

**Information/Action Item**

***Joint CSAC and EDFUND Audit Committee***

**Approval of June 1, 2006 Minutes**

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Minutes of the Joint Audit Committee meeting held on June 1, 2006 are provided for the Committee's review and approval.

***Recommended Action:***

Approval of minutes.

***Responsible Staff:*** Diane Manning

**JOINT CSAC and EDFUND AUDIT COMMITTEE  
TELECONFERENCE MEETING**

3300 Zinfandel Drive  
Rancho Cordova, CA 95670

**June 1, 2006**

**Committee Members Present:**

Dean Johnston, Co-Chair  
Fritz Weis, Co-Chair  
Josefina Baltodano  
Sally Furay  
Louise McClain  
Jennie Woo

**Staff Present:**

Sam Kipp  
Diane Manning  
Keith Yamanaka  
Janet McDuffie  
Cathy Reynolds  
Catherine Brown  
Tina Kilgore-Goodwin  
Gloria Lopez  
Rosaline Brown

**Visitors:**

Craig Yamamoto, CCCSF AAA  
Susan Jones, CCCSF AAA  
Mindy Bergeron, CASFAA  
Ted Wait, Golden State Advocacy  
Mike Wengel, KPMG

**CALL TO ORDER**

Co-Chair Fritz Weis called the meeting to order at 1:05 p.m. and asked Gloria Lopez to call the roll for attendance and a quorum was established.

**CHAIR'S REPORT**

Co-Chair Weis thanked CSAC and EDFUND staff for their hard work in responding to the Bureau of State Audits (BSA) performance audit.

## **MINUTES APPROVAL**

Committee Member Jennie Woo MOVED to APPROVE the minutes of February 16, 2006. The motion was SECONDED by Committee Member Louise McClain and CARRIED.

## **FORMAL ACCEPTANCE OF THE 2005 AUDITED FINANCIAL STATEMENTS**

Mike Wengel, KPMG Senior Manager, presented the following audited financial statements to the Joint Audit Committee:

- Operating Fund and Federal Fund of the California Student Aid Commission for the year ended June 30, 2005
- EDFUND for the year ended September 30, 2005
- EDFUND 401(k) Plan for the year ended December 31, 2004

Mr. Wengel briefed the Committee on the responsibilities of management, the Audit Committee, and KPMG pertaining to the audits. Mr. Wengel informed the Committee that KPMG proposed no audit adjustments to the financial statements and identified no findings related to the key areas of audit focus. He also stated that KPMG had no disagreements with management in the conduct of their audits.

Co-Chair Dean Johnston asked Mr. Wengel how often organizations re-evaluate services provided by their retirement plan third party administrator. Mr. Wengel stated that organizations typically do this every three to five years. EdFund's Assistant General Counsel, Cathy Reynolds, stated that Fidelity is EDFUND's current plan provider and administrator. She indicated that EDFUND management is considering conducting the next competitive procurement for such services in the next several months.

Co-Chair Weis MOVED to formally ACCEPT on behalf of the Joint Audit Committee the audited financial statements. The motion was SECONDED by Committee Member Woo and CARRIED.

## **EXTERNAL AUDITS UPDATE**

Diane Manning, Vice President of Audit Services, provided the Committee a copy of the Bureau of State Audits FFEL Program compliance audit report for the fiscal year ended June 30, 2005 which BSA released in April 2006. Ms. Manning discussed the corrective action plans in place to address the four findings as presented in the audit report.

Ms. Manning also provided an update on the status of implementing recommendations from the performance audit report issued by BSA in April 2006 and the 2005 performance review conducted by Commission staff.

Additionally, Ms. Manning informed the Committee that the USED Region 9 auditors will be onsite in August 2006 to perform a limited review of loan program activities. She explained that Region 9 typically performs a limited scope audit each year.

## **INTERNAL AUDIT UPDATE**

Ms. Manning provided the Committee with a summary of internal audits completed, audits in progress, follow up activities on prior audits and other activities performed by the Internal Audit Team during the period from February 16, 2006 through May 31, 2006. Ms. Manning also provided a summary of planned Cal Grant audits which was requested for informational purposes only during a previous Commission meeting.

### **RECOMMENDATION FOR EXTERNAL AUDIT FIRM TO CONDUCT 2006 - 2008 FINANCIAL STATEMENT AUDITS**

The contract with KPMG ended upon completion of the financial statement audits conducted during 2005. KPMG has been the Commission and EDFUND's external auditor for the past three years. Ms. Manning briefed the Committee on staff's recommendation to contract with the independent audit firm of Perry-Smith for the financial statement audits required during 2006 through 2008.

She informed the Committee that five firms were asked to bid. Pricewaterhouse Coopers, Ernst & Young, and Gilbert Associates declined to bid due to a shortage of audit staff. RSM McGladrey declined but provided no reason for the decline. Ms. Manning explained that two key reasons have caused a shortage in the number of professional auditors. First, for many years there has been a significant shift from individuals seeking accounting degrees to information technology. Second, there has been a significant increase in demand for auditors to conduct audits of publicly traded companies to comply with the Sarbanes-Oxley Act. Sarbanes-Oxley requires a more extensive level of auditing than previously required under generally accepted auditing standards.

Ms. Manning provided background information to the Committee on Perry-Smith. She pointed out that the firm has over 100 professionals on staff and that the current partners include former employees of Arthur Young, Ernst & Young, and Price Waterhouse (all international firms). She informed the Committee that Perry-Smith is a member of the RSM McGladrey Network which provides member firms with direct access to technical resources from this fifth largest national accounting firm. Ms. Manning also provided a comparison of Perry-Smith's proposed fees for each year with that charged by KPMG in the prior year. The total fee proposed by Perry-Smith for the three years is \$559,500.

Committee Member McClain MOVED to APPROVE staff's recommendation to APPOINT Perry Smith, LLP to conduct the 2006 – 2008 Financial Statement Audits. The motion was SECONDED by Committee Member Josefina Baltodano and CARRIED.

## **LEGAL UPDATE**

EDFUND's Assistant General Counsel, Cathy Reynolds, provided a standing update on current and recent cases. Ms. Reynolds stated that there are four pending cases: two involving borrowers, one involving a former employee, and one involving an employee that was in an automobile accident.

**PUBLIC COMMENT**

Co-Chair Weis asked if there was any public comment and there was none.

**ADJOURN**

With no further business to discuss the meeting adjourned at 2:30 p.m.

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Fritz Weis, Co-Chair