



December 11, 2007

Ms. Diana Fuentes-Michel, Executive Director
California Student Aid Commission
P.O. Box 419026
Rancho Cordova, CA 95741-9026

Dear Ms. Fuentes-Michel:

Final Report—Cal Grant Program New Applicant Eligibility Audit

Enclosed is the final report on our audit of the Cal Grant new applicant eligibility. The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with an interagency agreement with the California Student Aid Commission (Commission).

The findings and recommendations in our report are intended to assist the Commission in enhancing compliance with the California Education Code and improving the internal control over the administration of the Cal Grant Program. The Commission agreed with our findings and we appreciate the Commission's willingness to implement corrective action. Please provide us with a corrective action plan within thirty days from the date of this letter. Mail your corrective action plan to:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

We appreciate the Commission's assistance and cooperation with this audit. If you have any questions, please contact Kimberly Tarvin, Manager, or James Kong, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Keith Yamanaka, Chief Deputy Director, California Student Aid Commission

AP_{ERFORMANCE} AUDIT

California Student Aid Commission
Cal Grant Program
New Applicant Eligibility
For Award Year 2006-2007

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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EXECUTIVE SUMMARY

The California Student Aid Commission (Commission) requested that the Department of Finance, Office of State Audits and Evaluations (Finance), audit the Commission's compliance with California Education Code (CEC) eligibility requirements and internal control over processing Cal Grant awards for new applicants. An independent assessment had not been performed of the Cal Grant new applicant eligibility process since the expansion of the program in the year 2000.

Overall, the Commission processes new Cal Grant applications in accordance with the California Education Code (CEC). Furthermore, the Commission's operations and processes generally ensure that proper award determinations are made for new applicants. However, the following findings expose the Commission to the risk that ineligible students may receive a Cal Grant Award. The proposed recommendations, if implemented, will reduce this risk by further enhancing compliance with the CEC and improving the internal control over the administration of the Cal Grant Program.

- Ineligible students may receive a Cal Grant award because six critical Cal Grant eligibility requirements are not programmed into the Grant Delivery System (GDS) application and the participating institutions (PIs) only review conflicting data. Therefore, these six Cal Grant eligibility requirements may not be evaluated during the Commission's or the PI's award process. To mitigate this risk, the Commission should program these requirements into the GDS application. If certain data cannot be determined for some students when the Commission processes the application, this information, and any other conflicting data the Commission is aware of, should be forwarded to the PIs for review during their processing of Cal Grant awards.
- Because three of the CEC competitive eligibility requirements are unclear, the Commission is exposed to the risk that some students could assert they were incorrectly disqualified because other potentially ineligible students were awarded a competitive Cal Grant. Currently, these three requirements are not programmed into GDS or evaluated when the Cal Grant new applications are processed. The Commission should seek revisions to the CEC to clarify the competitive eligibility requirements. If it is determined that these requirements apply to the competitive applicants, then the Commission should program these requirements into the GDS application.
- Current audit resources of the Program Compliance Branch do not provide sufficient audit coverage. With current audit resources, the Program Compliance Branch will only be able to audit each PI once every eight years. To maximize the use of its limited resources, the Program Compliance Branch should consider using a more risk-based approach in selecting the PIs and student records for audit. Additionally, the current audit program could be used for high risk PIs, while a more streamlined audit program that focuses on the most common areas of noncompliance could be developed for lower risk PIs.

- System-wide testing of the GDS application has not been performed since 2001. Without testing the entire GDS program periodically, the Commission cannot be sure that all portions of the program are functioning as intended when new changes to the program have been implemented. The Commission should implement regularly scheduled testing of the entire GDS automated process and perform intermittent system-wide testing when significant program code changes are made.
- The internal controls related to GDS and WebGrants system access are inadequate and increase the risk that unauthorized transactions or changes could occur, or access to data may be granted to unauthorized individuals or school officials. The Commission should promptly disconnect access for former employees, assign no more than one access capability per employee, align access with employee job responsibilities, implement a validation process for the Administrator's Access Request forms, and consistently assign WebGrants user expiration dates.
- Some critical operating activities may not be performed correctly or at the proper time because written policies, procedures, and desk manuals are either non-existent or incomplete, key person dependency exists, and secondary review procedures are not performed for some critical activities. This risk is increased when turnover of key staff occurs. The Commission should develop written procedures for its critical activities, provide cross-training to staff to minimize key person dependency, and implement secondary reviews for critical operating activities.

STAFF:

Kimberly Tarvin, CPA
Manager

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Supervisor

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Sherry Ma
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BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

Background

The California Student Aid Commission (Commission) is the principle state agency responsible for administering state and federal financial aid programs for students attending public and private universities, colleges, and vocational schools in California. Its mission is to make education beyond high school financially accessible to all Californians, and to provide financial aid policy analysis and leadership. It fulfills its mission, in part, through Cal Grant awards made to eligible students continuing their education at postsecondary institutions.

Cal Grants are state funded monetary grants awarded to students to help pay for college or occupational/technical training expenses. Eligibility requirements for new applicants are established in California Education Code (CEC), and are granted under the following programs:

- Cal Grant A Entitlement Program
- Cal Grant B Entitlement Program
- California Community College Transfer Cal Grant Entitlement Program
- Competitive Cal Grant A and B Awards
- Cal Grant C Program

In the year 2000, the Cal Grant Program experienced tremendous growth as a result of Senate Bill 1644, which introduced entitlement awards. In 2006, Assembly Bill 840 was passed which provided additional eligibility requirements for California Community College Transfer Entitlement applicants. Because an independent assessment had not been performed since the expansion of the program, the Commission requested an audit of new applicant eligibility for the Cal Grant program.

Objectives and Scope

The Commission requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform an audit of the Cal Grant Program new application processes. The primary objectives of our audit were to evaluate whether:

- Preliminary award determinations for new applicants were made in compliance with Cal Grant Program eligibility requirements for the period July 1, 2006 through June 30, 2007.
- The current internal control adequately ensures that award determinations will continue to be made in compliance with the Cal Grant Program eligibility requirements.

Except as discussed in the following paragraph, this performance audit was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*, issued by the Comptroller General of the United States. Those standards require that the audit be planned

and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The audit did not include an evaluation of the EDFUND, the Commission's auxiliary organization, which maintains the data center and provides other program and information technology support services for the Commission. Furthermore, the Commission recently completed audits of grade point average verification and funding disbursement and reconciliation processes; therefore, these areas were not duplicated or included in this audit.

Methodology

To assess compliance with the Cal Grant Program eligibility requirements, the following steps were performed:

- The Cal Grant Program requirements were identified and documented.
- The Grant Delivery System (GDS) program language was reviewed to determine whether it included the applicable Cal Grant Program requirements.
- Samples of student data and case studies with modified student data were examined in a test environment of the GDS application to determine whether GDS was functioning as intended.

To assess whether the internal control ensures proper award determinations are made for new applicants, the following steps were performed:

- Various Commission staff were interviewed to obtain an understanding of the Cal Grant new applicant operations.
- Processes for data collection, edits and processing of the data, and record maintenance were evaluated.
- The appropriateness of user profiles and user access to GDS and WebGrants applications were reviewed.
- The collection, evaluation, and dissemination of legislation, the CEC, and other information used to manage the grant eligibility process was analyzed.
- The procedures for the identification, review, and implementation of required changes to GDS and other program activities were evaluated.
- The user acceptance testing process for GDS program changes was analyzed.
- The effectiveness of the external audit activities in mitigating the risk that the participating institutions may disburse Cal Grants to or on behalf of ineligible students was evaluated.
- The decision-making authority and processes performed by Commissioners, executive management, and the Program Administration and Support Division relative to Cal Grant awards was reviewed.

The audit was performed during the period October 17, 2006 through August 16, 2007. Appendices I and II provide an overview of the Cal Grant new applicant eligibility processes. Recommendations were developed based on the evaluation of the data and documentation provided, and interviews with Commission staff.

FINDINGS AND RECOMMENDATIONS

An audit was conducted of the California Student Aid Commission's (Commission) compliance with California Education Code (CEC) eligibility requirements and internal control over processing the Cal Grant new applicant awards. The following findings and recommendations were identified:

FINDING 1 CEC Eligibility Requirements Not Programmed into the GDS

Ineligible students may receive a Cal Grant award because the eligibility requirements below are not programmed into the Grant Delivery System (GDS) application and are not evaluated by the Commission during the award process. The Commission relies on participating institutions (PIs) to perform the evaluation of the requirements not reviewed during the Commission's application process. However, because the CEC only requires the PIs to evaluate the student information if they are aware of conflicting information, both the Commission and the PI may not evaluate the requirements below prior to disbursement of funds.

General Requirements for all Cal Grants

- Citizenship (CEC Section 69433.9(a)).
- Selective Service registration (CEC Section 69433.9(b)).
- Non-default of student loans (CEC Sections 69433.9(d) and 69507.5(a)).
- Non-repayment of federal or state student grants (CEC Section 69507.5 (a)).

Competitive Cal Grant A Requirement

- Allowance for college GPA of at least 2.4 and less than 3.0 (CEC Section 69437.6(b)).

Competitive Cal Grant B Requirement

- High school or reestablished GPA of at least 2.0 (CEC Section 69437.6(c)).

Overall, the GDS is operating as designed and programmed when processing new Cal Grant applications. However, a review of 63 student records for competitive Cal Grant applicants identified 31 instances, totaling \$56,479, where students were awarded a Cal Grant, but the student did not meet the eligibility requirements, and one student was incorrectly disqualified. (See Appendix III for further details.) Additionally, as noted below in Finding 3, the Program Compliance Branch identified a significant number of findings in the eligibility area when the audits at the PIs were performed. As a result, it appears that the PIs may not be identifying a significant number of ineligible students before the funds are disbursed.

Recommendation: The Commission should include the Cal Grant Program eligibility requirements identified above in the GDS program code to increase the accuracy of the Commission's award determinations. If certain information cannot be determined for some students at the time when the Commission processes the application, this information, and any other conflicting information the Commission is aware of, should be forwarded to the PIs for their review during student processing.

FINDING 2 Clarification of the CEC

Because some of the CEC requirements are unclear, the Commission is exposed to the risk that some students could assert that they were incorrectly disqualified because other potentially ineligible students were awarded a competitive Cal Grant. Currently, these requirements are not programmed into GDS or evaluated when the Cal Grant new applications are processed.

Competitive Cal Grant A, B, and C

- High school graduation or equivalent¹ requirement (CEC Section 69433.9(e)(3)).

Competitive Cal Grant A and B

- California residency at time of high school graduation (CEC Sections 69433.9(e)(1), 69437.6(b), and 69437.6(c)).

Competitive California Community College Transfer

- Graduation from CA high school and obtaining written affirmation of such (CEC Section 69437.6(d)).

Recommendation: The Commission should determine the legislative intent for these requirements and seek revisions to the CEC to clarify the competitive eligibility requirements. If it is determined that these requirements apply to the competitive applicants, then the Commission should program these requirements into the GDS application.

FINDING 3 Increased Monitoring of PIs is Needed

With current audit resources, the Program Compliance Branch will only be able to audit each PI once every eight years based on the current number of audits completed in Fiscal Year 2005-06. The importance of the audits is reflected by the fact that of the audits of the PIs for the period July 1, 2002 through June 30 2006, 208 of 621 findings (33 percent) were related to ineligible students receiving Cal Grant awards after the PIs processed the students. Adding to this concern of lack of audit coverage is the fact that fourteen new participating institutions have not yet been audited and ten PIs have not been audited for nine years.

Because of the design of the Cal Grant Program, significant reliance is placed on the PIs to verify the eligibility of the students. This is because some data, such as verification of student graduation requirements or financial information, cannot be confirmed or may change between the date the Commission processes the application and the time when the grant funds are distributed. The CEC, Section 69432.7(k), requires PIs to address only conflicting information about the students that would cause the student to become ineligible to receive the Cal Grant prior to disbursing Cal Grant funds. For a sample of new applications, even though the Commission processed the new applications accurately, some ineligible students still received a Cal Grant award. Specifically, of 43 Cal Grant entitlement awardees reviewed during the audit, 3 students were granted a Cal Grant award that would have been disqualified according to the most updated Institutional Student Information Record (ISIR) record. Of the 63 Cal Grant competitive awardees reviewed during the audit, 8 students granted a Cal Grant award would have been disqualified if the most updated ISIR record was used. Increased audit coverage will

¹ Reference to high school graduation or equivalent refers to the General Educational Development (GED) test or the California High School Proficiency Examination (CHSPE).

assist the Commission to deter and detect noncompliance with the Cal Grant requirements at the PIs.

Recommendation: To maximize the use of its limited resources, the Program Compliance Branch should consider using a more risk-based approach in selecting the PIs and student records for audit. Additionally, the current audit program could be used for high risk PIs, while a more streamlined audit program that focuses on the most common areas of noncompliance could be developed for lower risk PIs.

FINDING 4 System-Wide Testing of GDS Should Be Performed

System-wide testing of the GDS application has not been performed since 2001. The Commission currently tests specific changes to program code in a test environment and incorporates the new coding into the GDS production environment. Without testing the entire GDS program periodically, the Commission cannot be sure that all portions of the program are functioning as intended when new changes to the program have been implemented.

State Administrative Manual (SAM), Section 4841, requires each agency to provide for the integrity and security of automated information produced or used in the course of agency operations. SAM, Section 4840.4, further defines information integrity as the condition in which information or programs are preserved for their intended purpose, including the accuracy and completeness of information systems and the data maintained within those systems.

Recommendation: The Commission should implement regularly scheduled testing of the entire GDS automated process and perform intermittent system-wide testing when significant program code changes are made.

FINDING 5 Controls Over System Access Rights Are Inadequate

The internal control related to GDS and WebGrants system access is inadequate and increases the risk that unauthorized transactions or changes could occur, or access to data may be granted to unauthorized individuals or school officials.

Based on a review of 132 employees with access to GDS, the following issues were identified:

- Active system accesses exist for 5 former employees.
- More than one access is assigned to 6 employees.
- Standard profile identifications and access levels do not appear reasonable in relation to work responsibilities for 32 employees.
- GDS has 5 assigned profile IDs that are active, but no longer used by any staff.
- Key GDS tables can be updated by 2 profile identifications. However, the work responsibilities of staff assigned to these profiles do not appear to require this capability.
- There are 36 employees with access to both the Structured Query Language application and GDS tables which could allow the employees to make inappropriate changes to the data in the GDS tables.

A review of 98 employees with WebGrants access identified the following:

- Active system accesses exist for 2 former employees.
- More than one access is assigned to 1 employee.

- Standard profile identifications and access levels do not appear reasonable in relation to work responsibilities for 6 employees.
- Independent validation of Administrator's Access Request Form signatures for WebGrants is not performed to ensure the access requested is appropriate and authorized.
- The assignment of WebGrants user expiration dates is not consistent.

SAM, Section 4841, states that each agency must provide for the integrity and security of automated information produced or used in the course of agency operations. SAM, Section 4840.4, further defines information security as the protection of automated information from unauthorized access, modification, destruction, or disclosure. SAM, Section 4840.4, also defines the user of information as an individual having specific limited authority from the owner of information to view, change, add to, disseminate, or delete such information.

Recommendation: The Commission should promptly disconnect access for former employees, assign no more than one access capability per employee, align access with employee job responsibilities, implement a validation process for the Administrator's Access Request forms, and consistently assign WebGrants user expiration dates.

FINDING 6 Administrative Internal Control Needs Improvement

Some critical operating activities may not be performed correctly or at the proper time because written policies, procedures, and desk manuals either do not exist or are incomplete, key person dependency exists, and secondary review procedures are not performed for some critical activities. Specifically, the roles, responsibilities, and procedures for Cal Grant operations are not formally documented including who, when, and how to perform critical Cal Grant activities. Instead, the Commission has relied upon experienced seasoned staff to complete the critical tasks. This practice has resulted in key-person dependency, especially for the GDS table updates and user acceptance testing. Furthermore, no one reviews the work of the staff performing these duties before major changes impacting program eligibility are implemented. Due to the recent loss of several key management staff, the Commission has experienced challenges in identifying and communicating when and how some activities should be performed.

Government Code, Section 13402, states that agency heads are responsible for the establishment and maintenance of a system of accounting and administrative control. This responsibility includes documenting the system, communicating the system requirements to employees, and assuring that the system is functioning as prescribed.

Recommendation: The Commission should develop written procedures for its critical activities, provide cross-training to staff to minimize key person dependency, and implement secondary reviews for critical operating activities.

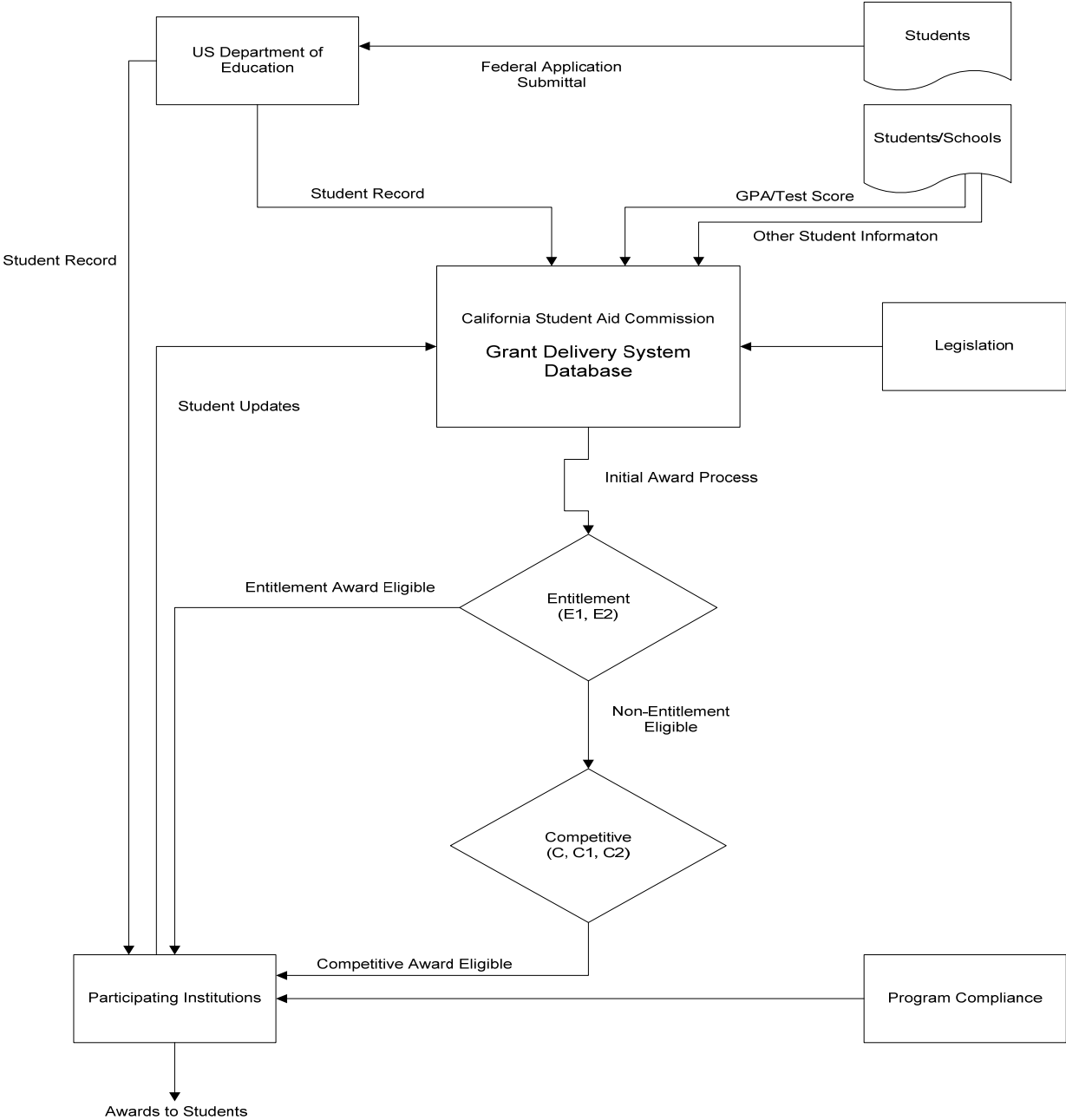
CONCLUSION

The Commission needs to consider additional eligibility requirements when evaluating applications to reduce the risk of ineligible students receiving Cal Grant awards. Six critical eligibility requirements are not programmed into the GDS, and may not be reviewed by the PIs. Additionally, three CEC competitive eligibility requirements are not currently being evaluated because of unclear language. Not considering these nine additional requirements could open the Commission up to allegations that students are being wrongly disqualified.

Significant reliance is placed on the PIs to verify the eligibility of the students before funds are disbursed. However, audits performed by the Program Compliance Branch reflect significant findings regarding ineligible students receiving Cal Grant awards. The Commission needs to reconsider its audit coverage and determine a way to audit all PIs on a timely, rotational basis to ensure adequate coverage of all PIs. Without this audit coverage, an increasing number of ineligible students could receive awards.

The Commission needs to strengthen the administration of the Cal Grant Program by improving its internal control over system-wide testing of GDS, system access rights, written procedures, key person dependency, and second level reviews of critical operating activities.

NEW STUDENT APPLICATION PROCESS



CAL GRANT PROGRAM ACTIVITIES

Application Processing

To begin the Cal Grant application process, the student must submit a Free Application for Federal Student Aid (FAFSA) form to the United States Department of Education (USED). The USED transmits accepted FAFSAs to the California Student Aid Commission (Commission). This data is transmitted electronically as an Institutional Student Information Record (ISIR). The ISIR contains all information reported on the FAFSA, financial aid and loan histories, and some processing results such as a student's dependency status and expected family contribution.

The Commission's responsibilities include working with the USED to incorporate federal changes to the ISIR record layout. The Program Administration and Services Division (PASD) evaluates the changes and impact on the Cal Grant application process and the Information Technology Division (IT) incorporates program code changes into GDS.

In addition to the FAFSA, the Commission must receive certified grade point average (GPA) data for an application to be considered complete². The GPA data may be received in paper format or transmitted electronically. Data received in paper format is either scanned or manually entered into the GDS. Electronically transmitted GPA data is uploaded directly into the GDS through WebGrants and WebGrants for Students.

The data is received by the Commission daily and processed in weekly batches. The GDS is designed and programmed to process the applicant data through the award filters and eligibility edits associated with the Cal Grant programs.

Program Change Control Procedures

Commission staff identify, analyze, disseminate, and incorporate changes affecting grant eligibility and application processing into GDS program code. Included are processes to identify and analyze changes to Cal Grant eligibility requirements, document new award requirements, translate and write changes into program code, test and accept coding changes, and incorporate coding changes into the GDS.

The Governmental and Public Affairs Division monitors legislative activity. Legislation that may affect the Cal Grant operations are communicated to Commissioners and Commission management for analysis and input. When legislation related to Cal Grants is adopted, Commission management analyzes the impact and determines if changes are required for the GDS application program code and or other operational processes.

² Supplemental information is required for college transfer students and for students pursuing occupational or technical training.

The Commission has established procedures to manage when and how Cal Grant Program changes affecting the GDS are addressed. Depending on complexity of the change, PASD and IT staff will manage and track changes through the Defect Report and/or Software Requirement Specification (SRS)³ processes. For more complex changes, a SRS document is developed to fully analyze the changes and identify implementation steps. In these cases, a Defect Report is usually developed to implement the steps identified in the SRS that require programming changes to GDS. For less complex changes, a Defect Report is developed and the GDS programming change is processed and implemented.

The Commission uses configuration and change management software to manage its data library. Existing program code is checked out of the data library and placed into a test environment before being modified by a programmer. Once modified, the new GDS program code is tested by the programmer to confirm that it executes as intended. Next, the user acceptance testing is performed using a test GDS environment to confirm that the changes in the program are operating as required. After all necessary approvals are obtained on the Commission's Migration form, the new GDS program code is implemented within the functioning program.

Monitoring of Program Compliance

The Commission makes award determinations based on the data received as of March 2, except for the second competitive cycle for which the data submission date is September 2. However, some activities occur after the March 2 submission date, such as the filing of income taxes (which establishes income and assets), high school graduation, and the calculation of final GPAs. Due to the likelihood of eligibility data updates, the Commission relies on the participating institutions (PIs) to confirm the students' eligibility using the most current information on file. The USED transmits updated ISIRs and the Commission disburses the award funds to the PIs where the student is enrolled. The PIs are responsible for verifying and validating conflicting information before funds are released to or on behalf of the student. To mitigate the risk of this significant reliance on the PIs, the Program Compliance Branch conducts audits of the PIs' procedures and compliance with the Cal Grant program requirements.

Commission Governance Responsibilities

The Commission establishes policy, participates in the budget and fiscal process, oversees the administration of the Cal Grant Program, participates in IT enhancement decisions, determines selection criteria and scoring for competitive awards, resolves issues and appeals, and arbitrates final loan default decisions.

The Commission has established internal and external communication, decision-making, and reporting protocols. Regular management meetings are convened and the Executive Office maintains regular communications with its Commission Chair. Also, the Commissioners convene regularly scheduled public governance meetings.

³ Software Requirement Specification (SRS) is used synonymously with Business Rules and Requirements (BRR) and Data Description Specification (DDS).

COMPETITIVE CAL GRANT AWARD AUDIT RESULTS

The following table identifies instances where the California Student Aid Commission (Commission) did not make Cal Grant award determinations in accordance with California Education Code (CEC) eligibility requirements.

The audit results are based on a test sample of 63 competitive Cal Grant student awardees. The sample was randomly selected from the March 2 and September 2 cycles from the award year July 1, 2006 through June 30, 2007.

		Competitive Cal Grants			
		C	C1	C2	Total
General Requirements	Student is not in compliance with all Selective Service registration requirements (CEC Section 69433.9(b))	1	1	2	4
	Student is in default of student loan(s) (CEC Sections 69433.9(d) and 69507.5(a))	0	0	1	1
	Student failed to repay a federal or state student grant(s) (CEC Section 69507.5(a))	0	0	1	1
Competitive Cal Grant A Requirements	Use of college grade point average of at least 2.4 and less than 3.0 (CEC Section 69437.6(b))		3	3	6
Competitive Cal Grant B Requirements	Use of high school or reestablished grade point average of at least 2.0 (CEC Section 69437.6(c))		14	12	26
	Use of GPA in calculation of cut-off score		0	3	3
Results⁴	Students Incorrectly Qualified	1	14	16	31
	Students Incorrectly Disqualified	0	1	0	1
	Amount Disbursed to Incorrectly Qualified Students	\$576	\$36,235	\$19,668	\$56,479

Legend:

- C** The C cycle awards students who qualified for a Cal Grant C and submitted their application by March 2.
- C1** The C1 cycle awards students who qualified for a Cal Grant A or B under the competitive cycle and submitted their application by March 2.
- C2** The C2 cycle awards students who qualified for a Cal Grant A or B under the competitive cycle, enrolled in a California Community College, and submitted their application by September 2.

⁴ **Note:** A student may be ineligible based on more than one requirement.

COMMISSION RESPONSE

CALIFORNIA STUDENT AID COMMISSION

OFFICE OF THE EXECUTIVE DIRECTOR



November 21, 2007

Ms. Kimberly Tarvin
Manager
Department of Finance
Office of Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

RE: Draft Report—Cal Grant Program New Applicant Eligibility Audit

Dear Ms. Tarvin:

Enclosed is the California Student Aid Commission's Management Response to the Cal Grant Program New Applicant Eligibility Audit. Thank you for the opportunity to review and respond to the draft audit. These recommendations will be helpful in our efforts to enhance our programs.

If you have any questions regarding the response, please contact Ms. Catalina Mistler, Chief, Program Administration & Services Division, at (916) 526-7968.

Sincerely,

Original Signed By:

Diana Fuentes-Michel
Executive Director

Enclosure

cc: Mr. Keith Yamanaka, Chief Deputy Director
Ms. Catalina Mistler, Chief, Program Administration & Services Division

CSAC Management Response to Cal Grant Program New Applicant Eligibility Audit

Finding 1: CEC Eligibility Requirements Not Programmed into the GDS

CSAC Management's Response:

CSAC Management concurs that a reassessment of the GDS code for eligibility requirements is appropriate to increase the accuracy of the Cal Grant award determinations. The general requirements identified as points a-d are currently all requirements that are checked by the respective federal agencies when a Cal Grant recipient submits a Free Application for Federal Student Aid (FAFSA). If the applicant does not meet the federal check, the specific item is flagged and a comment is placed on the student's FAFSA information that is transmitted to the PIs via the ISIR (Institutional Student Information Report). The PIs are required to clear the status prior to releasing federal Title IV funds. US Citizenship is checked against the Department of Homeland Security database to ensure applicants are US citizens or permanent residents. If the student cannot provide documentation to the PI that he/she is an eligible citizen, they will not receive Title IV funding. The process is similar for the Selective Service requirement. FAFSA information submitted to the United States Department of Education is checked against the Selective Service Administration to ensure that males 18 and over have registered for Selective Service. Any male applicants who fail to register or are not found in the database are flagged with a comment on their ISIR record. PIs cannot disburse any Title IV funding without a positive registration confirmation.

Bullets c and d also appear as ISIR flags with comments. PIs are not allowed to release Title IV funds until the default or repayment issue has been resolved. All PIs are required to have access to the National Student Loan Database System (NSLDS) which also indicates that the applicant is in default. Students who are in this status are to provide paperwork from the lender or agency to clear their default status before receiving Title IV aid.

Bullets e and f were resolved as of September 2007 for both competitive cycles. The GPA requirements were changed in the GDS system and any applicants who were disqualified as a result of the incorrect GPA were rerun under the new GPA requirements. An additional 86 students were awarded competitive Cal Grant awards with the new GPA criteria. Future competitive awards will be subject to the new GPA requirements.

CSAC has relied on PIs to clear the flagged item prior to disbursing Cal Grant awards. CSAC staff will consider options to increase the accuracy of Cal Grant awards such as:

- notifying the applicant that he/she is not eligible for an award if the applicant's ISIR has been flagged for one or more of these eligibility requirements, or
- processing a preliminary award but putting a hold on payments until the status is cleared.

CSAC Management Response to Cal Grant Program New Applicant Eligibility Audit

Finding 2: Clarification of the California Education Code (CEC)

CSAC Management's Response:

CSAC Management is seeking legal clarification in the identified sections of the California Education Code for the competitive eligibility requirements.

Finding 3: Increased Monitoring of PIs is Needed

CSAC Management's Response:

The Program Compliance Branch audits institutions participating in the Cal Grant Programs, Specialized Programs, and the Cal-SOAP Program. The number of PI audits conducted by the Program Compliance Branch is proportional to the number of auditors authorized in the State Budget. The Program Compliance Branch currently uses a risk based approach in selecting PIs for audit. Student records are then selected on a modified random basis; recipients from each of the Cal Grant Programs are randomly selected based on their proportion of the total population. The sample students' records are then verified for compliance with program requirements.

The 2007-08 Budget Act authorized two additional Program Compliance auditors to increase program compliance reviews for institutions participating in the Cal Grant Program and the Assumption Program of Loans for Education (APLE) with the objective of auditing higher risk institutions once every three years. The audits must emphasize verification of applicant eligibility, fund disbursement, and payment reconciliation. Selection of PIs must be prioritized to review institutions that have demonstrated noncompliance in prior audits.

The Audit Program is being revised to include additional requirements noted in the recently instituted IPA (Institutional Participation Agreement) and to meet the new 2007-08 Budget Act requirements. These new requirements are similar in scope to those recommended in this audit report. Management will consider the recommendations in this report in further modifying the audit program and the selection of PIs and student records.

These measures will help maximize the limited audit resources. However, CSAC Management will continue to advocate for additional auditors to increase the frequency of audits.

Finding 4: System-Wide Testing of GDS Should Be Performed

CSAC Management's Response:

CSAC Management concurs with this finding and the recommendations. In prior years, system-wide testing was administered by program staff before running each operational cycle. Integration and regression testing should also be performed for each defect or enhancement submitted prior to migrating to User Acceptance testing. The Information Technology Services staff has established a new quality assurance and testing group

CSAC Management Response to Cal Grant Program New Applicant Eligibility Audit

that will be responsible for these testing processes. The Program Administration and Services staff has established a Business Systems Integration Branch that is responsible for User Acceptance Testing and performs testing before modifications are migrated. CSAC staff will begin to perform regularly scheduled testing for the current system as well as during the Phase II Real Time Database Project. This process should be fully implemented by the 2009-2010 academic year at the conclusion of the Phase II Real Time Database Project.

Finding 5: Controls Over System Access Rights Are Inadequate

CSAC Management's Response:

CSAC Management concurs with findings and recommendations. The CSAC staff will review all current employee access roles and assignments and will insure and authorize staff with specific access for those roles. CSAC Management along with the Information Security Officer (ISO) will create role-based-access templates that will assist managers to determine proper access by employees' job duties. The ISO has currently identified and requested several changes in the area of account validations and account expirations, including immediately halting access for exiting employees.

CSAC staff will establish and document new procedures and processes that will clarify roles and processes for approval, validation, and expiration of system access.

Finding 6: Administrative Internal Control Needs Improvement

CSAC Management's Response:

CSAC Management concurs with the finding and recommendation. CSAC staff is in the process of documenting the existing business procedures and policies through the Business Improvement Process (BIP). CSAC staff has identified the areas where cross-training is necessary and has provided cross-training to minimize key-person dependency. CSAC Management has assigned a timeline for establishing desk manuals for all staff to allow all employees, including new staff, to perform those desk responsibilities. CSAC staff will identify and implement a secondary review process for critical operating activities.