

**CALIFORNIA STUDENT AID COMMISSION
AUDIT COMMITTEE**

**CHAIR'S REPORT OF TELECONFERENCE MEETINGS
HELD ON AUGUST 8, 2006 AND AUGUST 15, 2006**

The Audit Committee met via teleconference on August 8, 2006:

1. Report on CSAC's Program Compliance Review and Site Visits of the Cal-SOAP Consortia

Staff presented a summary report of the Cal-SOAP program reviews conducted from January 2002 to July 2005, and follow up visits conducted from June 2005 to July 2006. The Committee received a summary of audit findings related to project governance, project (Cal-SOAP) fund accountability and reporting requirements. Follow-up visits conducted by the Program Compliance Manager revealed that several consortia had not implemented all of the actions they had outlined in their responses to the review report. The Committee was informed that follow-up letters would be sent to the affected consortia concerning the outstanding findings and they would be required to address the findings, develop a course of action, and provide documentation that they have been resolved. These findings will be reviewed in future Cal-SOAP program reviews.

Additionally, the Committee received a preliminary report of information on the site visits conducted by the Outreach Manager. Project Directors and their staff provided detailed information about the operation and implementation of their projects, which will help determine project implementation in areas including: student access strategies, models of student contact in providing services, types of student and program data, data collection capabilities, staffing resources, governing board participation and support, and regional collaboration and resources. The site visits are the first step in gathering information to assess the statewide program implementation and develop recommendations for improvement. Staff will seek consultation with the Project Directors and the Cal-SOAP Advisory Committee. Recommendations for any changes to the Cal-SOAP program will be brought to the Commission's Outreach Committee for discussion and approval.

2. Position Description and Status of CSAC Internal Auditor

Staff reported that they are working with the State Department of Personnel Administration to establish the appropriate management auditor classification for the Chief of Internal Audits. Staff also met with the Department of Finance's Office of State Audits and Evaluations (OSAE) to explore the possibility of contracting with OSAE to continue performing audits from the approved CSAC Internal Audit Plan while a Chief of Internal Audits is being hired.

3. Update on the Request for Proposal for Consultant for Roles and Responsibilities for Loan Program

Staff presented a draft Request for Offer (RFO) developed jointly by CSAC and EDFUND staffs. Upon thorough review of the draft RFO, the Committee directed CSAC and EDFUND staffs to extend the timeline and revise various sections of the RFO, including the minimum eligibility requirement, tasks and deliverables sections. The Audit Committee adjourned its meeting and reconvened on August 15, 2006 to continue discussing the RFO. After reviewing the revised RFO, the Audit Committee recommended its approval to the Commission.

UPDATE ON THE REQUEST FOR OFFER (RFO) FOR CONSULTANT FOR ROLES AND RESPONSIBILITIES FOR THE LOAN PROGRAM

On August 21, 2006, the Commission met to discuss the revised RFO and took the following actions:

- 1) The Commission approved the RFO for the Consultant for Roles and Responsibilities for the Loan Program; and
- 2) The Commission authorized staff to commence with the State procurement process for this RFO.

The RFO was sent to seven (7) consultants listed on the California Multiple Award Schedule:

- 1) Leading Resources, Inc.
- 2) MTG Management Consultants, LLC
- 3) The Marlin Alliance
- 4) The Rand Corporation
- 5) USC Consulting Group, LLC
- 6) The Results Group
- 7) MGT Consultants

As of August 31st, only one (1) consultant has declined (USC Consulting Group, LLC). All RFO responses are due to the Commission on September 15, 2006. A panel of two Commissioners will review the responses. The contractor presentations and interviews are scheduled to take place the week of September 25-29, 2006. Given the timing of the selection process and the mandatory (expedited) review by the Department of General Services, staff expects to have the contract awarded by October 9, 2006.

Joint Audit Committee Chair's Report On Meeting Held August 23, 2006

The Joint CSAC and EDFUND Audit Committee met on August 23, 2006 to conduct the following business:

- **Minutes Approval** – The minutes of the June 1, 2006 Joint CSAC and EDFUND Audit Committee meeting were reviewed and approved.
- **Perry-Smith Audit Plan Presentation** – The audit firm of Perry-Smith LLP has been engaged to perform the annual independent audits of the following financial statements:
 - Operating Fund and Federal Fund - June 30, 2006, 2007, and 2008
 - EDFUND – September 30, 2006, 2007, and 2008
 - EDFUND 401(k) Plan – December 31, 2005, 2006, and 2007

Perry-Smith met with the Committee to discuss the auditor's responsibilities under generally accepted auditing standards and their reporting requirements to the Committee in conducting the audits. Perry-Smith described new accounting standards and the applicability of these standards to the financial statements. The auditors also described the timing of the audits for the current year. Additionally, Perry-Smith informed the Committee of the auditor's independence requirements.

Prior to contracting with Perry-Smith, KPMG conducted these independent financial statement audits for the past three years.

- **External Audits Update** – Diane Manning, EDFUND's Vice President of Audit Services, informed the Committee about the recently completed audit conducted by the U.S. Department of Education Region 9 auditors. The audit primarily focused on various aspects of the Voluntary Flexible Agreement (VFA) between the Department and CSAC which has been in effect for several years. The auditors also reviewed compliance with selected FFEL Program regulations. The auditors conducted an exit meeting on August 10 informing staff of their one finding that requires the transfer of approximately \$7,000 from the Operating Fund to the Federal Fund for overpayment of account maintenance fees. A written report will be provided by the auditors in the next few weeks.

Diane Manning also informed the Committee that she anticipates the Bureau of State Audits (BSA) to begin their annual FFEL Program compliance audit soon. Since the August 23 Committee meeting, BSA has informed her that they expect to begin test work in October. The auditors are typically on site for several weeks and will issue a statewide compliance report in late March or early April, 2007.

- **Internal Audit Update** – Diane Manning updated the Committee on recent Internal Audit activities as follows:

Internal Audit has recently issued the following three audit reports to the Committee involving EDFUND activities:

- Manual Journal Entry Process Review
- Network Security Review
- Compliance Review of Policy 009: *Employment of Applicants and Employees with Guaranteed Student Loans*

Internal Audit recently completed an audit of Cal Grant grade point average collection activities. A draft report was provided to Commission staff on August 11. As of August 29, the date of this Chair's report, Commission staff has not completed its validation of the report or provided management's responses to Internal Audit's recommendations. Staff has indicated that other critical matters have taken priority over responding to Internal Audit on this review. The report will be released to the Audit Committee once this information is provided by Commission staff to Internal Audit. This review will be the last audit conducted of the Cal Grant program under the leadership of Diane Manning. In June 2006, the Commission voted to separate the internal audit functions of EDFUND and CSAC. This decision was made in response to a BSA finding regarding potential impairments to independence by having the same individual serve as CSAC's Chief Audit Executive and EDFUND's Vice President of Audit Services.

Internal Audit is currently drafting reports on two recently completed EdFund audits. One is a review of the data reconciliation between lenders, the National Student Loan Data System, and EDFUND's Financial Aid Processing System. The second is a post default loan discharge review. Both reports are expected to be released to the Committee in September.

Internal Audit is also in the data collection and testing phase of EdFund's business continuity processes. The anticipated timing of the report release to the Committee is in October.

Additionally, Internal Audit has completed a follow up review of a previously issued report on EdFund's default claims processes. All actions recommended by Internal Audit have been addressed, therefore, this review is now considered closed.

- **Discussion on Chronicle of Higher Education Article** – 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 CSAC and EDFUND. However, both counsels indicated that further research is warranted and will report back to the Committee.

- **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 Committee. The Committee was 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 Committee 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 Committee that no conflict of interest matters have been reported to the Legal Division in the last quarter. Catherine Brown informed the Committee that there are no outstanding cases involving CSAC to report at this time.