuring cohesiveness with the GDSM Project.

**Risk: Physical Space**

The Commission's current headquarters building in Rancho Cordova is expected to exceed maximum physical capacity by early 2020. Specifically, the current headquarters is configured for a maximum of 128 positions and the Commission is authorized to hire 126.5 staff members. Additionally, there is need for available space for contractors and temporary staff. Several conference rooms and storage spaces have already been converted to work areas in order to house contractors and temporary staff at this time.

Additionally, the Commission has acquired four new programs that will require additional staffing. Furthermore, on April 29, 2019, the California Secretary of State's Office designated the Commission a Voter Registration Agency (VRA) pursuant to court order. This designation compels state and local government agencies that provide public assistance to provide avenues for voter registration and provide some level of assistance to individuals attempting to register to vote. The Commission anticipates receiving additional staff to continue to meet ongoing federal and state legal requirements associated with the VRA designation.

Moreover, the Commission boardroom and conference room space are inadequate. With the new

programs and the on-going GDSM project the Commission has converted previously designed conference rooms, storage space, and any available cubicle space into work areas for more than 20 contractors working on the GDSM project. The Board Room is only 800 square feet, and the room routinely lacks the ability to adequately accommodate all those who attend public meetings. When an agenda topic is scheduled that might spark increased interest, larger off-site venues must be secured to ensure all that wish to attend and participate in person may do so.

The Commission also lacks space to accommodate employees' lactation needs and has been unable to designate a single area due to the lack of available private areas in the building at any given time. With the addition of new staff, whether temporary limited-term or permanent and additional contractors, meeting and conference space limitations, and future growth (commonly calculated at 2 to 5 percent), the Commission's authorized position total is anticipated to exceed capacity in early January 2020.

**Control: A**

The Commission is working closely with the Department of General Services (DGS) and Department of Finance to secure adequate space to meet the ongoing needs. Additionally, the Commission is implementing remote work policies, and desk sharing arrangements.

**CONCLUSION**

The California Student Aid Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Marlene L. Garcia, Executive Director**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency