

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 9:30 a.m., Wednesday, March 17, 1999**  
**Auditorium**

Stanley T. Wang, Chair  
Ali C. Razi, Vice Chair  
William D. Campbell  
Ronald L. Cedillos  
Harold Goldwhite  
Eric C. Mitchell  
Joan Otomo-Corgel  
Ralph R. Pesqueira  
Frederick W. Pierce, IV

#### **Consent Items**

Approval of Minutes of Meeting of January 26, 1999

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

**MINUTES OF MEETING OF  
COMMITTEE ON AUDIT**

**Trustees of The California State University  
Glenn S. Dumke Conference Center  
400 Golden Shore  
Long Beach, California**

**January 26, 1999**

**Members Present**

Stanley T. Wang, Chair  
Ali C. Razi, Vice Chair  
Harold Goldwhite  
Eric C. Mitchell  
Joan Otomo-Corgel  
Ralph R. Pesqueira  
Frederick W. Pierce, IV

**Members Absent**

William D. Campbell  
Ronald L. Cedillos

**Other Trustees Present**

William Hauck, Chairman of the Board  
Laurence K. Gould, Jr.  
Charles B. Reed, Chancellor  
Anthony M. Vitti

**Chancellor's Office Staff**

Richard P. West, Senior Vice Chancellor, Business and Finance  
David S. Spence, Executive Vice Chancellor  
Larry Mandel, University Auditor

**Presidential Liaisons**

Manuel A. Esteban, President, California State University, Chico, present  
Alexander Gonzalez, President, California State University, San Marcos, present

**Approval of Minutes**

Chair Wang called the meeting to order at 3:26 p.m. The minutes of November 10, 1998, were approved as submitted.

**Status Report on Current and Follow-up Internal Audit Assignments**

Larry Mandel, university auditor, presented the item and noted the following:

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Audit

*FISMA Audits* – The 1998 audit plan called for the completion of twelve campus audits, all of which have been completed.

*Risk Management Audits* – The 1998 audit plan called for the completion of eleven audits. However, due to a redirection of resources, nine of the eleven reviews will be completed. Fieldwork on the systemwide report will commence in late February.

*Continuing Education Audits* – The 1998 audit plan called for the completion of eleven campus audits, all of which have been completed.

*Information Systems* – The 1998 audit plan called for the completion of an IS risk assessment. This was completed, leading to participation in the system's Y2K efforts and examination of such issues as disaster recovery, CMS, CTI, and various reviews relating to internal controls.

*Construction* – KPMG Peat Marwick was contracted to perform these audits, which run on a fiscal year basis. KPMG has taken on the first three projects for 1998/99, which include the new headquarters building.

*Follow-up Reviews* – Thirty-one follow-ups from prior audits are currently being performed. All recommendations for Delegations of Authority and Development have been satisfactorily addressed.

**Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 1999**

Mr. Mandel noted that the audit plan put forth for 1999 is based upon full staffing; at the current time, recruitment is being conducted for one staff auditor. He indicated that the following areas would be addressed:

*Financial Integrity and State Manager's Accountability Act (FISMA)* – Eleven FISMA audits are planned for 1999, which will cover 20 percent (119 staff weeks) of the audit plan;

*Auxiliary Organizations* – In order to provide assurance to the board that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor (OUA) will develop and administer an audit program covering internal compliance/internal control. Administration of this program will require the addition of four positions to the audit staff. As these positions will be added subsequent to the beginning of the fiscal year, reviews of auxiliaries will commence in approximately August 1999. On an annual basis, these reviews will cover 17 percent (99 staff weeks) of the audit plan.

*Information Systems* - Information Systems areas of review will include systemwide projects such as Year 2000, Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Electronic Commerce. In addition, training and support will be provided in the area of financial internal controls (FISMA) for both campus and auxiliary audits. Forty staff weeks are planned during 1999. This represents approximately 7 percent of the audit plan.

*Follow-Ups* - The purpose of this category is to follow up on prior audit recommendations. The Office of the University Auditor reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Eighteen staff weeks have been set aside for this purpose, representing approximately 3 percent of the audit plan.

*Consultations and Investigations* - The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the chancellor. Typically, the special requests are investigative in nature and often are the result of alleged defalcations or conflicts of interest. Thirteen staff weeks have been set aside for this purpose, representing approximately 2 percent of the audit plan.

*Risk Assessment* - The Office of the University Auditor performs triennial risk assessments. The last risk assessment was performed in 1996. Five staff weeks have been set aside for this purpose in 1999, representing slightly less than 1 percent of the audit plan.

*Construction* - In addition to the above, construction auditing will be a continuing focus of the Office of the University Auditor. For the 1998/99 fiscal year, KPMG Peat Marwick is reviewing six construction projects with coordination from the Office of the University Auditor. Areas under review include change orders, project management services, billings, contractor compliance, liquidated damages, close out documents, project administration process compliance, and cost verification of major equipment and construction components.

Mr. Mandel stated that the remaining three 1999 audit topics need to be determined by the committee and referred to Attachment A of Agenda Item 2, *Results of the 1996 Risk Assessment, Prospective Audit Topics*. The list shows 25 potential audit subjects, which represent the top fifty percent of risk as ranked by the campuses and the Chancellor's Office. Seven of the items are now covered by the FISMA audit cycles, and seven items were recent audit subjects. Mr. Mandel noted that the remaining twelve items are described in more detail within the agenda item.

Mr. Mandel stated that, based upon the risk assessment, we would customarily ask the committee to assign the subjects in the order that they are presented. He noted, however, that items #1, 3 and 21, all technology related, are being addressed, at least to some degree, by the IS audit plan. In addition, items # 15 and 20, having to do with oversight of auxiliary organizations and unrelated business income will be addressed in our auxiliary reviews. He also noted that the Executive Audit Committee suggested that items #10 and 18, which address student fees and employee relations, be deferred out of the three-year cycle, as a result of the implementation of the new CSU fee policy and certain collective bargaining issues.

Mr. Mandel recommended that the three subjects to be reviewed during 1999 include item #2, student records and registration; item #19, operations and maintenance of plant (which would also address that part of #11 dealing with deterioration of physical plant); and Continuing Education

(the remainder of the campuses not reviewed last year). The latter recommendation is due to the type of findings that came to light during last year's reviews of Continuing Education.

Trustee Razi inquired as to whether efforts to deal with potential problems in the area of Y2K would be audited. Mr. Mandel responded by stating that his staff was reviewing the issue within a committee formed by Executive Vice Chancellor West. He noted that the information systems audit manager for the Office of the University Auditor is playing a significant part in these reviews by visiting each campus to determine what they are doing at the current time and verifying the information that was sent to the Chancellor's Office.

Trustee Pierce asked for clarification as to the combining of items 11 and 19, noting that, with the pressure on enrollment, and the need for adequate facilities to accommodate that enrollment, it would make sense to perform evaluations on the need for physical facilities.

Mr. Mandel stated that a review of the process for planning new facilities would be included within the scope of the Operation and Maintenance of Plant audit.

Mr. Geoffrey Sakala, CSSA vice chair of internal affairs, stated that, during a weekend conference he attended, some of the audit topics were reviewed and the students were in concurrence with the audit recommendations. He added that intercollegiate athletics has never been audited by the CSU and that this was an area of concern to students. He further stated that, on many campuses, a large portion of the fee revenue for the Associated Students is designated to intercollegiate athletic programs. As a result, the students feel that a review of such programs is essential. Mr. Sakala recommended that intercollegiate athletics be considered as a possible audit topic for either this year or next.

Mr. Mandel stated that an audit of intercollegiate athletics has been considered, but that the associated risks were not considered to be as high as in other areas due to the mitigation of risk through NCAA mandated reviews. He explained that one of the criteria for selection of audit topics is how well risk has been mitigated in that area. Mr. Mandel also noted that, although intercollegiate athletics may be a viable topic for review, audit topics are subject to available resources for review.

Trustee Otomo-Corgel asked how the selection was made as to how campuses are chosen for audits.

Mr. Mandel stated that attempts are made to balance campus audits. This may include balancing northern campuses with southern campuses, and small campuses with large campuses. Consideration is also given as to when audits were last performed on a given campus and whether a similar-type audit had been performed on a campus. It is also preferable to avoid having one campus audited 4 or 5 times while another is audited once.

Trustee Pierce stated that he was pleased with the fact that a review of student records and registration would be performed, and he conveyed his desire for the audit team to focus on the last two items, customer service and release of inappropriate information. Mr. Pierce went on to state his belief that there are a lot of holes in these areas and added that, hopefully, the topic of intercollegiate athletics be given serious consideration for next year.

Chair Wang conveyed his appreciation for all of the input and discernment of the fact that other audit topics are important. He added that due to time constraints, resource limitations, and the necessity to attain a sufficient number of qualified personnel to perform audit reviews, it is currently not feasible to audit all topics at all campuses. However, some of the concerns addressed during the meetings have given the committee a better understanding of what topics are important to various groups, which will enable the committee to plan for the future.

The committee approved the following resolution:

**RESOLVED**, By the Committee on Audit of the Board of Trustees of the California State University, that the 1999 internal audit plan, including FISMA, Information Systems, Auxiliary Organizations, Construction, Student Records and Registration, Operation and Maintenance of Plant, and Continuing Education be approved; and, be it further resolved, that an additional four staff positions be provided to the Office of the University Auditor for the purpose of conducting internal compliance/internal control reviews of California State University Auxiliary Organizations.

#### **Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles**

Richard West, senior vice chancellor, business and finance, indicated that Mark Thomas of KPMG Peat Marwick would present the report and respond to questions. Additionally, George Pardon, former director of accounting within the Chancellor's Office, and current vice president for administration and finance at CSU Dominguez Hills, assisted Mr. West with some of the details included in the financial statement presentation.

Mr. West explained that this is the second year in which the CSU has had a combined audit and financial statement. He noted that the opinion given by the auditors as to the fairness of the presentation of financial information was an unqualified one, except for the Y2K exposure issue. Because the auditors are not quite sure what the exposure will be, it has forced them to give a qualified opinion to the entire report.

Mr. West went on to highlight several areas of the report. He began with the combined balance sheet noting that: it incorporates the assets and revenue of the system as well as 72 separately incorporated auxiliary organizations; we have over \$7.59 billion in assets, of which \$5.2 billion is in property; the total assets of the auxiliaries are approximately \$1 billion; the fixed assets of our auxiliaries (which are incorporated) are depreciated, while the system does not depreciate fixed assets (resulting in our plant and equipment being slightly overstated); the unrestricted designated fund balance of \$246 million is related to housing, parking, student union, continuing education, and lottery (non-state related and specific to particular functions) while the remaining fund balances have restrictions from external agencies; and, while state general funds, which include student fee revenue, are usually not allowed to be carried forward, we have reserves in our revenue-based programs.

Mr. West emphasized that one item not included in the financial statements relates to the fact that that we obtain a significant benefit from the state general obligation bond fund – similar to Proposition 1A in this last election. This is an obligation of the state and is provided in the form of state

appropriation revenue to the CSU. The bond debt is carried, not by the CSU, but by the state. As a result, this liability is not carried in our financial statements. The total amount of the state obligation bond is about \$535 million and represents a major contribution by the people of the State of California to the CSU.

With respect to the income statement, Mr. West indicated that we have total revenue of over \$4.9 billion. He noted that, of this amount, the auxiliaries represent \$950 million or 19 percent of total revenue. He further stated that other major sources of revenue include \$1.9 billion in state support for current operations and \$148 million in the current year from the capital outlay fund or from our Prop. 1A source of funds. Fees and tuition total \$805 million; federal, state and private contracts and gifts represent \$785 million; and, sales and services, particularly in the auxiliary activities, total approximately \$519 million. This represents campus housing and parking programs as well as bookstore and food service. Mr. West also noted that, while the state continues to provide the basic support for operations, fee income continues to be a significant amount of revenue. Finally, in the footnotes, there is a wealth of data with respect to the particular areas of investments, which Mark Thomas will cover. We also have a letter from the auditors, which addresses several areas including tax reporting, auxiliary organizations and the required year 2000 compliance. Our management responses are in the letter.

Mark Thomas of KPMG Peat Marwick stated that, because the board is responsible for the conduct of the audit including ensuring that the audit is performed and given proper follow-up, he would address items related to those areas. He indicated that the significant accounting principles used by the CSU are summarized in the first several notes to the financial statements. Mr. Thomas indicated that there was one significant change in accounting principles this year relating to disclosures over pension information. He also noted that the audit adjustments encountered at the CSU relate primarily to a conversion of the legal basis of accounting to a GAAP (generally accepted accounting principles) basis of accounting.

Mr. Thomas related the discussions that had taken place with respect to the need for a qualified opinion on the financial statements. He explained that his firm, and all of the other large firms, felt that there was not a way to attain sufficient audit evidence on a forthcoming event and its potential impact. Mr. Thomas went on to state that he had significant discussion of this topic with Chancellor Reed, who explained his perspective on the issue. Mr. Thomas clearly indicated that this was not a discussion of an accounting issue and that the auditors are not at odds over an accounting treatment.

As to management estimates within the financial statements, Mr. Thomas indicated that there were two: the self-insurance pool, of which there is roughly \$61 million in liability on the books; and the area of allowance for uncollectible receivables, specifically on student receivables which are based on historical estimates.

In regard to the management letter, Mr. Thomas indicated that there are three areas of systemwide significance: the first addresses nonresident alien tax issues, an area with very specific rules; the second involves transactions with auxiliary organizations, primarily areas where relationships with auxiliary organizations should be firmed up, transactions should be committed to writing, and there

should be agreement between the campus and the related auxiliary organizations; and lastly, there is the year 2000 issue.

Mr. West stated that we already have plans under way to train the campuses on the non-resident alien tax issue. In addition, Dr. Reed has made it clear that a careful review of the campus/system relationship to auxiliaries is necessary and that we are addressing them as separate 503B organizations. Finally, the third topic is the Y2K, which we will discuss in more detail later.

Chair Wang asked for clarification of “released time” as it is noted in the management letter.

Mr. Thomas responded by stating that, with respect to approval of released time (meaning time when faculty is released from their regular responsibilities to do other projects, whether they are research projects or other related projects) he noticed inconsistent policies from campus to campus. This included the approval process in that area and making sure that the appropriate levels of management are in the approval process when that occurs. This typically involves the foundation as well as the campus proper.

Trustee Gould pointed out that the statements indicate that there is a provision for student loan funds and doubtful accounts, which is about 14.5 percent. He inquired as to whether this percentage was within the normal range for an institution like the CSU.

Mr. Thomas responded by stating that this percentage would be about what you would expect as we look at typical default rates.

### **The Single Audit Report of Federal Funds**

Mr. West stated that the federal government requires that an audit be performed of the university’s receipt of federal funds. He indicated that this is the third year in which a portion of an overall audit was combined with it. He noted that this report, however, does not include the auxiliaries. Any federal funds received by the auxiliaries are reported in the previous document. For federal purposes, the university does not report the federal funds received by the auxiliaries; these monies are reported separately. During the past year, the university expended a total of \$912 million in federal funds, primarily in student financial aid. Unlike a research university where there are substantial contracts and grant activity, a large portion of our activity related to federal contracts and grants occurs through the auxiliaries. As a result, we do not report these monies as part of the university’s activities for federal government purposes.

Mr. Thomas directed the board’s attention to pages 6 through 10 of the Single Audit Report (the schedule of expenditures of federal awards) and explained that this information summarizes the programs where federal funds totaling approximately \$912 million were expended. He went on to state that the federal government requires us to identify significant funds. Based on the size of the program, this determines how much audit work gets done on the program. The two most significant programs that get most of the attention in the audit are the student financial aid programs and FEMA programs.

Mr. Thomas informed the board that these reports were required audit reports, and he emphasized that there was nothing out of the ordinary contained in them. These reports refer to our opinion of the financial statements and must include a narrative of the Y2K issue. Mr. Thomas pointed out that Item 3 is one of the most complex areas of work that the CSU does. He pointed out that his firm went out to all 22 campuses, looked at more than 150 different student files in detail, and came up with only 7 comments that are required to be reported. Mr. Thomas assured the board that the items are routine and ones that we would expect to see in this type of report. In response to each of the seven comments, management developed a corrective action plan which includes steps to be taken to remedy the problems.

Mr. West pointed out that KPMG was helpful in assisting with the improvements in management controls, which should give the board some assurance that things are in reasonable order.

Trustee Wang asked for clarification regarding the Low Risk Auditee Determination as outlined on page #13, subtitle K.

Mr. Thomas stated that the single audit act regulations define a high-risk auditee and a low risk auditee. This relates to the level and significance of past findings and any significant internal control weaknesses. Due to previous types and levels of findings, the CSU is deemed to be a low-risk auditee. As a result, this should theoretically reduce our test work. However, because student financial aid makes up such a large portion of our federal financial assistance, this did not make a difference on how much work was done; the same amount of work still needed to be done.

Chair Wang thanked Mr. Thomas for his comments and expressed his appreciation to both Mr. West and Mr. Mandel for having done an excellent job in addressing audit issues.

### **Year Y2K Compliance Program**

Mr. West presented the item by stating that this issue relates to the transition to the year 2000 and the impact it will have on our various digital and computer environments. He added that the objective is to maintain a safe and secure operating environment while meeting our educational mandate. This is true for not only our type of institution, but also any institution and is very much a risk-orientated approach. Because there is no 100 percent certainty that we will conquer every problem before the year 2000 arrives, there is always some risk. As a result, the board cannot be assured that every issue will be uncovered. Mr. West assured the board that he and his staff were doing their best to ensure that no surprises would occur.

Mr. West commented that we are working with our campus professionals to identify areas of risk, attempt to get a sense of whether campuses have the same risk assessment, and provide guidance to the campuses to ensure that we can determine where changes should be made. In some cases, we may wait until the year 2000 occurs and, should problems arise, be prepared to make a change. If there is a non-critical issue that could occur on the first day of the year 2000, it may be advisable to take a wait and see stance.

Mr. West pointed out that, with regard to external aid, he has engaged expertise where needed. With a specific delegation from the president to a senior campus officer, campuses are being asked to

respond to 7 to 8 categories that are to be reviewed. Each campus must give us a sense that these areas have been tested. For mainframe software systems, the information systems internal auditor will verify that tests have been performed. We have created a forum for contact with vendors, and we will hold this forum in a centralized location, as this will provide economies of scale. Many of the vendors provide services and equipment to all the campuses, and it makes sense to contact the vendors one time instead of 23 times.

Mr. West went on to state that the Y2K issue has been categorized in the following functional areas:

*Application software:* the administrative software for student, financial, and human resources support. This is the mainframe software associated with running our organization and where most of the information or concern arose about the Y2K problem.

*Mainframe systems:* the hardware component of large systems including Internet connections, instructional network support, and faculty and staff support networks. These are computers that run on timed software. With respect to Y2K, exposure could exist in these areas. One of our concerns is that these things “stop dead in the water.” The concern is that the software will not operate in the year 2000, so we must identify and document any problems that occur.

*Desktop systems:* the individual equipment at each desk.

*Physical plant:* an area with a number of risk exposures. The area of fire and safety entails analyzing each physical plant system, control system, fire system, etc. With the exception of fire and safety, there is not a high-risk exposure in any given area.

*Telecommunications:* include telephone systems; academic equipment; research or instructional equipment in classrooms, faculty offices or labs and; “other services.”

Mr. West explained that an area where we don’t really have a good understanding is known as “embedded systems.” These systems are associated with the physical plant and are not mainframe systems. A survey was performed with campus staff, central office staff, and consultant staff. During this review, 70 buildings were surveyed, 4,400 devices were analyzed, and the manufacturers of these devices were contacted in order to collect information on the devices. This survey revealed that energy maintenance and management systems require critical attention; the older the facility, the more likely that the fire system or energy control system is noncompliant. In cases where retrofit activity has occurred, even by the same manufacturer, there are different versions of control systems. As a result, a vendor may not be aware of the specifics of a particular version, or there may be no records to help us determine whether it will comply. The fact that there is not a date associated with a display does not necessarily mean that we don’t have a problem. We do not know what the system will do — it may shut down.

Mr. West also noted that, although many fire safety systems provide notification of time, date and place of an emergency, this information might be miscommunicated to the fire department. These are the types of things we should watch for and test.

Trustee Vitti asked Mr. West if he could estimate the portion of systems that would not be able to comply, even after efforts to retrofit these systems.

Mr. West responded by stating that this issue is currently being assessed. He stated that some systems would need to be replaced while others may need no modifications because they are deemed to be low risk. He added that noncompliant systems are being replaced unless the project is extremely large; in such cases there will be some remediation efforts.

Mr. West went on to state that, when this project commenced, the mainframe applications were analyzed and it was found that a more broad-based campus strategy was needed. Since that time, the presidents have identified individuals who can play a senior role in taking a campuswide perspective in ensuring that testing occurs in each functional area. Quarterly reporting from campuses has been put into place. The overall assessment is that progress is being made in the Y2K issue and we will be ready for it. By the second quarter of this year, our mainframe systems will be ready so that the internal audit staff can assess whether this is true. The chancellor has allocated \$1 million to the campuses, collectively, for surveys and other activities to ensure that these efforts have been inventoried properly.

Mr. West pointed out that the year 2000 begins on a weekend, we do not run 24-hour operations or hospitals, and we do not have a significant number of 24-hour research activities. At this time of year, our campuses do not begin sessions for one to two weeks after the new year. Mr. West stated that, in his view, our greatest exposure at this stage is in student information systems. If we were not able to register students in the year 2000, this will create significant risks from our service responsibilities, our fee revenue collection responsibilities, and our responsibilities for documenting our reimbursement from the state. Mr. West affirmed that this is an area that will be reviewed by both his office and the internal auditor's office.

Trustee Razi commented that, due to Mr. West's efforts in identifying potential problem areas, he felt more comfortable with the issue.

Trustee Wang congratulated Mr. West for the time and effort devoted to the Y2K issue, pointed out that some problems would not manifest themselves until the year 2000, and suggested that there should be a contingency plan in the event of power loss.

Mr. West concurred with Chair Wang's suggestion for a contingency plan and stated that this would be a topic of discussion early this calendar year. One of the issues identified by KPMG Peat Marwick is that there are services provided by outside agencies and that we may not have any control over them. Mr. West pointed out that these agencies are going through the same assurance process that we are, and we have to rely upon those assurances. Mr. West added that, if we lose power to a campus in conjunction with the new year, we have one to two weeks before classes begin so that the power companies can resolve any problems.

Chair Wang inquired as to whether Mr. West's master plan covered the possibility for purchasing power from PG&E if such an issue were to arise. He also inquired as to whether any considerations were given to phone systems.

Mr. West stated that we are working with the power suppliers and our major electrical source of power, ENRON, a single provider for all campuses, has installed new meters. However, we have no guarantee that power can be delivered by any given source. Mr. West noted that he would be discussing this issue with the power suppliers.

In the area of phone systems, Mr. West stated that many campuses have PBX on-campus telephone systems and he explained that this is what he meant by telecommunications systems. Long-distance or toll service providers have strong incentives to ensure that they are up and running and providing service on the first days of the year 2000. Again, these providers are facing the same constraints and working on the same objectives as we are.

Chair Wang inquired as to whether Mr. West had plans to return to the board regularly to report the progress of the Y2K issue.

Mr. West responded in the affirmative and stated that the frequency for reporting the progress made on the issue was at the pleasure of the board. Mr. West added that he would report back to the board on this issue on at least one occasion this summer. At that time, he will focus on student services and review the services of external providers.

#### **Adjournment**

The meeting adjourned at 4:22 p.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
March 16-17, 1999

### **COMMITTEE ON AUDIT**

#### **Status Report on Current and Follow-up Internal Audit Assignments**

##### **Presentation By**

Larry Mandel  
University Auditor

##### **Summary**

This item includes both a status report on the 1999 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education and Auxiliaries. In addition, follow-up on past assignments (FISMA, Occupational Health, Seismic Safety Risk Management and Continuing Education) is currently being conducted on forty-six prior campus reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

## ITEM

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Agenda Item 1  
March 16-17, 1999

### COMMITTEE ON AUDIT

#### **Status Report on Current and Follow-up Internal Audit Assignments**

At the January 1999 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (Financial Internal Controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education, Auxiliaries, Information Systems Auditing, and Construction Auditing.

#### *FISMA*

The audit plan indicated that approximately 119 staff weeks of activity (20 percent of the plan) would be devoted to auditing financial internal controls on eleven campuses. At present, fieldwork is continuing at four campuses.

#### *Student Records and Registration*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of eleven campuses on database recordkeeping and registration systems, procedures for creating and changing records, and security measures protecting against unauthorized or inadvertent modification, removal or destruction of records. The audit program for this subject is currently being field tested by the audit manager in charge of the project.

#### *Operations and Maintenance of Plant*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of building engineering, custodial services, groundskeeping, facility repairs and renovations, deferred maintenance, utility distribution, and work order scheduling and control systems. The audit program for this subject is currently being field tested by the audit manager in charge of the project.

#### *Continuing Education*

The audit plan indicated that approximately 106 staff weeks of activity (25 percent of the audit plan) would be devoted to a review of eleven campuses on continuing education programs and Continuing Education Revenue Fund operations. At present, fieldwork is continuing at three campuses.

#### *Auxiliaries*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to internal compliance/internal control reviews of auxiliary organizations. Preliminary review and audit program development is currently taking place, with campus reviews scheduled to begin in early August.

### *Information Systems*

The audit plan indicated that approximately forty staff weeks of activity (7 percent of the plan) would be devoted to review of systemwide projects such as Year 2000, Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Electronic Commerce. In addition, training and support will be provided in the area of financial internal controls (FISMA) for both campus and auxiliary audits. Review and training are ongoing.

### *Follow-ups*

The audit plan indicated that approximately eighteen staff weeks of activity (3 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking forty-six prior audits (FISMA, Occupational Health, Seismic Safety, Risk Management, and Continuing Education) to determine the responsiveness of the corrective action taken for each recommendation and whether additional action is required.

### *Consultations and Investigations*

The audit plan indicated that approximately thirteen staff weeks of activity (2 percent of the plan) would be devoted to campus consultations and special requests. The Office of the University Auditor consults with the campuses on an ongoing basis. No unplanned audits or special requests have occurred during 1999.

### *Risk Assessment*

The Office of the University Auditor performs triennial risk assessments. The last risk assessment was performed in 1996. Five staff weeks have been set aside for this purpose in 1999, representing slightly less than 1 percent of the audit plan. The assessment will take place during the fourth quarter of the calendar year.

### *Construction*

For the 1998/99 fiscal year, six construction projects are being reviewed by KPMG Peat Marwick with coordination from the Office of the University Auditor. Areas under review include change orders, project management services, billings, contractor compliance, liquidated damages, close out documents, project administration process compliance, and cost verification of major equipment and construction components. Report writing is in progress on three reviews while fieldwork has begun on the remaining three.