

Information/Action Item***Joint Meeting of the CSAC and EDFUND Audit Committees*****Audit Committee Charter**

At the November 21, 2006 joint meeting of the Commission and EDFUND Audit Committees, EDFUND staff presented a draft Joint Audit Committee Charter for review and consideration of approval. Commission staff informed the Committees that they did not concur with the charter presented at that time. Commission staff was asked to provide proposed revisions to the charter.

Enclosed is the red-lined version of the charter indicating revisions proposed by Commission staff. The key differences between the two versions and staffs' views are as follows:

- Commission staff proposes an EdFund Audit Committee Charter instead of a Joint Committee Charter. As such, references to the Commission Audit Committee and, for the most part, the Commission have been deleted. Since the minutes of the November 2003 Commission meeting only referenced a recommendation for the two Committees to meet jointly and no formal action was subsequently taken to create a Joint Audit Committee, Commission staff do not believe a Joint Audit Charter should exist. EDFUND staff, however, suggests that a joint charter be established with the contents included in the document presented at the November 21 meeting so that both Committees are working under the same requirements.
- The statement that the Vice President of Audit Services is responsible for coordinating and managing all external audits or investigations of EdFund or the FFEL Program has been deleted. Commission staff believes that references to the Vice President's responsibilities are more appropriate in a duty statement, not this charter. Secondly, the Commission's response to the BSA audit stated that the roles of the audit functions within CSAC and EdFund in regards to external loan program audits will be determined upon the hiring of a new CSAC Audit Chief. EDFUND staff feels that such wording should not be removed and is appropriate in the charter.
- Reference to the annual FFEL Program audit has been removed because Commission staff believes that such audits are the responsibility of the Student Aid Commission. EDFUND staff, however, believes that FFEL Program audits are the responsibility of EDFUND, the entity that administers the program on behalf of the Commission.

Recommended Action:

Responsible Staff: Diane Manning and Janet McDuffie

EDFUND AUDIT COMMITTEE CHARTER

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November 21, 2006

Purpose

The purpose of the Audit Committee (Committee) is to assist the EDFUND Board of Directors in fulfilling its responsibilities for the following:

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1. Integrity of the FFEL Program and EDFUND's financial statements
2. Compliance with legal and regulatory requirements
3. Auditor's and consultants' qualifications, independence and performance
4. Performance of EDFUND'S internal audit function
5. Evaluation and resolution of external and internal audits and investigations
6. Condition of the system of internal controls

Deleted: The Commission shall maintain its own Audit Committee, separate and apart from the Joint Audit Committee, responsible for the Commission's grant programs administered by Commission staff. This Joint Audit Committee Charter dated November 21, 2006 supersedes all FFEL Program and EDFUND matters described in the California Student Aid Commission Audit Committee Charter of February 2004.

Authority

The Committee has authority to conduct investigations or authorize audits and investigations within its scope of responsibility. It is empowered to:

1. Retain external auditors or consultants to advise the Committee or assist in the conduct of audits and investigations over financial and/or non-financial matters. The Committee shall approve the scope, terms, and compensation in advance of such services.
2. Oversee and monitor the work of external auditors and/or consultants. The external auditors and consultants will report directly to the Committee.
3. Resolve any disagreements between management and the auditors or consultants.
4. Meet with Commission and/or EDFUND management, auditors, or consultants, as necessary.

The Committee shall have the authority, to the extent it deems necessary or appropriate, to obtain independent legal counsel, financial expertise, or other professional advisors to acquire the skills necessary for the Committee to carry out its duties.

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Composition

The Committee is a permanent standing committee of EDFUND consisting of at least three Directors of the EDFUND Board. The EDFUND Chair appoints the three Directors of which one is

designated as the Chair of the Committee. The Chair will, to the extent available, seek to appoint at least one financial expert to the Committee from the EDFUND Board.

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Each member of the Committee shall be free from any relationship that would interfere with the exercise of his or her independent judgment as a member of the Committee.

The Vice President of Audit Services is the staff liaison to the Committee and is responsible, in consultation with the Committee Chair, for developing and presenting agenda items for the Committee meetings and for keeping members informed of audit issues. The Vice President of Audit Services reports functionally to the Chairs and administratively to EDFUND's President to ensure independence of action.

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Deleted: The Vice President of Audit Services is also responsible for coordinating and managing the relationship with all external auditors and consultants conducting audits or investigations of EdFUND or the FFEL Program retained by the Commission or Board or designated by statute or law unless otherwise directed by the Co-Chairs of the Committee.

Meetings

The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting in person or via teleconference. A quorum of the Committee requires no less than two EDFUND Board Committee members. The Committee will invite members of management, auditors, consultants or others to attend meetings and provide pertinent information, as necessary. The Vice President of Audit Services and EDFUND General Counsel will attend the Committee meetings.

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The meetings must be publicly noticed and conducted in accordance with the Bagley-Keene Open Meeting Act and California Education Code, Section 69525(g)(1) and (3).

The Committee will review and approve minutes of its proceedings, and will report on its actions and activities regularly to the EDFUND Board. Committee members will be furnished with copies of the minutes of each meeting and the minutes will describe any actions taken by the Committee.

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Responsibilities

The responsibilities of the Committee include audit governance for the FFEL Program that EDFUND administers on behalf of the Commission. Specific areas of responsibility are as follows:

EDFUND Financial Statement Audits

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The Committee shall:

1. Review with the external auditor significant accounting and reporting matters and understand their impact on the financial statements. These matters include:
 - Complex or unusual transactions and highly judgmental areas
 - Significant accounting policies and financial statement presentations, including any significant changes in EDFUND's selection or application of accounting principles
 - The effect of regulatory and accounting initiatives on the financial statements of EDFUND
2. Review analyses prepared by management and/or the external auditor setting forth significant financial reporting matters and judgments made in connection with the

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preparation of the financial statements, including analyses of the effects of alternative Generally Accepted Accounting Principles (GAAP) on the financial statements.

3. Review with management and the external auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the external auditor's activities or on access to requested information, and any significant disagreements with management.
4. Discuss the annual audited financial statements and related footnotes with management and the external auditors, including EDFUND's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"
5. Review all pertinent written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences.

Internal Control

The Committee shall review with the external auditors and the Vice President of Audit Services the scope of internal and external auditors' reviews of internal control over financial reporting and the effectiveness of the internal control systems; including information technology security and control, and obtain reports on related significant findings and recommendations, and management's responses to such findings.

Internal Audits

The Committee shall:

1. Review with management and the Vice President of Audit Services the charter, plans, activities, staffing and organizational structure of the internal audit function on an annual basis.
2. Review all internal audit reports. Understand the scope, objective and procedures performed to arrive at the documented conclusions. Review management's responses to significant internal audit findings and recommendations. Discuss such responses with management when deemed necessary.
3. Ensure there are no unjustified restrictions or limitations on internal audit staff or their audit processes.
4. Review and approve the appointment, replacement, or dismissal of the Vice President of Audit Services within the guidelines of relevant employment practices.
5. Ensure the independence of internal audit staff such that staff may report to the Committee instances of fraud, abuse, and illegal acts by senior management and/or conduct internal audits without management interference. Protect internal audit staff against possible reprisals.
6. Evaluate the effectiveness of the internal audit function, including its compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*. As necessary, meet separately with the Vice President of Audit Services to discuss any matters that the Committee or the Vice President of Audit Services believes should be discussed privately.

External Audits, Reviews and Investigations (other than Annual Financial Statement Audits)

External audits, program reviews, and investigations (collectively referred to as “external audits”) of EdFUND and the FFEL Program may be conducted by various State agencies (Department of Finance, State Controller, Bureau of State Audits), by federal agencies (U.S. Department of Education, Office of the Inspector General), or by contracted entities. These audits and program reviews are coordinated within EdFUND by the Vice President of Audit Services and overseen by the Committee.

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The Committee shall:

1. Establish the protocol and scope by which external audits should be conducted for those external auditors and consultants retained by the Committee, or Board.
2. Monitor the status of audits, the implementation of audit recommendations, and inform the Board of significant external audit matters.
3. Review all formal deliverables produced by the external auditors/consultants and any management responses related to such deliverables.
4. Request external audits of specific areas as needed.
5. Confirm with EdFUND management the independence of all external auditors and consultants.

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Compliance

EdFUND shall comply with state and federal laws, rules, regulations, and its internal policies and procedures.

The Committee shall:

1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of any investigations and follow-up activities related to instances of noncompliance.
2. Establish procedures, which require confidentiality, for:
 - a. The receipt, retention, and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters; and
 - b. The anonymous submission of concerns regarding questionable accounting, auditing or ethical issues
3. Review reports of inspections, examinations, and investigations by state and federal regulatory agencies and the consideration given or corrective action taken by management on any criticisms in such reports.
4. Obtain regular updates from management and legal counsel regarding compliance matters.
5. Notify the Office of State Audits and Evaluations (OSAE) and the Bureau of State Audits (BSA) as appropriate of actual or suspected fraud, defalcation, theft or other irregularities the Committee has become aware of either internally or by referral.

Reporting Responsibilities

The Committee shall:

- 1. Regularly report to the Board of Directors the Committee's activities and issues that arise with respect to the quality or integrity of the FFEL Program and EDFUND's financial statements, compliance with legal or regulatory requirements, the performance and independence of the external auditors, and the performance of the internal audit function.
- 2. Provide an open avenue of communication between the Audit Services Division, the external auditors, and the Board of Directors.

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Other Responsibilities

The Committee shall:

- 1. Inquire with EDFUND Executive Management, the Vice President of Audit Services, and the external auditors about significant risks or exposures facing the organization, assess the steps taken by the organization to minimize such risks, and periodically review compliance with such steps.
- 2. Perform other activities related to this charter as requested by the Board of Directors.
- 3. Institute and oversee special investigations as needed.
- 4. Confirm annually that all responsibilities outlined in this charter have been carried out.
- 5. Review and assess the adequacy of the Committee Charter annually, request Board approval for significant proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- 6. Address any audit related issues and/or concerns of the Board, EDFUND management and the VP of Audit Services in a timely manner throughout the course of all audits.

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The Joint Audit Committee Charter is adopted by:

Chair, Audit Committee: Frederick M. Weis

Date

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Co-Chair, Joint Audit Committee:
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Board Chair: Sally Furay

Date

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Commission Chair: James
Fousekis . Date¶
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