

Information Item***Joint CSAC and EDFUND Audit Committee*****BSA Performance Audit Recommendations Update**

The Commission Chair, Executive Director, EDFUND President and staff met with BSA on August 14 in advance of the August 16 JLAC hearing to update the auditors on progress in implementing the performance audit recommendations. The Commission Chair, EDFUND Board Chair, Executive Director, and President testified at the hearing. The written update as of August 11 given to BSA and JLAC is provided for the Committee. Staff will brief the Committee on these meetings and recent progress on implementing the recommendations.

Recommended Action:

No action is required.

Responsible Staff: Diane Manning

**BSA Recommendations - Status Update
As of August 11, 2006**

1. Topic: Higher Education Reconciliation Act

BSA Finding: The federal Higher Education Reconciliation Act of 2005 could make it difficult for the FFEL Program to generate an operating surplus.

BSA Recommendation: Student Aid should continue to reassess the fiscal impact on the FFEL Program caused by changes in the federal Higher Education Act and the recent announcements made by some large guaranty agencies that they will pay the federal default fee for borrowers.

Commission Chair's Summary Response on April 10, 2006: ...given the potential impact on the market of anticipated federal default fee decisions, the Student Aid Commission intends to monitor EDFUND's forecasts and market assumptions closely.

Commission Process Established on April 21, 2006: Request the EdFund Board to require at its quarterly meetings explicit information on the effectiveness of EdFund forecasts and market assumptions from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee and the Chair of the Commission.

Status as of June 16, 2006 (required 60 day update to BSA): The EDFUND Chief Financial Officer (CFO) will report in closed session on the effectiveness of EDFUND forecasts and market assumptions at the July 2006 Commission and Board workshop. The CFO will begin reporting such information as a standing agenda item at each subsequent Finance and Budget Committee meeting and quarterly Board meetings. Reports from such meetings will be forwarded to the Chair of the Commission's Fiscal Policy Committee and Chair of the Commission.

Status as of July 19, 2006 for Commission/Board Workshop: Same status as of June 16.

Status as of August 11, 2006: The EDFUND CFO reported in closed session on EDFUND's forecasts and market assumptions at the July 26, 2006 Joint Commission and Board workshop and to the EDFUND Finance and Budget Committee on August 3. Commission staff attended both meetings and was provided the presentation materials. The EDFUND CFO will also make a presentation in closed session to the EDFUND Board on August 18. Commission and EDFUND staffs have been working closely together to monitor the financial impacts of the Higher Education Reconciliation Act on EDFUND's administration of the FFEL Program on behalf of the Commission and announcements made by other guaranty agencies.

2. Topic: Other Federal Changes

BSA Finding: Other federal changes caused EDFUND to shift its strategy for collecting on defaulted student loans.

BSA Recommendation: Student Aid should monitor EDFUND's progress toward reducing its reliance on defaulted loan consolidations.

Commission Chair's Summary Response on April 10, 2006: EdFund has already adapted its collection strategies to conform to the HERA (Higher Education Reconciliation Act of 2005) even though the Act's new collection provisions take effect on October 1, 2006 and then later in 2009...., and the Student Aid Commission will monitor the actual collection revenues and the financial impact upon the Student Loan Operating Fund.

Commission Process Established on April 21, 2006: Request the EdFund Board to require at its quarterly meetings specific information on EdFund default collections from its Finance and Budget Committee, such reports to be forwarded to the Chair of the Commission's Fiscal Policy Committee.

Status as of June 16, 2006 (required 60 day update to BSA): The Vice President of Default Management will report in closed session on EdFund default collections at the July 2006 Commission and Board workshop. The Vice President will begin reporting such information as a standing agenda item at each subsequent Finance and Budget Committee meeting and quarterly Board meetings. Reports from such meetings will be forwarded to the Chair of the Commission's Fiscal Policy Committee.

Status as of July 19, 2006 for Commission/Board Workshop: Same status as of June 16.

Status as of August 11, 2006: The VP of Default Management reported in closed session on EDFUND default collections at the July 2006 Commission and Board workshop and to the EDFUND Finance and Budget Committee on August 3, 2006. Commission staff attended both meetings and was provided the presentation materials. A presentation will be made in closed session to the EDFUND Board on August 18. Commission and EDFUND staffs have been working closely together to monitor progress in reducing the reliance on defaulted loan consolidations.

3. Topic: Voluntary Flexible Agreement

BSA Finding: Student Aid may have lost the opportunity to receive millions in federal revenue because it failed to renegotiate its Voluntary Flexible Agreement promptly.

BSA Recommendation: Student Aid should ensure that critical tasks, including the renegotiation of its Voluntary Flexible Agreement with the U.S. Department of Education ...are completed.

Commission Chair's Summary Response on April 10, 2006: The ability to successfully conclude negotiations is to a large degree determined by the U.S. Department of Education...

Commission Process Established on April 21, 2006: Await action by the U.S. Department of Education, while keeping in touch with federal officials. If necessary, involve California administration officials once the Voluntary Flexible Agreement is forwarded by the Department's staff to the U.S. Secretary of Education. EdFund management will report immediately to the Board and Commission any new developments in the negotiations.

Status as of June 16, 2006 (required 60 day update to BSA): The EDFUND President and Acting CFO met with Department staff in Washington D.C. on May 5, 2006 to discuss the proposed Voluntary Flexible Agreement (VFA). No requests were made by the Department at that time, or subsequent to the meeting, to revise the agreement. Department staff is continuing to analyze the Commission's proposed VFA. To date, USED has not finalized the pending new agreements with the other three guaranty agencies which also maintain VFA's with the Department.

Status as of July 19, 2006 for Commission/Board Workshop: EDFUND's President Kipp was informed by USED staff on June 29, 2006 that key management staff scheduled an internal meeting for July 7, 2006 to further discuss the proposed renegotiated VFAs of the four guaranty agencies. Staff also informed President Kipp that a recent reorganization within USED had redirected the Department's focus and that these individuals were now getting back to discuss the proposed VFAs. Since the June 29 discussion, EDFUND has been informed that USED staff expects to complete their review of all renegotiated VFAs by the end of July 2006 and will then present their analysis to the Secretary of Education for further consideration and public comment.

Status as of August 11, 2006: As of this date, USED has provided no additional information to any of the guaranty agencies regarding USED's status on renegotiating the VFAs.

4. **Topic: Business Diversification**

BSA Finding: Efforts to increase revenue through business diversification have not succeeded.

BSA Recommendation: Student Aid should ensure that critical tasks, including ...the development of a diversification plan, are completed.

Commission Chair's Summary Response on April 10, 2006: The Student Aid Commission intends to work with EDFUND to accomplish its business diversification objectives while taking into consideration the current financial position of the Student Loan Operating Fund and the limitations placed in the 2004 state law.

Commission Process Established on April 21, 2006: Delegate diversification exploration to the EdFund Chief Financial Officer. The CFO will report to the EdFund Board, Commission, and Executive Director at each regularly scheduled meeting with the goal of developing a diversification plan.

Status as of June 16, 2006 (required 60 day update to BSA): EDFUND's vacant CFO position was filled effective June 1, 2006. The CFO will make his first report on developing a diversification plan at the August 2006 Board meeting. The CFO will then report such matter as a standing agenda item to the EdFund Board, Commission, and Executive Director at each subsequent regularly scheduled meeting.

Status as of July 19, 2006 for Commission/Board Workshop: Same status as of June 16, however, the CFO will also make a brief presentation at the July 26 workshop.

Status as of August 11, 2006: The EDFUND CFO made an initial presentation to the Commission and Board at the July 26, 2006 workshop. The Commissioners and Board members agreed that insufficient funding precludes any major initiatives to diversify in the near term. It was agreed that EDFUND will continue to be alert to potential opportunities to partner with other entities and any such opportunities will be presented to the Commission and EDFUND Board.

5. Topic: Operating Agreement

BSA Finding: Student Aid and EDFUND have been unable to agree on a new operating agreement for the FFEL program that delineates their respective roles.

BSA Recommendation: Student Aid should ensure that the roles and responsibilities it delineates for itself and EDFUND do not inappropriately cede its statutory responsibilities to EDFUND.

Commission Chair's Summary Response on April 10, 2006: The Student Aid Commission decided to renew the existing single-year operating agreement until it makes a final determination about the appropriate roles and responsibilities of both organizations. The Commission believes the two issues – the operating agreement and the roles and responsibilities upon which it must be crafted – are inextricably intertwined.

Beginning with a more detailed clarification of the respective roles and responsibilities of the Commission and EDFUND, the Student Aid Commission will work to develop policies and definitions to ensure that its own oversight mandate and EDFUND's operational role are managed effectively under both with state and federal law.

Commission Process Established on April 21, 2006: Establish a Special Committee co-chaired by Commissioners James Sandoval and Sally Furay. This committee is responsible for developing a final draft of roles and responsibilities and a new draft Operating Agreement for review and approval by the Board and Commission. This Special Committee is also responsible for overseeing completion of the 2005 Performance Review tasks (see Topic 10). Additionally, this Special Committee is responsible for overseeing the establishment of appropriate verification and reporting processes and expectations of the oversight division (see Topic 9). The Special Committee may appoint subcommittees to assist in carrying out its responsibilities.

Status as of June 16, 2006 (required 60 day update to BSA): The Special Committee met on May 25, 2006 to discuss an initial process for addressing the responsibilities assigned by the Commission described above. The Committee requested CSAC and EdFund staff to provide certain information for the Committee which is currently being collected. Further direction and assignments will be made at the next meeting scheduled for June 19, 2006. The Special Committee is currently co-chaired by Commissioners Sally Furay and Dean Johnston. This effort is expected to be ongoing for the next few months until completion.

Status as of July 19, 2006 for Commission/Board Workshop: The Special Committee met via teleconference on June 19, 2006 to discuss the information requested at the last meeting held on May 25. The Special Committee determined that sufficient information had been provided by Commission and EDFUND staff to support hiring an outside consultant with legal and financial expertise to assist the Committee in further delineating the roles and responsibilities. The work performed by the consultant is needed by the Committee in drafting a new Operating Agreement. The Special Committee recommended to the Commission on June 23 that the Committee move forward to develop a request for proposal (RFP) for such consulting services. The Commission approved the recommendation and asked to see the RFP once developed. The RFP is included in the workshop materials.

Status as of August 11, 2006: Staff presented an initial draft RFP to the Commission and Board at the July 26 workshop. Staff further refined the draft RFP based upon feedback obtained during the workshop. Staff presented a revised draft RFP to the Commission Audit Committee on August 8 and obtained additional input. The Committee is scheduled to meeting with staff on August 15 to finalize the draft RFP. The Committee will present the draft RFP to the Commission on August 21 to retain consultant(s) to assist with roles and responsibilities. In the meantime, the Commission and EdFund will be agreeing to a short extension to the current Operating

	<p>Agreement to provide an opportunity for the consultant(s) to complete their work.</p>
<p>6.</p>	<p>Topic: Concerns Raised Regarding Accomplishment of Performance Goals</p> <p><i>BSA Finding:</i> Student Aid has not fully addressed concerns raised by an assessment of EDFUND's accomplishment of performance goals.</p> <p><i>BSA Recommendation:</i> Student Aid should follow through on issues raised by its staff regarding EdFund's operations.</p> <p><i>Commission Chair's Summary Response on April 10, 2006:</i> The Student Aid Commission's executive director and the EdFund president are working to review the methodology for measuring year-end performance under the performance goals and metrics agreed to by the Student Aid Commission and EDFUND. Meetings to discuss the measurement standards are already scheduled for April 2006 and the Commission will await the results of those meetings before developing its actions related to the assessment of EDFUND's performance goals.</p> <p><i>Commission Process Established on April 21, 2006:</i> The Executive Director of the Commission and the EdFund President will set policy on performance goals, methodology, and metrics for the 2006-2007 federal fiscal year. This information will be provided to the Commission by June 1, 2006.</p> <p><i>Status as of June 16, 2006 (required 60 day update to BSA):</i> Discussions are ongoing between the Executive Director and President. The Commission's Fiscal Policy and Long-Range Planning Committee or a special committee may be tasked to work with the Executive Director and President on remaining areas of divergence in order to finalize the policy within the next few weeks.</p> <p><i>Status as of July 19, 2006 for Commission/Board Workshop:</i> The Commission Chair, Executive Director, and President met on July 11 to discuss and agree upon certain aspects of the performance goal calculation for FY 05-06. The Executive Director is drafting the 05-06 policy for performance goals, methodology, and metrics for review by the EDFUND President before presenting the policy to the Commission. The final policy approved by the Commission for 05-06 and input from Watson Wyatt (see Topic 11) may influence the policy for 06-07 which should be established prior to the beginning of the new federal fiscal year (October 1, 2006).</p> <p>Status as of August 11, 2006: The Executive Director and President have reached agreement on most aspects of the performance goals. Both have documented their views and are awaiting the results of the work being performed by Watson Wyatt (see Topic 12). Recommendations on this matter will be presented to the Board on August 18 and then to the Commission in September.</p>

7.	<p>Topic: Relinquishing Oversight Circumvented State Law</p> <p><i>BSA Finding:</i> Student Aid circumvented state law by erroneously relinquishing a key oversight responsibility to the EDFUND Board.</p> <p><i>BSA Recommendation:</i> Student Aid should rescind its delegation of the approval authority of EDFUND's detailed operating budget to the EDFUND board.</p> <p><i>Commission Chair's Summary Response on April 10, 2006:</i> To the extent that the Commission's action has been interpreted as delegating the approval of the budget to EDFUND, such delegation was not the Commission's intent. Consequently, the chair will schedule action for the Commission to clarify its intent.</p> <p><i>Commission Process Established on April 21, 2006:</i> At the Commission's June meeting, the Chair of the Commission will schedule action to clarify the Commission's intent.</p> <p><i>Status as of June 16, 2006 (required 60 day update to BSA):</i> At the June 22, 2006 Commission meeting, the Commission will formally make it clear that it retains its approval authority of the EDFUND budget.</p> <p>Status as of July 19, 2006 for Commission/Board Workshop: On June 22 the Commission rescinded the Commission's delegation of the approval authority of EdFund's detailed operating budget to the EdFund Board. Implementation of BSA's recommendation is complete.</p>
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8. Topic: Business Plans and Budget Unaddressed Concerns

BSA Finding: Student Aid approved EDFUND's federal fiscal years 2005 and 2006 business plans and budget despite several unaddressed concerns.

BSA Recommendation: Student Aid should follow through on issues raised by its staff regarding EdFund's operations.

Commission Chair's Summary Response on April 10, 2006: The chair of the Student Aid Commission intends to direct the Commission's Fiscal Policy Committee to establish a process and appropriate dates for the evaluation of Commission staff recommendations on the EDFUND business plan and budget to ensure the timely submission and consideration of these recommendations.

Commission Process Established on April 21, 2006: The Commission's Fiscal Policy Committee will seek recommendations from EdFund management and CSAC staff and propose to the Commission a schedule to ensure timely submission and consideration of EdFund's business plan and budget. This proposed schedule will be submitted to the Commission by June 1, 2006.

Status as of June 16, 2006 (required 60 day update to BSA): To address BSA's recommendation to follow through on issues raised by staff regarding EDFUND's business plans and budget for federal fiscal years 2005 and 2006, EDFUND fully analyzed CSAC staff's recommendations. The issues were then discussed in detail by the Board, CSAC staff responsible for EDFUND oversight, and EDFUND staff at the May 2006 Board workshop. A final schedule for submission and consideration of EDFUND's federal fiscal year 2007 business plan and budget has not yet been finalized. However, EDFUND's draft business plan and budget have been provided to Commission staff for review.

Status as of July 19, 2006 for Commission/Board Workshop: Commission staff has received EdFund's 06-07 draft business plan and budget. The EDFUND Finance and Budget Committee will review the documents and input from Commission staff at their August 3 meeting and will make a recommendation to the Board at the August 18 meeting. The Commission's Fiscal Policy and Long-Range Planning Committee will meet soon after August 18 to review and approve EDFUND's business plan and budget and then make a recommendation to the Commission at the September 7 – 8 meeting.

Status as of August 11, 2006: The EDFUND Finance and Budget Committee reviewed EDFUND's 06-07 draft business plan and budget on August 3. Commission staff participated in this meeting. The Finance and Budget Committee will make a recommendation to the Board on August 18. The Commission's Fiscal Policy and Long-Range Planning Committee is scheduled to meet on August 21 to review and approve EDFUND's business plan and budget and then make a recommendation to the Commission at the September 7 – 8 meeting. Commission and EDFUND staffs have been working closely in developing and reviewing EDFUND's draft business plan and budget.

9. Topic: Independently Verify Reports

BSA Finding: Student Aid does not independently verify the reports submitted by EDFUND.

BSA Recommendation: Student Aid should require staff to independently verify the accuracy of the reports submitted by EDFUND.

Commission Chair's Summary Response on April 10, 2006: The Student Aid Commission concurs with the Report's recommendation and will establish appropriate verification and reporting processes, including examining whether the operating agreement needs to address such processes.

In light of the finding posed in this audit, the Commission is committed to revising and clarifying its roles and responsibilities, including the expectations of the oversight division.

Commission Process Established on April 21, 2006: These issues will be addressed by the Special Committee described in Topic 5.

Status as of June 16, 2006 (required 60 day update to BSA): These issues have been assigned to the Special Committee. See status under Topic 5.

Status as of July 19, 2006 for Commission/Board Workshop: Same status as of June 16.

Status as of August 11, 2006: The consultant engaged by the Commission to assist in delineating roles and responsibilities (see Topic 5) will also evaluate the activities performed by the oversight division including, but not limited to, verification of reports submitted by EDFUND.

10. Topic: Acting Upon Key Tasks in Performance Review

BSA Finding: Student Aid has not acted upon key tasks identified in its performance review of EDFUND.

BSA Recommendation: Student Aid should complete key tasks outlined in the June 2005 mandated performance review of EDFUND.

Commission Chair's Summary Response on April 10, 2006: The chair of the Student Aid Commission intends to request the members of the Commission to convene a committee to oversee the timely development of a new operating agreement. The operating agreement is the means by which the vast majority of the Commission's actions with respect to the performance review recommendations are to be adopted. To inform that process, the Commission will review the key tasks outlined in the June 2005 performance review and direct its staff and EDFUND to develop action plans in accordance with its conclusions.

Commission Process Established on April 21, 2006: This issue will be addressed by the Special Committee described in Topic 5.

Status as of June 16, 2006 (required 60 day update to BSA): This issue has been assigned to the Special Committee. See status under Topic 5.

Status as of July 19, 2006 for Commission/Board Workshop: Sally Furay, Co-Chair of the Special Committee, prepared an analysis dated May 30, 2006 of the recommendations presented in the 2005 Performance Review of EDFUND. The analysis is included in the workshop materials.

Status as of August 11, 2006: Commissioner Furay's analysis was provided to the Commission and Board at the July 26 workshop. It was noted during the workshop that the key tasks outlined in the June 2005 mandated performance review of EDFUND were also included in BSA's performance audit and are being addressed through the various activities to respond to BSA. Key tasks include: improve financial reporting, re-examine contracting policies and procedures, re-examine the incentive compensation program, and develop a new operating agreement.

11. Topic: Executive Salary Determination

BSA Finding: EDFUND's policy does not meet federal requirements for executive salary determination; nor does it comply with its own policy.

BSA Recommendation: Student Aid should ensure that EDFUND complies fully with federal regulations and its policy governing salary setting for its executives, including modifying its policy to address board members who have a conflict of interest and ensuring that its consultants compile comparable compensation data solely from similar financial related organizations.

Commission Chair's Summary Response on April 10, 2006: Consistent with the findings in this Report, the Commission will request the EDFUND Board of Directors to evaluate the compensation comparison methodology and to employ expert counsel to advise it on whether the comparison methodology it adopts satisfies federal requirements for tax-exempt organizations.

We agree that EDFUND should comply with its policy requirement that the executive committee of the Board maintain detailed minutes describing the salary determination process, including the avoidance of a conflict of interest by any board member, as required by its Bylaws and corporate policy.

Commission Process Established on April 21, 2006: Officially request the EdFund Board to seek advice of outside legal counsel on the adequacy of the compensation comparison methodology used by EdFund in meeting federal requirements for nonprofit tax-exempt organizations. The Board's minutes described above will be available to the Commission.

Status as of June 16, 2006 (required 60 day update to BSA): A request for proposal was provided to eight compensation consulting firms on May 26, 2006 to assist the Board in reviewing the existing salary policy and process and recommend modifications, if needed, to ensure that EDFUND complies with federal and state requirements for nonprofit tax-exempt organizations. A firm will be selected by June 23, 2006 and the work is expected to begin by July 3, 2006. The firm will be required to provide preliminary draft policies to the Board's Personnel and Nominations (PEN) Committee by August 4, 2006. Additionally, a legal firm will be retained to provide a written legal opinion that the proposed compensation policies would fully comply with all applicable federal and state regulations. The legal firm will be required to provide this opinion on proposed policies by August 18, 2006. The PEN Committee will recommend policies for Board approval at the August 2006 Board meeting. The Board will recommend policies to the Commission's PEN Committee and Commission at their September 2006 meetings.

Status as of July 19, 2006 for Commission/Board Workshop: The consulting firm of Watson Wyatt was selected in June 2006 to assist the EDFUND Personnel and Nominations (PEN) Committee in reviewing the existing salary policy and process and recommend modifications to ensure that EDFUND complies with federal and state requirements for nonprofit tax-exempt organizations. Watson Wyatt will provide preliminary draft policies to PEN at the Committee's August 2006 meeting. Additionally, legal counsel will be retained to provide a written legal opinion that the proposed compensation policies fully comply with all applicable federal and state regulations. The PEN Committee will recommend policies to the Board and the Board will then present its recommendations to the Commission's PEN Committee which in turn will present recommendations to the Commission.

Status as of August 11, 2006: Watson Wyatt met with the EdFund PEN Committee on August 3 to provide background information on salary determination and incentive compensation laws and regulations. The firm also presented their project plan and timeline to the Committee. Commission staff attended this meeting. Watson Wyatt is presenting a preliminary report to PEN on August 11 and will again meet with the Committee on August 17 in advance of the Board meeting on August 18. The Board will present the report to the Executive Director and Commission Chair, if appropriate, prior to then presenting it to the full Commission in September.

12. Topic: Incentive Compensation

BSA Findings:

- Student Aid's policy regarding EDFUND executive incentive compensation is flawed. Student Aid allows EDFUND's Executive Management Team to receive substantial bonuses even with an operating deficit. The policy specifically excludes certain loan program revenues and expenses.
- The board's determination of the total bonus amount for vice presidents appears inconsistent.
- EDFUND uses high-level organizational metrics to measure its performance and award incentive compensation to non-executive employees.

BSA Recommendations:

Student Aid should:

- Ensure that EDFUND determines bonuses for its president in accordance with Student Aid's policy.
- Modify its policy statement and guidelines memorandum entitled "EDFUND incentive Compensation Plans" to ensure that EDFUND's executive management team does not receive a bonus if the FFEL Program or Operating Fund realizes a deficit.
- Ensure that EDFUND includes all FFEL Program revenues and expenses in its calculation of the program's operating surplus or deficit.
- Ensure that it and EDFUND's board establish guidelines to use when approving the total bonus pool amount of EDFUND's executive management team.
- Direct its executive director and EDFUND's president to resolve outstanding issues related to the methodology used to measure EDFUND's performance which affects the bonuses for its non-executive employees.

Commission Chair's Summary Response on April 10, 2006: The chair of the Student Aid Commission will schedule meetings for the Commission to examine its policy for the approval of incentive compensation and make corresponding changes in the Operating Agreement.

Commission Process Established on April 21, 2006: In the light of the BSA comments, request the EdFund Board to review, with its management, all aspects of the incentive compensation policy approved by the Commission in August, 2002, and propose appropriate adjustments to the Commission's PEN Committee and the Commission for their review and approval before the end of the fiscal year, so that any changes may become effective in fiscal 2006-2007.

Status as of June 16, 2006 (required 60 day update to BSA): The request for proposal provided to the eight compensation consulting firms described in Topic 11 above also requests the selected firm to review the existing Commission policy on EDFUND incentive compensation plans and recommend changes to the policy. The same schedule described in Topic 11 applies to addressing incentive compensation. The Executive Director and President have been directed to discuss and resolve the outstanding issues related to the methodology used to measure EDFUND's performance which affects bonuses for non-executive employees. This discussion is currently in process.

Status as of July 19, 2006 for Commission/Board Workshop: As indicated above, Watson Wyatt will review the Commission's existing policy on EDFUND's compensation plans and recommend any changes.

Status as of August 11, 2006: Same status and procedures described in Topic 11.

13. Topic: Spending Practices

BSA Finding: EDFUND's imprudent spending practices

BSA Recommendations:

Student Aid should:

- Closely monitor EDFUND expenses paid out of the Operating Fund for conferences, workshops, all-staff events, travel, and the like. Discontinue using Operating Fund money to pay for expenses related to non-employees attending its company functions.
- Ensure that reimbursements to commissioners for their expenses are not excessive.

Commission Chair's Summary Response on April 10, 2006: The Commission will request the EDFUND Board of Directors to propose for the Commission's consideration a policy that governs the expenses and scope of the employee conferences, employee recognition events, and the appropriate costs of annual Board of Director workshops.

Commission Process Established on April 21, 2006: Commission process is already identified in the Chair's Summary Response above.

Status as of June 16, 2006 (required 60 day update to BSA): At the time of the BSA report in April 2006, President Kipp directed all EDFUND Vice Presidents to employ cost conscious practices for employee conferences, Board meetings, and the like. Guidelines for spending are currently being reviewed and will be proposed to the Board and Commission when completed.

Status as of July 19, 2006 for Commission/Board Workshop: Draft spending guidelines will be presented to the EDFUND Finance and Budget Committee at the August 3 meeting. Decisions made by the Committee will then be presented to the Board and Commission for further consideration.

Status as of August 11, 2006: Draft spending guidelines were presented to the EDFUND Finance and Budget Committee on August 3. The meeting was attended by Commission staff. The guidelines will be presented to the EDFUND Board on August 18. The Commission Policy and Long-Range Planning Committee will consider EDFUND's draft policy at their August 21 meeting. The Commission will review the draft policy in September.

14. Topic: Travel Policy

BSA Finding: Student Aid did not ensure that EDFUND's travel policy was fiscally conservative; in some instances, EDFUND and Student Aid did not comply with their travel policies.

BSA Recommendation: Student Aid should amend its operating agreement to require EDFUND to establish a travel policy that is consistent with the State's policy.

Commission Chair's Summary Response on April 10, 2006: The findings and recommendations in the Report with respect to EDFUND's travel policies will be reviewed and deliberated by the Commission. In that review, the Commission intends to consider EDFUND's status as a nonprofit corporation and its competitive role in the marketplace. Additionally, the chair of the Commission and the chair of the EDFUND Board will direct management in each organization to establish processes to ensure compliance with the travel policy exceptions noted in the Report.

Commission Process Established on April 21, 2006: The Commission will request of the EdFund Board a complete review of all aspects of the current travel policy, with current practice and any adjustments or changes to be fully explained and documented prior to submission to the Commission for its review and approval.

Status as of June 16, 2006 (required 60 day update to BSA): The directive from President Kipp cited in Topic 13 above also focused on fully enforcing the existing travel policy. The current travel policy is under review with results to be proposed to the Board and Commission when completed.

Status as of July 19, 2006 for Commission/Board Workshop: A draft travel policy will be presented to the EDFUND Finance and Budget Committee on August 3. Decisions made by the Committee will then be presented to the Board and Commission for further consideration.

Status as of August 11, 2006: A revised draft travel policy was presented to the EDFUND Finance and Budget Committee on August 3. The meeting was attended by Commission staff. The revised policy will be presented to the EDFUND Board on August 18. The Commission Policy and Long-Range Planning Committee will consider EDFUND's draft policy at their August 21 meeting. The Commission will review the draft policy in September.

15. Topic: Contracting Policies

BSA Finding: EDFUND contracting policies are vague and lead to frequent non-compliance.

BSA Recommendations:

Student Aid should:

- Ensure that EDFUND follows through on its efforts to revise its contracting policies.
- Amend its operating agreement to require purchases of goods and services incurred by EDFUND to be reimbursed pursuant to procurement and contracting policies approved by the executive director of Student Aid.

Commission Chair's Summary Response on April 10, 2006: EDFUND is in the process of improving its contracting policy to require documentation to be maintained by contract officers, to improve the quality of information provided for sole source justifications and cost-benefit analysis, and to ensure that work is not initiated or approved in advance of obtaining signed contract documents. The chair will request a report to be submitted to the Commission with respect to actions taken by EDFUND.

Commission Process Established on April 21, 2006: The Commission will request the EdFund Board to revise and tighten EdFund's contracting policies in the immediate future, and submit a report to the Commission by its September, 2006 meeting that this has been accomplished and reviewed by the EdFund Board.

Status as of June 16, 2006 (required 60 day update to BSA): A new policy has been drafted. EDFUND's General Counsel and CFO will review and further refine the policy before presenting a final draft to the Board at their August 2006 meeting. The Board will then submit a report to the Commission by its September 2006 meeting for review and approval.

Status as of July 19, 2006 for Commission/Board Workshop: Same status as of June 16.

Status as of August 11, 2006: A revised draft contracting policy was presented to the EDFUND Finance and Budget Committee on August 3. The meeting was attended by Commission staff. The revised policy will be presented to the EDFUND Board on August 18. The Commission Policy and Long-Range Planning Committee will consider EDFUND's draft policy at their August 21 meeting. The Commission will review the draft policy in September.

16. Topic: Closed Session Meetings

BSA Finding: The EDFUND Board has violated state law governing closed session meetings.

BSA Recommendations: Student Aid should ensure that EDFUND complies with the Bagley-Keen Act record-keeping requirements by maintaining a confidential minute book of the business discussed during its closed sessions. In addition, Student Aid and EDFUND should establish policies and procedures to help ensure that closed sessions are conducted within the board's authority as required by state law. These policies and procedures should provide the board and staff with clear guidelines in defining trade secrets and business proprietary information that can be discussed during closed sessions so that no further violations of state law occur.

Commission Chair's Summary Response on April 10, 2006: We agree that the EDFUND Board should have been maintaining a confidential minute book of the matters discussed in its closed sessions. The EDFUND Board started complying with that requirement with its 2006 meetings.

Commission Process Established on April 21, 2006: EdFund has already begun to keep minutes of closed sessions, as of the beginning of 2006. The confidential minute-book will be available for monitoring by the Commission.

Status as of June 16, 2006 (required 60 day update to BSA): Complete.

17. Topic: Internal Audit

BSA Finding: The independence of the internal audit functions at Student Aid and EDFUND may be compromised.

BSA Recommendations:

Student Aid should:

- Replace its current chief of internal audits with an individual who is free from the appearance of organizational and personal impairments to independence.
- Ensure that it complies with IIA (Institute of Internal Auditors) and government auditing standards that require an external assessment of its internal audits unit.

Commission Chair's Summary Response on April 10, 2006: The internal auditor was temporarily placed in charge of the Legal Division's invoices and employee timesheets while the search for a replacement vice president of legal services is underway. Because of BSA's concern that this might create a potential impairment of the internal auditor's independence, EDFUND discontinued that practice.

The Report also finds that the internal auditor should not have an executive management role in either the Student Aid Commission or EDFUND. While the internal auditor's participation as an executive management team member could enhance executives' awareness of essential compliance issues, we will evaluate whether it would be more appropriate for this role to be advisory and non-voting. The Student Aid Commission must also examine whether it requires its own separate internal auditor.

Commission Process Established on April 21, 2006: The Commission's Audit Committee will review all aspects of the current roles and responsibilities of the internal auditor, and recommend to the Commission whether there should be separate internal auditors for the Commission and EdFund.

Status as of June 16, 2006 (required 60 day update to BSA): The Commission's Audit Committee is scheduled to meet on June 20, 2006 to discuss the BSA findings regarding the internal audit function. The Committee will present the results of their initial discussions to the Commission at the June 22, 2006 Commission meeting.

Status as of July 19, 2006 for Commission/Board Workshop: On June 22, the Commission Audit Committee recommended to the Commission, which the Commission approved, separation of the internal audit function between the Commission and EDFUND and to hire a new internal auditor for the Commission.

The Commission was informed that the Audit Committee intends to engage an outside audit firm to perform an assessment of the internal audit function in fiscal year 07-08 following the Institute of Internal Auditors standards as recommended by BSA.

Status as of August 11, 2006: Commission staff provided an update to the Commission Audit Committee on August 8 regarding its efforts to re-establish the internal auditor position through the Department of Personnel Administration and its discussions with Department of Finance auditors to conduct an internal audit of Cal Grant operations.

18. Topic: Composition of EdFUND Board

BSA Finding: The composition of the EDFUND Board could impair Student Aid's decision making.

BSA Recommendations:

Student Aid should:

- Consider removing Student Aid commissioners from the EDFUND board.
- Consider changing the Student Aid executive director's role on the EDFUND board from a voting member to a non-voting member.

Commission Chair's Summary Response on April 10, 2006: In the context of the findings in this Report that Student Aid Commission members or the executive director serving as EDFUND Board of Directors may impact their independent decision-making roles, the Commission will evaluate the appropriate composition of the EDFUND Board.

Commission Process Established on April 21, 2006: The Commission's PEN Committee, with outside assistance as needed, will review all aspects of the composition of the board of a nonprofit corporation, the issue of a state agency with an auxiliary entity, and the needs of the Commission itself for both oversight and information - then offer a recommendation to the Commission.

Status as of June 16, 2006 (required 60 day update to BSA): Initial discussions regarding the composition of the EDFUND Board is planned for the June 22, 2006 Commission workshop. The PEN Committee will then work through the issue and present a recommendation to the full Commission by the September 2006 Commission meeting.

Status as of July 19, 2006 for Commission/Board Workshop: At the June 22, 2006 Commission meeting, the Commission voted and approved a change in the composition of the Edfund Board of Directors to include only one Commissioner and to change the Executive Director's role on the EdFund Board from a voting member to a non-voting member. The EdFund bylaws must be revised to incorporate these changes.

Status as of August 11, 2006: Implementation is essentially complete. Corresponding changes to the bylaws will be presented to the EDFUND Board on August 18.