TELECONFERENCE JOINT MEETING FOR STUDENT AID COMMISSION AUDIT COMMITTEE and EDFUND AUDIT COMMITTEE

3300 Zinfandel Drive
Rancho Cordova, CA 95670

Dean Johnston, Chair of Commission Audit Committee
Fritz Weis, Chair of EDFUND Audit Committee

November 8, 2007
8:30 a.m.

OPEN SESSION	AGENDA ITEMS	SPEAKER	TIME	TAB
Information	Call to Order and Roll Call	Sandy Byram Gloria Lopez	8:30 a.m.	
	Public Comment (Public Comment will also be invited prior to any open session Committee action)			
Information/Action	Audit Chairs' Reports	Dean Johnston Fritz Weis	8:35 a.m.	
Information/Action	Approval of the EDFUND Internal Audit Plan for Fiscal Year 2007-08 and 2008-09	Diane Manning Tina Kilgore-Goodwin	8:40 a.m.	1
	ADJOURN		**9:00 a.m.**	

The times for topics are approximate. The actual times may be sooner or later than the estimates given, depending on how quickly the Committees proceed with its business.

NOTE: Items designated for information are appropriate for the Committees' action if the Committees wish to take action. Any agenda item acted upon at this Committee meeting may be brought to the full Commission and/or Board at a regularly scheduled meeting.

1

Information/Action Item

Joint Meeting of the CSAC and EDFUND Audit Committees

Approval of the EDFUND Internal Audit Plan for FY 07-08 & 08-09

The EDFUND Internal Audit Plan for the two year audit cycle covering FY 07-08 & 08-09 has been provided for the Committees' review and approval.

Recommended Action:

Approval of the EDFUND Internal Audit Plan for FY 07-08 & 08-09.

Responsible Staff: Diane Manning
Tina Kilgore-Goodwin

Internal Audit Plan
For the Two Year Audit Cycle
(Fiscal Years 07-08 and 08-09)

For Approval by the
EDFUND and Commission
Audit Committees
On November 8, 2007

TABLE OF CONTENTS

Page

I. AUDIT PLAN

A. Executive Summary 2

B. High Risk and Required Audits by Fiscal Year 3

C. Planned Internal Audit Activities 4

D. Allocation of Audit Resources 8

Executive Summary

The Internal Audit Department of the Audit Services Division has developed a proposed audit plan, as required by the California Student Aid Commission, EDFUND *Internal Audit Services Charter* and the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing.*

This plan covers the two year period from October 1, 2007 through September 30, 2009. It is the intention of Internal Audit to develop a formal audit plan every two years, with the next plan scheduled to be developed in October 2009. Internal Audit will re-evaluate the plan at the end of the current fiscal year to determine if significant changes in policies, procedures and/or business activities have occurred and modify the plan, if needed. The revised plan will then be presented to the Audit Committees for approval.

The audits included in the audit plan are those of the highest risk that could be covered with existing internal audit resources. Actual audit scheduling may be affected by personnel turnover, unanticipated high priority audit requests and special projects from the Board and/or Executive Management, as well as unforeseen circumstances in a scheduled audit. Audits that cannot be completed with current audit capacity result in an assumption of risk by EDFUND.

The remainder of this document provides our planned audit activities for the two year audit cycle ending September 30, 2009 and allocation of internal audit resources.

High Risk and Required Audits by Fiscal Year

The chart below identifies the areas that will be audited during each fiscal year of the two year audit cycle ending September 30, 2009. A brief description of each audit is provided in the section that follows.

High Risk and Required Audits		
High Risk Audits	**2007 - 08**	**2008 - 09**
DataMart Management and Reconciliation	X	
Default and Specialty Claims Adjudication		X
Default Aversion Assistance	X	
Default Fee		X
External Collections		X
Incident Response and Escalation	X	
Information Security Program		X
Internal Collections		X
Loan Guarantee Process	X	
Manual Borrower and Loan Updates		X
Procurement and Disbursements	X	
Table Maintenance		X
Technology Project Management		X
Wage Garnishments and Tax Offsets	X	
Required Audits	**2007 - 08**	**2008 - 09**
Policy 009 Compliance – *Employment of Applicants and Employees with Guaranteed Student Loans*	X	X
Quarterly Review of Transactions on Employee FFEL Loans	X	X
Carry Forward High Risk Audits from FY 2006-07	**2007 - 08**	**2008 - 09**
User Access	X	
Collection Cost Recovery	X	

Planned Internal Audit Activities

The following describes the audit activities planned for the two year audit cycle ending September 30, 2009:

HIGH RISK AUDITS

DataMart Management and Reconciliation (500 staff hours) – A review of the process for transferring and reconciling data from FAPS to the DataMart. This review will also evaluate the uses of the DataMart information for appropriateness.

Default and Specialty Claims Adjudication (500 staff hours) - A review of the processing of defaulted and specialty claims for compliance with regulations and applicable procedures.

Default Aversion Assistance (500 staff hours) – A review of the key default aversion assistance activities performed by EDFUND resulting from requests received from lender and servicers. This review also includes a review of the activities performed by EDFUND staff in overseeing the contracted external default prevention servicers.

Default Fee (600 staff hours) – A review of the processes for receiving, tracking, reconciling and reporting default fees assessed to borrowers and/or paid on behalf of borrowers. Additionally, Internal Audit will review the processes for reimbursing lenders and compliance with the terms of the Memorandums of Understanding between EDFUND and the lenders.

External Collections (500 staff hours) – A review of processes for assigning and recalling accounts from third-party collection agencies, overseeing/reviewing the activities of the external collection agencies for compliance with contract terms and calculating commission payments.

Incident Response and Escalation (700 staff hours) – 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.

Information Security Program (700 staff hours) – A review of the processes performed by the Security Office to ensure compliance with security policies and standards as well as their monitoring of EDFUND's computer controls related to the protection of sensitive financial and borrower information used in day to day operations.

Internal Collections (500 staff hours) – A review of the key internal collection processes including assigning accounts to collectors, performing borrower contact activities, billing and monitoring of payment plans, notifying credit bureaus and calculating commission payments.

Loan Guarantee Process (500 staff hours) – A review of the processes for receiving, approving, and processing loan guarantee applications received from lenders/servicers and borrowers.

Manual Borrower and Loan Updates (500 staff hours) – A review the processes for performing borrower and loan updates to FAPS for timeliness and accuracy along with proper notifications to lenders/servicers and schools.

Procurement and Disbursements (500 staff hours) – A review of the procurement and disbursement processes to determine if funds disbursed were for authorized purposes, made in accordance with applicable policies and procedures, properly supported and accurately recorded.

Table Maintenance (400 staff hours) – A review of table maintenance changes for proper authorization and adequate supporting documentation in addition to a review of the audit trail functionality and usage. This review will also include a review of the appropriateness of update access to FAPS tables based on job responsibilities.

Technology Project Management (600 staff hours) – A review of the methodologies, policies, standards and procedures for testing and managing technology projects. These projects include internally developed software, web based products and third party software packages.

Wage Garnishments and Tax Offsets (600 staff hours) – A review of the processes for determining borrower qualification for wage garnishment or tax refund offset, notifying credit reporting agencies, and handling borrower appeals.

REQUIRED AUDITS

Policy 009 Compliance – *Employment of Applicants and Employees with Guaranteed Student Loans* (50 staff hours annually) – Annual review of compliance with key internal controls existing at the time a candidate is being considered for employment and throughout an individual's ongoing employment with EDFUND.

Quarterly Review of Transactions on Employee FFEL Loans (100 staff hours annually) – 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 loan records. Management's response to this finding stated that Internal Audit would periodically sample and review system activity on loans associated with EDFUND employees.

CARRY FORWARD AUDITS

This category is dependent upon current audits and projects that are incomplete at the end of the prior fiscal year. For the fiscal year ended September 30, 2007, the following carry forward efforts are currently being worked on:

Collection Cost Recovery (50 staff hours) – This is a review of EDFUND's collection cost rate calculations and how collection costs are applied against borrowers' loans. Internal Audit recently received management's proposed revisions to the report as well as the responses to the audit recommendations and is in the process of finalizing the audit report.

User Access (330 staff hours) – This is a review of the processes for requesting, approving and deleting personnel access to information systems as well as an evaluation of the appropriateness of user access based on job responsibilities. Internal Audit is currently finalizing the test work and drafting the audit report.

FOLLOW-UP ACTIVITIES

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 (540 staff hours for Fiscal Year 2007-08 and 480 staff hours for Fiscal Year 2008-09).

SPECIAL PROJECTS

Time allotted for high priority but unanticipated special assignments requested by the Audit Committees, the Board of Directors, Executive Management and/or Audit Management. A special project to review compliance with Policy #039 *FFEL Program Code of Conduct* is scheduled for Fiscal Year 2007-08. (250 staff hours for Fiscal Year 2007-08 and 285 staff hours for Fiscal Year 2008-09).

OTHER AUDIT RELATED RESPONSIBILITIES

Audit Plan and Risk Assessment (500 staff, AVP and VP hours for Fiscal Year 2007-08 and 2008-09) – Development of this Audit Plan and Risk Assessment for the Fiscal Year 2007-08 and 2008-09. The plan and risk assessment help identify the highest risk areas from an audit standpoint and assists in determining how to deploy internal audit staff for the next two years. Internal Audit will re-evaluate the plan at the end of the current fiscal year to determine if significant changes in policies, procedures and/or business activities have occurred and modify the plan, if needed. Additionally, Internal Audit will begin development of the Audit Plan and Risk Assessment for Fiscal Year 2009-10 and 2010-11 during the last quarter of FY 2008-09.

Internal Projects (475 staff and 250 AVP/VP hours for Fiscal Year 2007-08; 150 staff hours and 50 AVP/VP hours for Fiscal Year 2008-09) – Time allotted to document and implement additional internal audit processes, procedures and tools in preparation for an external quality assurance review. The Institute of Internal Auditors' (IIA) requires that an external assessment be conducted at least once every five years to ensure compliance with internal audit standards. Internal Audit intends to perform a full scope self assessment during the last quarter of fiscal year 2007-08 and anticipates engaging the services of an independent reviewer shortly thereafter to conduct an independent validation of the self assessment. During FY 2008-09 (and in each subsequent year until the next external assessment), Internal Audit will perform a limited scope internal assessment as part of its ongoing internal monitoring process.

External Audits (400 VP hours for Fiscal Years 2007-08 and 2008-09) – Internal Audit is responsible for the co-ordination and issue resolution of all external audits including those performed by Perry-Smith, the Bureau of State Audits (BSA) and the U.S. Department of Education.

NOTE:

The duration of each audit activity is an estimate which may vary due to the scope and objectives that will be determined during the initial planning process of the effort. Unanticipated issues that arise may also vary the duration of each audit or project. Special projects or requests from the Audit Committees, the Board of Directors, and/or Executive Management are considered a priority and may also alter the completion of the audit plan as scheduled.

Allocation of Audit Resources

The approach to developing an annual audit plan recognizes that resources of personnel and dollars are limited which prohibits one hundred percent audit coverage each year. This limiting factor is inherent in the concept of utilizing a risk assessment to help prioritize audits.

The estimated number of available staff and management hours to conduct internal audit activities is presented below.

	Fiscal Year	
Internal Audits	**2007-08**	**2008-09**
High Risk	3,300	4,300
Required	150	150
Carry Forward	380	-
Follow-up Activities	540	480
Special Projects	250	285
Management Review and Oversight	1,364	1,429
Subtotal	5,984	6,644
Other Audit Related Responsibilities		
Audit Plan and Risk Assessment	500	500
Internal Projects	725	200
External Audits (co-ordination and issue resolution)	400	400
Subtotal	1,625	1,100
Non-Audit		
Continuing Education	360	360
Leave (personal time and holidays)	1,944	1,680
Staff/Leadership Meetings and Other Administrative Responsibilities	2,808	2,808
Subtotal	5,112	4,848
Total hours	**12,721**	**12,592**