

**Information Item**

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

**Internal Audit Update**

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A summary is provided which describes recently completed audits, audits in progress, follow up activities on prior audits and other activities performed by the Internal Audit staff during the period from June 1, 2006 through August 22, 2006.

Staff will brief the Committee on these internal audit activities.

***Recommended Action:***

No action is required.

***Responsible Staff:*** Diane Manning

## **Internal Audit Activities Update (June 1, 2006 through August 22, 2006)**

### **Audits Completed**

#### ***Manual Journal Entry Process Review***

Internal Audit issued Report No. 06-100, Manual Journal Entry Process Review, in early June 2006. This audit focused on the activities performed by EDFUND's Finance staff in processing manual journal entries designed to record certain accounting transactions, reallocate expenses at the cost center level of detail and correct errors in previously recorded accounting transactions. The purpose of Internal Audit's review was to determine if manual journal entries were properly approved and accurately applied to the accounting system. Internal Audit also evaluated the adequacy of the documentation supporting each entry and the security and retention of such documents.

For the fiscal year ended September 30, 2005, Finance staff processed approximately 1,200 manual journal entries totaling roughly \$11.2 billion, of which approximately \$10.8 billion represented the recording of 300+ banking related transactions.

As part of this audit, Internal Audit identified several instances where insufficient documentation was maintained to support the journal entries. Additionally, Internal Audit noted instances of inconsistent or inaccurate journal entry descriptions and review sign-off dates. As a result, Internal Audit recommended developing a comprehensive procedure for preparing, recording and approving manual journal entries and defining departmental standards for the acceptable types of documentation that must be maintained as support for manual journal entries. Internal Audit also recommended that business units submit documentation supporting journal entry requests to Finance staff in a read-only format to ensure that these documents are not inadvertently or intentionally modified.

Internal Audit will perform follow-up activities in October 2006 to evaluate the implementation and progress of the corrective actions identified as part of this review.

#### ***Network Security Review***

Internal Audit issued Report No. 06-102, Network Security Review, in early July 2006. This audit included a review of system configurations and settings for EDFUND's network and the activities performed by the Technology Solutions and Services (TSS) Division in managing network user accounts and administrator permissions. Internal Audit analyzed and tested the system configurations against documented procedures and industry standards. Internal Audit also evaluated the adequacy of procedures for performing network back-up and recovery activities and ongoing system monitoring/logging.

As part of this review, Internal Audit identified several recommendations to help strengthen controls over the existing user password parameters, login naming

conventions and system configurations. Internal Audit will perform follow-up activities in April 2007 to evaluate the implementation and progress of the corrective actions identified as part of this review.

### ***Compliance Review of Policy 009: Employment of Applicants and Employees With Guaranteed Student Loans***

Internal Audit issued Report No. 06-301, Compliance Review of Policy 009, in early August 2006. Policy 009 incorporates key internal controls at the time a candidate is being considered for employment and throughout an individual's ongoing employment with EDFUND. This test work is performed each year by Internal Audit.

No compliance exceptions were identified during this year's review.

## **Audits in Progress**

### ***Cal Grant Grade Point Average Collection Review***

Internal Audit issued a draft of Report No. 05-302, Cal Grant Grade Point Average Collection Review, to CSAC Management for review in early August 2006. Internal Audit anticipates issuing the final report in late August.

This audit focused on the activities performed by CSAC staff in collecting and processing manual and electronic GPA data. CSAC uses the GPA data, along with FAFSA information obtained from the US Department of Education to determine eligibility for a Cal Grant award. The purpose of Internal Audit's review was to ensure that GPA data is properly reflected in CSAC's Grant Delivery System (GDS), based on information submitted to the Commission by schools and students. Internal Audit also evaluated compliance with the timeframes defined in the applicable statutory regulations for processing GPA submissions and tested compliance with documented procedures for processing GPA data. Additionally, Internal Audit evaluated the processes in place to secure confidential student information submitted along with GPA data.

This review will be the last audit conducted of the Cal Grant program under the leadership of the existing Chief Audit Executive, Diane Manning. In June 2006, the Commission voted to separate the internal audit functions of EDFUND and CSAC, which were both managed by Diane Manning. 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.

### ***Data Reconciliation between Lenders, NSLDS, and EdFund***

This is a review of the processes performed by EDFUND staff in reconciling borrower loan information received from lenders to EDFUND's Financial Aid Processing System (FAPS) and the U.S. Department of Education's (USED) National Student Loan Data System (NSLDS). Internal Audit is analyzing data files containing information received from lenders and servicers against those transmitted by EDFUND to USED to determine whether EDFUND is submitting the most current loan information to the NSLDS. Internal Audit is also evaluating the procedures in place for resolving errors from the data

transmission and validation processes. Additionally, Internal Audit is verifying the accuracy of updates performed by EDFUND staff in FAPS as a result of the annual lender portfolio reconciliation.

This audit was originally scheduled for completion in February 2006, however, Audit Services management deferred this audit and redirected the Information Systems Auditor responsible for completing this review to assist with the technical components of the Cal Grant Disbursement and Reconciliation Review, which was completed in February 2006.

Internal Audit completed the test procedures associated with this audit and is in the process of finalizing the draft report. The anticipated completion date of this audit is early September 2006.

### ***Post Default Loan Discharge Review***

Title 34 Code of Federal Regulations (CFR) 682.402 allows FFEL Program loans to be discharged under certain situations such as death, bankruptcy, total and permanent disability of the borrower, school closure, and false certification of the borrower's eligibility. Internal Audit's review is focused on the processes performed by EDFUND's Post Default Services (PDS) unit in approving or denying discharge applications related to defaulted loans. The purpose of Internal Audit's review was to test compliance with applicable regulations and procedures and determine whether defaulted loans are properly approved for discharge or denied. Internal Audit is also verifying that discharge requests are adequately supported and discharge amounts are accurately calculated.

Internal Audit completed the majority of the test procedures associated with this audit and is in the process of drafting the report. The anticipated completion date of this audit is September 2006.

### ***Business Continuity Review***

This is a review of the planning, documentation, and testing processes performed by EDFUND staff to help ensure the maintenance and recovery of systems and critical business operations in the event of disasters including, but not limited to, technological failures, natural disasters, terrorism or human errors.

As part of this review, Internal Audit is reviewing the processes for developing and maintaining business continuity and disaster recovery plans, the business impact analysis and the risk assessment. Internal Audit is also reviewing the processes performed by EDFUND staff for testing the business continuity and disaster recovery plans and incident management processes to ensure resumption of systems and business operations in a timely manner during adverse circumstances.

Internal Audit completed the planning of this audit and is currently executing the audit test procedures. The anticipated completion date of this audit is early October 2006.

## **Follow-Up Activities of Completed Internal 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. Follow-up audits are performed a month or two following the implementation of the recommended actions in the audit report. This is generally six to twelve months after the report is originally released to the Audit Committee.

The following follow-up audit was conducted during the current reporting period:

### ***Default Claims***

The Default Claims review included an evaluation of the due diligence activities performed by the Claims Adjudication Unit in processing default claims for compliance with applicable regulations and procedures. As part of this review, Internal Audit identified six opportunities to strengthen internal controls. Internal Audit performed a follow-up review in June 2006 and determined that all actions recommended have been addressed, therefore, this review is considered closed.

## **Other Activities**

### ***Recruitment of EdFund Information Security Officer***

The Vice President of Audit Services and one of Internal Audit's Senior Information System Auditors assisted EDFUND's Human Resources Division in conducting interviews for the Information Security Officer (ISO) position. Effective June 26, 2006, Joe Blake was hired as the new ISO. Joe has an extensive background in risk management and information security having worked for, and as a consultant to, numerous large corporations and governmental entities. He has a masters degree in Systems Management from the University of Southern California (USC).