

Information/Action Item

Joint Meeting of the CSAC and EDFUND Audit Committees

Approval of Audit Charters

Internal auditing standards suggest that the Audit Committee and the organization's internal audit department maintain charters which describe the audit responsibilities of these functions. The standards also suggest that these documents be reviewed annually by the Audit Committee. The Audit Committee last reviewed the charters on November 21, 2006.

This agenda item includes draft charters for the EdFund Audit Committee and EdFund's Internal Audit Department for review and approval.

Staff Recommendation: Approve

Sample Motion: "The Committee accepts the EdFund Audit Committee charter and the EdFund Internal Audit charter."

Responsible Staff: Diane Manning, Vice President
Audit Services

EDFUND

AUDIT COMMITTEE CHARTER

May 28, 2008

Purpose

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

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.

Authority

The Committee has authority to conduct 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 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.

Composition of the Audit Committee

The Committee is a permanent standing committee consisting of three EDFUND'S Board of Directors. The EDFUND Chair appoints the three members from EDFUND'S Board of which one is designated as the Chair of the Committee. The Board Chair will, to the extent available, seek to appoint at least one financial expert to the Committee from the membership of the EDFUND Board.

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 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 Board or designated by statute or law unless otherwise directed by the Chair of the Committee. The Vice President of Audit Services reports functionally to the Chair and administratively to EDFUND'S President to ensure independence of action.

Meetings

The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All meetings of the EdFund Audit Committee are held jointly with the CSAC Audit Committee. A quorum of the joint Committee meetings requires no less than two EDFUND Audit Committee members and two Commission Audit Committee members. Any motions made during the meetings require separate approvals from the EdFund Audit Committee and the Commission Audit Committee.

All Committee members are expected to attend each meeting in person or via teleconference. The Committee will invite EdFund 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.

The meetings must be publicly noticed and conducted in accordance with the Bagley-Keene Open Meeting Act.

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.

Responsibilities

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

Annual FFEL Program and EDFUND Financial Statement Audits

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 the FFEL Program and EDFUND

2. Review and discuss analyses prepared by management and/or the external auditor setting forth significant financial reporting matters and judgments made in connection with the 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 by the Vice President of Audit Services and overseen by the Committee.

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 full 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.

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 applicable state and federal agencies 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 Board of Directors.

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.

The Audit Committee Charter is adopted by:

Audit Committee Chair: Frederick M. Weis

Date

Board Chair: Sally Furay

Date

EDFUND INTERNAL AUDIT CHARTER

May 28, 2008

Purpose

This charter is the written understanding between management and the EDFUND Board regarding the roles and responsibilities of EDFUND's Internal Audit Department within the Audit Services Division. This charter serves as a guide to the Internal Audit Department in the performance of its duties. The Charter does not include, nor is it intended to include, all of the department's duties or responsibilities as they may exist from time to time. This Internal Audit Charter establishes the guidelines specific to the internal audit functions of EDFUND in its administration of the FFEL Program.

EDFUND's Internal Audit Department shall be an independent, objective assurance and consulting activity designed to add value and improve the operations of EDFUND by executing the audits defined in the EDFUND Internal Audit Plan, as approved by the EDFUND Audit Committee. Working as a part of management's overall system of checks and balances, Internal Audit shall accomplish its objectives through a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes while reducing the organization's exposure to non-compliance with policies, procedures, laws and regulations.

Responsibilities

The Internal Audit Department is entrusted with the responsibility to appraise the policies, procedures and management controls of EDFUND to ensure that the activities are properly managed and to promote effective controls. In carrying out this responsibility, Internal Audit shall:

- Establish policies and procedures to guide the internal audit activity;
- Develop a comprehensive risk assessment to identify and prioritize potential audit areas, which pose the greatest risk and liability to EDFUND;
- Establish a risk based audit plan based on the comprehensive risk assessment which identifies those audits that could be performed by existing internal audit resources. Evaluate the plan annually to determine if changes are warranted;
- Ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved audit plan;
- Review EDFUND'S business processes, procedures and records for adequacy to accomplish intended objectives and appraisal of policies and plans relating to the activity or function under review;
- Recommend improvements in procedures and operational processes to reduce risk and increase controls designated to safeguard resources and ensure compliance with laws and regulations;
- Issue reports on the results of internal audit activities, including recommendations for improvement and management's responses to such recommendations;

- Evaluate the resolution of actions taken by management to correct reported deficiencies and implement recommendations for strengthening controls;
- Coordinate and manage all external audits, reviews, and investigations (collectively referred to as “external audits”) of EDFUND and the FFEL Program, including the responses to findings from such external audits unless otherwise directed by the Chair of the Audit Committee;
- Perform special projects at the request of the Audit Committee, Board, and/or Executive Management.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that it audits. Internal Audit will not develop and install procedures, prepare records or engage in activities that would normally be reviewed by internal auditors. The internal auditors may provide input to policies and procedures where compliance with laws, rules and/or regulations are involved without adversely affecting Internal Audit’s independence or performance of the audit function.

Mission

Internal Audit shall provide independent and objective internal audit services to EDFUND designed to add value and improve the organization’s overall control environment. Internal Audit will help safeguard assets, minimize risk exposure and guard against non-compliance with policies, procedures, laws and regulations by providing independent and objective audits of EDFUND’S activities.

Authority

Authorization is granted to Internal Audit for full, free and unrestricted access to any records (either manual or electronic), physical properties and personnel. Documents and information provided to internal audit staff during an audit or review are handled in the same prudent and professional manner as by staff normally accountable for them. Additionally, the Vice President of Audit Services shall have full and free access to the Audit Committee and the Board in carrying out EDFUND’S internal audit function.

Reporting

EDFUND’S internal audit activities are the responsibility of the Vice President of Audit Services, who reports functionally to the Chair of the Audit Committee and administratively to EDFUND’S President. The reporting relationship of the Vice President of Audit Services enhances departmental independence, promotes comprehensive audit coverage and encourages adequate consideration of audit results and recommendations.

A written report will be prepared and issued by the Vice President of Audit Services following the conclusion of each internal audit and distributed as appropriate. Copies of final reports are forwarded to all members of the Audit Committee, the EDFUND Board, the EDFUND President, and other individuals as appropriate in addition to individuals required by the Operating Agreement between EDFUND and the Student Aid Commission.

The Vice President of Audit Services will notify the Chair of the Audit Committee of matters of importance or significance prior to the issuance of any final report.

In addition to final internal audit reports issued on a routine basis, activity reports will be regularly communicated orally and in writing to the Audit Committee.

Role

It is the policy of EDFUND to establish and support Internal Audit as an independent, objective assurance and consulting activity to add value and improve operations.

Standards

Internal Audit adheres to the standards of best professional practice, such as those published by the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA).

Code of Ethics

The Internal Audit staff is responsible for conducting themselves so that their good faith and integrity will not be open to question. The Internal Audit department has adopted the Code of Ethics as issued by the IIA and adopted by The IIA Board of Directors on June 17, 2000. The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing.

The EDFUND Internal Audit Charter is adopted by:

EDFUND Audit Committee Chair: Frederick Weis Date

EDFUND President: Sam Kipp Date

EDFUND Vice President Audit Services Division: Diane Manning Date