

Information Item

Joint Meeting of the CSAC and EDFUND Audit Committees

Internal Audit Update

A written summary is provided which describes the completed audits, audits in progress and other activities performed by EDFUND's Internal Audit staff during the period of January 9, 2008 through May 28, 2008.

A tracking spreadsheet is also provided to keep the Committees informed of overall progress in conducting the audits approved by the Audit Committees in November 2007.

Sample Motion: No motion is required.

Responsible Staff: Diane Manning, Vice President
Audit Services

Tina Kilgore-Goodwin, Assistant VP
Audit Services

Internal Audit Activities Update January 9, 2008 through May 28, 2008

Audits Completed

Tax Offset and Wage Garnishment

Internal Audit issued its Tax Offset and Wage Garnishment Process Review report on April 30, 2008. As part of this audit, Internal Audit evaluated compliance with documented procedures and applicable regulations for processing wage garnishment and tax offsets. Additionally, Internal Audit tested whether payment data received for tax offsets and wage garnishments is accurately applied to the correct borrower account in EDFUND's Financial Aid Processing System (FAPS) and any overpayments are returned to the borrower. Internal Audit also evaluated the processes for handling borrower appeals related to wage garnishments and tax offsets.

Three opportunities to help strengthen controls related to the tax offset and wage garnishment processes were identified. Internal Audit recommended fixing defects in two computer programs that create the annual federal and state offset certification files. These defects resulted in approximately 14,700 borrowers being excluded from federal tax offset and approximately 13,000 borrowers being excluded from state tax offset, although, their loans met the offset criteria. Internal Audit also recommended discontinuing offset proceedings against approximately 100 borrowers who were inadvertently certified for offset when EDFUND failed to provide proper written notice to these borrowers of its intent to offset prior to initiating offset proceedings, as required by federal regulations. These borrowers were mailed an offset notification letter that was returned as undeliverable. Since the deadline for mailing the notification letter had passed, EDFUND was not able to resend the letters to an alternative address and, therefore, these borrowers should not have been certified for offset. The offset process should be enhanced to prevent the certification of borrowers that have not received proper notification. Finally, Internal Audit recommended that management limit access to the computer screen that determines whether a borrower is included or excluded from tax offset to only those individuals with a valid business need. Internal Audit identified five employees whose functions did not require access to the screen and management immediately removed their access.

Audits in Progress

Procurement and Disbursements

This review focused on the key activities related to the procurement and disbursement process. As part of this review, Internal Audit determined whether procurements and disbursements were made for authorized purposes and were in accordance with applicable policies, procedures and regulations. Additionally, Internal Audit validated that requisitions, contracts, and payments were properly approved, appropriately documented and accurately recorded in Oracle Financials. Internal Audit also assessed whether adequate separation of duties exists over the purchasing, contracting, and

disbursement functions and evaluated the processes for investigating and resolving unmatched purchase orders and invoices.

Internal Audit issued a draft of the Procurement and Disbursement Process Review report to management in the Legal Division and Finance and Administration Division on May 14, 2008. The final report is expected to be issued by the end of May, pending validation and responses to the audit recommendations from management.

Incident Response and Escalation

This internal audit includes a review of the processes for reporting, tracking, escalating and resolving operational and security related incidents. This review will also evaluate compliance with the response times and escalation requirements defined in Service Level Agreements between EDFUND business units.

Internal Audit is currently executing the test procedures associated with this audit. The audit report is anticipated to be issued in late June 2008.

Follow-Up Activities on Completed Audits

Internal Audit performs follow-up audit activities to evaluate management's progress towards implementing the recommended actions identified as part of previously issued internal audit reports. The status of each recommended action is determined based on discussions with key personnel, observing procedures performed, and/or reviewing supporting documentation. The follow-up audits conducted during the current reporting period included:

Data Maintenance Update Process – Follow Up

Data maintenance refers to the ability to make changes to data in EDFUND's Financial Aid Processing System by updating data directly in the database. Data maintenance changes are updates that cannot otherwise be performed utilizing the standard user input screens in the system. This audit reviewed data maintenance changes for proper authorization and accuracy. Additionally, Internal Audit assessed whether proper supporting documentation is maintained for data maintenance update transactions.

As part of this review, Internal Audit identified four opportunities to strengthen internal controls and enhance the efficiencies of operations. Internal Audit performed a follow up review in January 2008 and determined that all actions recommended had been addressed, therefore, this review is considered closed.

Loan Transfer Process – Follow Up

The Loan Transfer Process audit included a review of the processes performed by EDFUND's Settlement Unit when transferring defaulted loans from EDFUND's loan portfolio to the U.S. Department of Education or a lender as a result of consolidation, rehabilitation or subrogation through mandatory assignment. The purpose of this audit was to test compliance with applicable statutory regulations and internal procedures for determining and monitoring eligibility and to test the accuracy of key tasks performed during the processing of the loan transfers.

Internal Audit performed an initial follow up review in October 2007 to ensure that the recommendations identified as part of this audit had been implemented. As of the date

of the follow up, only three of the four items recommended by Internal Audit had been addressed. The remaining item, which involves developing and implementing a process for notifying borrowers when their loans have been paid in full through FFEL Program consolidation, as required by federal regulation, had not yet been implemented.

Internal Audit performed a second follow up in February 2008 and determined that the remaining item recommended by Internal Audit had been implemented. Internal Audit considers this review closed.

Business Continuity Management Program – Follow Up

The Business Continuity Management Program audit included a review of the activities performed by EDFUND staff in developing and maintaining a program to help ensure the maintenance and recovery of EDFUND's critical business operations and systems in the event of an unplanned major business disruption. Disruptions could be caused by events including, but not limited to, a technological failure, an act of terrorism or a natural disaster, such as an earthquake or flood.

The report recommended eleven actions and stated that Internal Audit would perform two follow-up reviews as six actions required more time than the others to implement. Internal Audit performed an initial follow up review in January 2008 to evaluate five of the recommended actions and all had been addressed. The second follow-up on the remaining six items is scheduled for January 2009.

Collection Cost Recovery – Follow Up

Federal regulations permit guaranty agencies to charge borrowers who have defaulted on their loans an amount equal to reasonable costs incurred by the agency in collecting on the loans within prescribed limits. The Collection Cost Recovery Process audit included a review of EDFUND's collection cost rate calculations as well as how collection costs are applied against borrowers' loans.

The report recommended eight actions and stated that Internal Audit would perform two follow up reviews. The first follow up occurred in March 2008 to evaluate seven of the eight recommended actions and all seven actions had been addressed. A second follow up is planned for October/November 2008 to follow-up on the remaining item, which is not scheduled to be implemented until September 2008.

Other Activities

Quality Assurance Review Preparation

One of the audit recommendations in the 2006 BSA Performance Audit Report stated that an external assessment of the Internal Audit Department should be performed to ensure compliance with the Institute of Internal Auditors' audit standards.

Audit Services management and staff documented and implemented additional internal audit processes, procedures and tools to prepare for the external assessment and are preparing to conduct an internal self-assessment beginning next month. An independent assessment by an external reviewer is planned to be conducted during the fourth quarter of federal fiscal year 2007-08.

Internal Audit Activity Tracking Spreadsheet May 28, 2008

On November 8, 2007, the Commission and EDFUND Audit Committees jointly reviewed and approved the EDFUND two year Internal Audit Plan for federal fiscal years 07-08 and 08-09. The EDFUND Board and Commission also approved the plan at their November 16, 2007 and November 29, 2007 meetings, respectively. The chart below summarizes Internal Audit's progress towards completing the audit activities on this new plan. The audit statuses that are shaded reflect updated activities since the last update to the Audit Committees on January 8, 2008.

Internal Audit Activities	Audit Status	
	2007 - 08	2008 - 09
A. Follow- Up Reviews On Previously Issued Audits		
<p><u>AR Form 2000 Reporting – Follow Up</u></p> <p>The audit report was issued on April 11, 2007. Internal Audit performed an initial follow up in November 2007. As of the date of the follow up, only three of the five actions recommended by Internal Audit as part of this review had been completed. The first open item (Recommended Action #3) is related to developing and implementing a procedure for reviewing, researching and resolving errors noted on the FAPS Batch Control Reports. Internal Audit will perform a second follow up in November 2008 to evaluate management's progress towards implementing this item. At that time, if it is determined that the recommended action has not been completed and that the resulting level of risk assumed by management is unacceptable as a result of not addressing this item, the VP of Audit Services will escalate the matter to the EDFUND President.</p> <p>The second open item (Recommended Action #2), which relates to fixing a defect in computer program code identified by Internal Audit in the application of school refunds and borrower payments forwarded by lenders to EDFUND on defaulted loans, is not scheduled to be implemented by management until September 2008. Internal Audit is scheduled to perform the initial follow up activities related to this item in November 2008.</p>	<p>Initial follow up on recommended action items #1, 3, 4, and 5 has been conducted.</p>	<p>A second follow up for recommended action #3 is scheduled.</p> <p>Initial follow up for recommended action #2 is scheduled.</p>

Internal Audit Activities	Audit Status	
	2007 - 08	2008 - 09
<p><u>Business Continuity Management Program – Follow Up</u></p> <p>The audit report, which was issued on March 7, 2007, recommended eleven actions and stated that Internal Audit would perform two follow-up reviews as six actions required more time than the others to implement. The first follow up on the five actions occurred in January 2008 and all had been addressed. The second follow up on the remaining six actions is scheduled for January 2009.</p>	Initial follow up on recommended action items #1, 2, 5, 7 and 11 has been completed	Initial follow up for remaining six recommended action items is scheduled
<p><u>Application Change Management– Follow Up</u></p> <p>The audit report was issued on September 12, 2007. A follow up review to evaluate management's implementation of the audit recommendations began in May 2008 and continues to be in process.</p>	Follow up is in progress	
<p><u>Collection Cost Recovery – Follow Up</u></p> <p>The audit report, which was issued on November 20, 2007, stated that Internal Audit would perform two follow up reviews. The first follow up was scheduled to evaluate seven of the eight recommended actions in March 2008. A second follow up is planned for October/November 2008 to follow-up on the remaining item, which is not scheduled to be implemented until September 2008.</p> <p>Internal Audit performed an initial follow up review in March 2008. All seven actions recommended by Internal Audit that were scheduled for completion by the first follow up had been addressed.</p>	Initial follow up on recommended action items #1, 2, 3, 4, 6, 7 and 8 completed.	Initial follow up for recommended action item #5 is scheduled
<p><u>Data Maintenance Update Process (Loan Operations and Default Mgmt) – Follow Up</u></p> <p>The audit report was issued on August 15, 2007. Internal Audit performed a follow up review in January 2008 and determined that all actions recommended had been addressed, therefore, this review is considered closed.</p>	Follow up completed; audit is closed	
<p><u>Loan Transfer Process – Follow Up</u></p> <p>The audit report was issued on May 29, 2007. Internal Audit performed an initial follow up review in October 2007 to ensure that the recommendations identified had been implemented. At that time, only three of the four items recommended had been addressed. Internal Audit performed a second follow up in February 2008 and determined that the remaining item had been implemented. Internal Audit considers this review closed.</p>	Initial and second follow ups completed; audit is closed.	

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	2007 - 08	2008 - 09
<p><u>Network Security – Follow Up</u></p> <p>Four of the nine items cited in the audit report issued in May 2006 were addressed as of the date of the initial follow up in June 2007. Of the five items that remained open, two involve enhancing the existing passwords and login controls and implementing additional controls when processing requests from users to reset their network passwords. Two open recommendations involve the deletion of dormant/inactive network accounts identified by Internal Audit during the audit and the need for establishing a quarterly process to monitor dormant/inactive accounts. The last open recommendation involves performing an analysis to determine if automated logging tools should be implemented to proactively monitor network components. Internal Audit will perform a second follow up in October 2008 to determine if these five open items have been addressed. At that time, if it is determined that the recommended actions have not been completed and that the resulting level of risk assumed by management is unacceptable as a result of not addressing such items, the VP of Audit Services will escalate the matter to the EDFUND President.</p>		<p>Second follow up is scheduled</p>
<p><u>NSLDS Reporting and Lender Portfolio Reconciliation – Follow Up</u></p> <p>One of the three items cited in the audit report released in October 2006 was addressed as of the date of the initial follow up in July 2007. A second follow up was performed in November 2007 and all remaining actions were implemented at that time. Internal Audit considers this audit closed.</p>	<p>Second follow up completed; audit is closed</p>	
<p><u>User Access Management – Follow Up</u></p> <p>The audit report was issued on December 31, 2007. A follow up review is planned to be conducted in September 2008 to evaluate management’s implementation of the audit recommendations.</p>	<p>Follow up is scheduled</p>	
<p><u>Tax Offset and Wage Garnishment– Follow Up</u></p> <p>The audit report was issued on April 30, 2008. A follow up review is planned to be conducted in October 2008 by Internal Audit to evaluate management’s implementation of the audit recommendations.</p>		<p>Follow up is scheduled</p>

Internal Audit Activities	Audit Status	
	2007 - 08	2008 - 09
B. High Risk Audits		
<p><u>Collection Cost Recovery</u> This audit was carried over from FY 2006-07. The audit is now complete and the report was issued on November 20, 2007.</p>	Audit is complete	
<p><u>DataMart Management and Reconciliation</u> This internal audit was initially scheduled for completion during FY 2007-08. Management in the Information Technology Services Division, the primary business unit impacted by this audit, recently informed Internal Audit that they are actively working on a project to redesign and significant enhance the functionality of the DataMart. This project is not expected to be implemented until FY 2008-09. Consequently, this audit will be deferred.</p>		Audit is scheduled
<p><u>Default and Specialty Claims Adjudication</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>Default Aversion Assistance</u> Scheduled for completion during FY 2007-08.</p>	Audit is scheduled	
<p><u>Default Fee</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>External Collections</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled

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<p><u>Incident Response and Escalation</u> Internal Audit is currently executing the test procedures associated with this audit. The audit report is anticipated to be issued in late June 2008.</p>	Audit is in progress	
<p><u>Information Security Program</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>Internal Collections</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>Loan Guarantee Process</u> Scheduled for completion during FY 2007-08.</p>	Audit is scheduled	
<p><u>Manual Borrower and Loan Updates</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>Procurement and Disbursements</u> Internal Audit issued a draft of the Procurement and Disbursement Process Review report to management in the Legal and Finance and Administration Divisions on May 14, 2008. The final report is expected to be issued by the end of May, pending validation and responses to the audit recommendations from management.</p>	Audit is in progress	
<p><u>Table Maintenance</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled

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<p><u>Technology Project Management</u> Scheduled for completion during FY 2008-09.</p>		Audit is scheduled
<p><u>User Access Management</u> This audit was carried over from FY 2006-07. The audit is now complete and was issued on December 31, 2007.</p>	Audit is complete	
<p><u>Tax Offset and Wage Garnishment</u> The audit report was issued on April 30, 2008.</p>	Audit is complete	

Internal Audit Activities	Audit Status	
	2007 - 08	2008 - 09
C. Required Audits		
<p><u>Policy 009 Compliance – Employment of Applicants and Employees with Guaranteed Student Loans</u></p> <p>This is a recurring annual compliance audit performed by Internal Audit.</p>	Audit is scheduled	Audit is scheduled
<p><u>Quarterly Review of Transactions on Employee FFEL Loans</u></p> <p>Internal Audit performs this review each quarter. This review stems from a BSA compliance audit finding which stated the need for additional controls to prevent employees from modifying or deleting their own records. Management's response to this finding stated that Internal Audit would periodically sample and review system activity on loans associated with EDFUND employees. Internal Audit does not issue audit reports summarizing the results of each quarterly review. Instead, the audit procedures performed and the results are included as part of the Policy 009 Compliance audit report. Internal Audit has completed the first and second quarter reviews for FY 07-08.</p>	In progress	Audit is scheduled