

CALIFORNIA STUDENT AID COMMISSION

OFFICE OF THE EXECUTIVE DIRECTOR

State Leadership Accountability Act (SLAA)



DATE: December 22, 2015

TO: Michael Cohen, Director of Finance

FROM: Keith Yamanaka, Acting Executive Director
California Student Aid Commission

SUBJECT: 2015 SLAA Report

In accordance with the State Leadership Accountability Act, Government Code sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control and ongoing monitoring of internal controls for the biennial period ended (12/31/15).

Enclosure

California Student Aid Commission

2015 SLAA REPORT

December 22, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Student Aid Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Keri Tippins, Chief Counsel , at (916) 464-8135, KTippins@csac.ca.gov.

BACKGROUND

Founded in 1955, the 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 responsibilities include administration of the Cal Grant Program and the Middle Class Scholarship. The Commission’s mission is to make education beyond high school financially accessible to all Californians.

During the 2014-15 academic year, the Commission distributed approximately \$2.0 billion in financial aid to more than 350,000 California college students through the Cal Grant Program, Middle Class Scholarship, and ten specialized and loan forgiveness programs.

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”). CSAC currently has 119.5 authorized positions in its workforce.

RISK ASSESSMENT PROCESS

CSAC performed the risk assessment utilizing a confidential survey that was distributed to all CSAC managers and staff. Prior to release of the survey, CSAC held one-hour informational sessions 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. Three areas of significant risk to the CSAC's mission were identified, as described below.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Staff—Key Person Dependence, Succession Planning

CSAC relies on staff with subject matter expertise in key areas. As a result of retirements, transfers/promotions to other agencies, extended leaves and other reasons, CSAC has lost staff in critical areas. The loss of key staff and/or the failure to adequately transfer knowledge among staff interrupts business operations and continuity, requires workload adjustment until new staff are hired or trained, causes re-prioritization of projects, and places achieving CSAC's objectives at risk

Within each division, management identifies critical areas of key-person dependency and develops processes or procedures to ensure back-up staff is trained so that CSAC can maintain effective continuity in key positions. Formal training programs are in place for some Divisions. Other Divisions schedule cross-training, webinars/teleconference training and assign mentors to new staff. Consulting contracts, particularly in the area of Information Technology, contain knowledge transfer deliverables.

Operations- Internal- Staff—Training, Knowledge, Competence

Related to the issue of Key Person Dependence, survey respondents identified the need for additional training for both new staff and existing staff in the areas of program knowledge, professional development and personal development. Respondents felt that staff knowledge and/or abilities were not in line with the job requirements in certain areas. The lack of training and professional development for staff negatively impacts operational efficiency and employee morale, and increases the risk to CSAC's operations and goals.

CSAC has several controls in place to mitigate this risk. Although, CSAC's ability to provide outside training opportunities for staff is low due to budgetary constraints; CSAC has developed some in-house training. This includes on-the-job training, in-house training and new employee training. Some divisions establish training schedules and rotation for all new employees and ensure staff receive training and demonstrate competence. Other units schedule training workshops for those who would like to gain additional professional skills or are seeking to improve personal development. In addition, the completion of Individual Development Plan (IDP) for CSAC employees not on probation provides additional information to management on individual training needs and facilitates individual advancement.

Operations- Internal- Technology—Outdated, Incompatible

The Grant Delivery System Modernization (GDSM) Project will update, integrate, and modernize the outdated, 30-year old legacy Grant Delivery System (GDS) currently in place. GDSM will allow the Commission the continued ability to properly oversee and administer its programs. CSAC is in the process of modernizing its Grant Delivery System (GDS). The GDS is the primary database for Commission business objectives. The Grant Delivery System Modernization (GDSM) Project will to address the following challenges:

Software Update Challenges: CSAC utilizes several software applications to assist in carrying out its business function. There is a potential vulnerability if software cannot be patched or updated timely. The risks include potential document and file incompatibilities with end users, unauthorized access and increased system down time for configuration recreation. Updating the technology allows CSAC to maintain and update the systems more effectively and efficiently.

Upgrade Systems: CSAC's GDS system needs to be modernized. Modernizing the systems will enable CSAC to use best practices to structure the functionality of the programming to allow more effective and efficient updating of legislatively mandated changes. It will also mitigate potential risks to the Commission's programs associated with reliance on a legacy system.

Manual Data Entry: The risk of manually keying data can cause incorrect information to be entered into a student's record. This can, for example, cause a student to be erroneously awarded a Cal Grant or, conversely, not be awarded a Cal Grant that the student was eligible to receive. In addition, the significant number of documents to be manually keyed and the limited staff resources to complete the work can delay Cal Grant award processing.

Scarce System Support Resources: CSAC has multiple resource constraints that place support systems at risk. The systems rely on expertise in obsolete programming languages not taught in schools and in-depth business expertise due to embedded business logic. Due to retirements and limited staff resources, CSAC is experiencing a knowledge drain that places the systems at risk. Using a broadly, industry, supported technology will allow CSAC to leverage a larger pool of resources and obtain training more easily.

System Limitations Place California at Risk: If the GDS systems fail, workload could not be handled manually due the volume of data processed by the GDS.

CSAC has taken steps to modernize its system. It has requested, and received, additional funding and positions to undertake the GDSM process. Additional resources will be needed as this project progresses and have been requested, although the Commission has not yet received approval of these requests.

The GDSM project is being managed by CSAC, as assisted by the Department of Technology and following the associated State Technology Approval Reform (STAR) Project Approval Lifecycle (PAL). This process includes four Stages which must be completed and approved before commencement of the GDSM Project Development. There are weekly meeting and weekly status reports on all tasks, outstanding issues, planned activities and the assignee for each of these activities to ensure that the project remains on track.

ONGOING MONITORING

Through our ongoing monitoring processes, the California Student Aid Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The California Student Aid 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.

Roles and Responsibilities

As the head of California Student Aid Commission, Keith Yamanaka, Acting Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Keri Tippins, Chief Counsel , as our designated agency monitor(s).

Frequency of Monitoring Activities

The General Counsel will be responsible for the department wide risk assessment. The Department of Finance State Leadership Accountability Act lifecycle model will be used for on-going monitoring. When department risks are identified it will be presented during CSAC weekly senior management meetings. Senior management will be notified of the issues discussed and evaluate the risks to determine priority. An action plan will be developed to mitigate the issues. A key person will be identified for each division to address the issue and report back to the weekly senior management meetings.

Reporting and Documenting Monitoring Activities

On a quarterly basis, CSAC will require reports from each unit. The designated key person for each unit will relate to management on a monthly basis the specific risks, the mitigating actions, and the results. The General Counsel will be responsible for documenting and monitoring the risks and reporting a summary to the Executive Director and Chief Deputy Director. CSAC 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.

Procedure for Addressing Identified Internal Control Deficiencies

Monthly, the key person will be responsible for updating and reporting any deficiencies that have been identified to management. Management will design a plan of action to mitigate the risk identified. CSAC will establish a timeframe to resolve the risk. Implementation of design and tests control procedures that have been developed and implemented. CSAC has an Internal Auditor that designs and tests the control procedures that have been developed and implemented. The General Counsel will report the information to the Executive Director and Chief Deputy Director on a monthly basis until deficiencies are satisfactorily addressed.

CONCLUSION

The California Student Aid Commission strives to reduce the risks inherent in our work through ongoing monitoring. The California Student Aid Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Keith Yamanaka, Acting Executive Director
California Student Aid Commission

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations