

**Information/Action Item**

***Joint Meeting of the CSAC and EDFUND Audit Committees***

**Approval of Minutes for August 23, 2006 Joint Meeting**

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Minutes of the joint meeting of the CSAC and EdFund Audit Committees held on August 23, 2006 are provided for the Committees' review and approval.

***Recommended Action:***

Approval of minutes.

***Responsible Staff:*** Diane Manning

**STUDENT AID COMMISSION AND EDFUND AUDIT COMMITTEES  
JOINT TELECONFERENCE MEETING**

**10811 International Drive  
Rancho Cordova, CA 95670**

**August 23, 2006**

**Members of the Committees Present:**

Dean Johnston, Commission Audit Chair  
Fritz Weis, EDFUND Audit Chair  
Sally Furay, EDFUND Audit Committee Member  
Rory Diamond, Commission Audit Committee Member  
Joseph Yew, Commission Audit Committee Member  
Jennie Woo, EDFUND Audit Committee Member

**Others Present:**

Tina Treis, Perry-Smith  
Tom Perry-Smith, Perry-Smith  
Jeff Jensen, Perry-Smith  
Catherine Brown, Special Counsel, Attorney General's Office

**Staff Present:**

Sam Kipp, EDFUND President  
Diane Manning, Vice President Audit Services Division  
Tina Kilgore-Goodwin, Assistant Vice President Audit Services Division  
Keith Yamanaka, Chief Deputy Director  
Janet McDuffie, Management Services Division Chief  
Martin Scanlon, CFO, Vice President Finance & Administration Division  
David Reid, General Counsel/Vice President Legal Services & Govt. Relations Division  
Kathleen Stanley, Federal Policy & Programs Division Staff  
Leanna Sinibaldi, Federal Policy & Programs Division Staff  
Gloria Lopez, Commission Liaison  
Sandy Byram, EDFUND Liaison

**CALL TO ORDER**

EDFUND Audit Chair Fritz Weis called the meeting to order at 11:02 a.m. The roll was called and a quorum was established. Chair Weis asked if there was any public comment, there was none. Chair Weis publicly thanked Commissioners Baltodano and Louise McClain for previously serving on the Commission Audit Committee. Commissioners Yew and Diamond have been newly appointed to the Commission Audit Committee. Chair Weis also welcomed Martin Scanlon, EDFUND's new CFO in attending the meeting for the first time.

## **APPROVAL OF JUNE 1, 2006 MINUTES**

Chair Weis asked for a motion to approve the June 1, 2006 joint meeting of the CSAC and EDFUND Audit Committees minutes. Committee member Woo MOVED to APPROVE the minutes. The motion was SECONDED by Committee Member Furay. Chair Weis asked for any discussion. Diane Manning, EDFUND Vice President of Audit Services Division, asked to insert the word "UNANIMOUSLY" immediately before the word "CARRIED" in three places. The first two insertions are on page 2 under the topics Minutes Approval and also under Formal Acceptance of the 2005 Audited Financial Statements and the same again on page 3 under the topic Recommendation for External Audit Firm to Conduct 2006-2008 Financial Statement Audits. All members of the Committees voted to APPROVE the minutes as amended with the exception of Committee members Yew and Diamond who both abstained.

## **PERRY-SMITH AUDIT PLAN PRESENTATION**

The audit firm of Perry-Smith presented their approach to conducting the annual financial statement audits of the Operating Fund and Federal Fund, EDFUND, and the EDFUND 401(k) Plan. EDFUND recently contracted with the firm to perform these audits beginning in 2006 through 2008. The audits were previously conducted by KPMG.

Diane Manning introduced the three Perry-Smith auditors attending the meeting which included Tina Treis, Tom Perry-Smith, and Jeff Jensen. Ms. Treis presented the firm's audit plan to the Committees by explaining the auditor's responsibilities under generally accepted auditing standards, their reporting requirements to the Audit Committees, and the auditor's independence requirements. Ms. Treis also informed the members of the Committees about new accounting standards and the firm's anticipated timing to conduct the current year audits.

## **EXTERNAL AUDITS UPDATE**

Diane Manning informed the Audit Committees that Perry-Smith has started their audit of the EDFUND 401(k) Plan financial statements for the year ended December 31, 2005 and the Operating Fund and Federal Fund for the year ended June 30, 2006.

Ms. Manning also informed the Audit Committees that the U.S. Department of Education Region 9 auditors were on site the week of August 7 to conduct a limited scope audit. The majority of the audit focused on approximately twenty areas of the current Voluntary Flexible Agreement. Region 9's only finding required an action to transfer \$7,000 from the Operating Fund to the Federal Fund.

Ms. Manning reported that the Bureau of State Audits (BSA) had not yet contacted her to begin their annual compliance audit of the FFEL Program. BSA typically is onsite for several weeks starting in late summer or fall. BSA will present their audit results in their annual statewide compliance report issued in March or April 2007.

## **INTERNAL AUDIT UPDATE**

The Audit Committees were provided a written summary report of internal audit activities performed from June 1, 2006 to August 22, 2006. The report identified three issued reports, four audits in progress, and the completion of one follow-up review to a previously issued internal audit. Ms. Manning also reported that Internal Audit staff assisted EDFUND's Human Resources Division in interviewing candidates for the vacant Information Security Officer position.

**GENERAL DISCUSSION ON CHRONICLE OF HIGHER EDUCATION ARTICLE: THE GROWING THREAT OF FALSE-CLAIMS LAWSUITS**

Catherine Brown and David Reid, legal counsels for the Commission and EDFUND, respectively, were asked by Commissioner Fousekis to facilitate a general discussion about a recent Chronicle of Higher Education Article: *The Growing Threat of False-Claims Lawsuits*. The article focused on colleges liable for alleged violations of any one of the hundreds of statutory and regulatory requirements with which institutions must comply to participate in federal student-aid programs. An initial review by both counsels of the False Claims Act as applicable to schools suggests that there is no serious exposure to the Commission and EDFUND.

**BSA PERFORMANCE AUDIT RECOMMENDATIONS UPDATE**

A high level recap of the August 16 Joint Legislative Audit Committee (JLAC) hearing and a related August 14 pre-meeting with BSA regarding the performance review report released in April was provided to the Audit Committees. The Committees were also informed by Diane Manning that the most notable current activities in progress to address BSA's recommendations include the work being conducted by Watson Wyatt to assist the Board with BSA's salary determination and incentive compensation recommendations and the request for offers (RFO) made to vendors to assist the Commission in delineating roles and responsibilities.

**LEGAL UPDATE**

David Reid informed the Committees during this standing agenda item that EDFUND currently has four outstanding cases. One case involves an alleged wrongful termination of a former employee. The other cases involve borrowers. Two of the borrower cases are in regards to bankruptcies and one is an alleged conflict between federal versus state law involving the discharge of debt. David Reid also informed the Committees that no conflict of interest matters have been reported to the Legal Division in the last quarter. Catherine Brown informed the Committees that there are no outstanding cases involving the Commission to report at this time.

**ADJOURN**

With no further business, the meeting was adjourned at 12:31 p.m.

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Fritz Weis, EDFUND Audit Committee Chair

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Dean Johnston, Commission Audit Committee Chair