

AGENDA

COMMITTEE ON AUDIT

Meeting: 9:00 a.m., Wednesday, May 15, 2002
Glenn S. Dumke Auditorium

Shailesh J. Mehta, Chair
Daniel N. Cartwright
Murray L. Galinson
Harold Goldwhite
Ricardo F. Icaza
Frederick W. Pierce IV

Consent Items

Approval of Minutes of Meeting of March 13, 2002

Discussion Items

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

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
California State University, Sacramento
University Union Ballroom
6000 J Street
Sacramento, California**

March 12, 2002

Members Present

Shailesh J. Mehta, Chair
Stanley T. Wang, Vice Chair
Daniel N. Cartwright
Murray L. Galinson
Harold Goldwhite
Frederick W. Pierce IV

Members Absent

Ricardo F. Icaza

Other Trustees Present

Laurence K. Gould, Jr., Chair of the Board
Roberta Achtenberg
Martha Fallgatter
Debra S. Farar
Ralph R. Pesqueira
Charles B. Reed, Chancellor, ex officio
Erene S. Thomas
Kyriakos Tsakopoulos

Chancellor's Office Staff

Christine Helwick, General Counsel
Larry Mandel, University Auditor
Jackie McClain, Vice Chancellor, Human Resources
David S. Spence, Executive Vice Chancellor and Chief Academic Officer
Richard P. West, Executive Vice Chancellor and Chief Financial Officer

Chair Mehta called the meeting to order at 4 p.m.

Approval of Minutes

The minutes of the meeting of January 29, 2002, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Mandel presented the item by reporting the status of the following audit assignments and follow-up reviews:

FISMA – Report writing is being completed on two campus reviews, while fieldwork is currently taking place at four campuses.

Auxiliary Organizations – Fieldwork is currently taking place at two campuses/five auxiliaries.

Financial Aid – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Disability Support and Accommodations – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Development – Fieldwork is currently taking place at one campus.

Follow-up – Currently tracking 55 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Student Health Centers, Hazardous Materials Management, Public Safety, Development, Contracts and Grants, and Delegations of Authority) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Construction – For fiscal year 2001/02, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Report writing is being completed on three projects, while fieldwork is taking place on two projects.

Mr. Mandel commended the campuses for their diligence in completing the follow-up process in a timely manner. He noted that only one recommendation remains outstanding for longer than twelve months.

Trustee Galinson commented that receiving the matrix on the day of the Committee meeting does not allow sufficient time for review. He inquired about the possibility of receiving the matrix in advance of future meetings.

Mr. Mandel indicated that in the future, the matrix would be sent to the Trustees in the agenda mail-out. However, he explained that additional recommendations might be closed between the time of the mailing and the Committee meeting.

Chancellor Reed commented on two items. First, he stated that the matrix could be mailed at the same time as the Board of Trustees' agenda with the understanding that an updated matrix would also be distributed at the meeting. Second, he indicated his belief that the work on best practices as it relates to auxiliary organizations has been completed and asked Richard West for confirmation on this.

Mr. West stated that the final discussions with the vice presidents on best practices will be held in April and indicated that it should be concluded at that time.

Chancellor Reed stated that since becoming chancellor, he has been attempting to reduce the amount of time that institutions have taken to complete audit recommendations. He noted that now that the time has been reduced to twelve months or less on most recommendations, he would like to see if it could be further reduced to nine months.

Trustee Wang indicated his concern with the outstanding recommendation regarding Public Safety.

Mr. Mandel stated that this recommendation pertains to an emergency communications dispatch agreement at the Monterey Bay campus. He further stated that he is working with the campus in an attempt to close the recommendation.

Dr. Peter P. Smith, President, California State University, Monterey Bay, explained that the outstanding recommendation involves obtaining a signed agreement with the county. He indicated that the campus has the agreement in effect but does not have the signed document. He further indicated his belief that the agreement will be signed in the next two or three weeks.

Trustee Wang expressed his support on reducing the amount of time that the institutions have to complete recommendations from twelve months to nine months. He further expressed his hope that the amount of time could eventually be reduced to six months. He thanked everyone for their efforts in closing the outstanding recommendations.

Noting that many auxiliary organization recommendations were outstanding at the San Marcos and Sonoma campuses, Trustee Cartwright inquired as to whether there are any special circumstances causing the delay.

Dr. Alexander Gonzalez, President, California State University, San Marcos, stated that the campus has been working on completing the recommendations as quickly as possible within the allotted time frame.

Mr. Mandel explained that he normally requests the campus, if they have not already done so, to submit their first response to the audit report within a six-month period. He indicated that the San Marcos campus is currently within the six-month period.

Audit

Dr. Ruben Armiñana, President, Sonoma State University, explained that on the Sonoma campus, many of the issues involve the two student organizations, not the administrative organizations. He further explained that the students believe these issues will limit their independence. He stated that the campus is working with the students to resolve these issues.

Trustee Cartwright offered his assistance to President Armiñana in resolving these issues with the students.

Trustee Pierce stated that it is very encouraging to see the progress that the campuses have made in closing outstanding recommendations. He expressed his concern regarding the chancellor's suggestion for campuses to complete recommendations in nine months, instead of the current twelve-month time frame. He stated that although he understands the importance of mitigating risk, he reminded everyone to be sensitive of the fact that individuals responsible for implementing the recommendations may have to put their full-time duties aside to complete these tasks.

Trustee Mehta commented on the phenomenal improvement that the campuses have made in completing the recommendations. He applauded the campuses and the presidents for the progress made during the past twelve months in closing the recommendations. He stated that he was especially pleased with San Francisco State University for being the only campus without outstanding recommendations.

Trustee Galinson expressed his concern to Chancellor Reed that reviewing best practices is very helpful, but that sometimes reviewing worst practices is equally important.

Chancellor Reed explained that the best practices resulted from the audit criticisms of the worst practices.

Trustee Pesqueira asked if the CSU presidents are requested to submit a time line for the completion of recommendations.

Mr. Mandel explained that when responses are requested from the campus, an action plan is required as well as actual dates for completion. He further explained that the recommendations are usually scheduled for completion in a six-month period, some within nine months. He indicated that depending on special circumstances, the completion date may extend to a year, but the normal action plan for completion of the recommendations is six months.

Trustee Pesqueira asked for clarification as to whether recommendations are outstanding from a fixed date or from a date that the campus believes they could satisfactorily complete the recommendations.

Mr. Mandel explained that the recommendations are outstanding from a fixed date, that of the exit conference.

Trustee Pesqueira asked if the completion dates initially estimated by the campuses are a true reflection of their ability to actually complete the recommendations in that time frame.

Mr. Mandel explained that the campuses are asked to complete the recommendations within the six-month period. He further explained that if the campus indicates that they require longer than six months to complete the recommendations, an explanation would be accepted if reasonable. Mr. Mandel indicated that in these cases, he would recommend to the Chancellor to accept the responses that exceed the six-month time frame. He further indicated that it is conceivable that the recommendations could be completed on time, but at an interval of longer than six months.

Trustee Pesqueira expressed his concern that although a campus may have permission to complete the recommendations beyond the six-month time frame, the matrix would indicate, in a negative way, that the recommendations are long outstanding. He stated that perhaps the matrix should be adjusted to reflect this.

Mr. Mandel explained that, while difficult to reflect the initial estimate on the matrix for each of the recommendations, when asked to comment on the campuses with long outstanding recommendations, he would indicate whether there was agreement with the campuses to extend the response time beyond the six-month period.

Trustee Galinson suggested that outstanding recommendations might be indicated in red, underlined, or boxed on the matrix to help in interpreting the information.

Mr. Mandel indicated that he would look into ways to make the matrix more understandable.

The meeting was adjourned at 4:20 p.m.

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 2002 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Auxiliary Organizations, Development, Financial Aid, Disability Support and Accommodations, Information Systems, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Hazardous Materials Management, Public Safety, Development, Contracts and Grants, and Delegations of Authority) is currently being conducted on approximately 50 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the Committee meeting.

Status Report on Current and Follow-up Internal Audit Assignments

At the January 2002 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (financial internal controls), Auxiliary Organizations, Development, Financial Aid, Disability Support and Accommodations, Information Systems, and Construction.

FISMA

The audit plan indicated that approximately 136 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed on six campus reviews.

Auxiliary Organizations

The audit plan indicated that approximately 261 staff weeks of activity (32 percent of the plan) would be devoted to auditing internal compliance/internal control at 9 campuses/29 auxiliaries. Report writing is being completed on two campus/five auxiliary reviews while fieldwork is currently taking place at one campus/five auxiliaries.

Development

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of 10 campuses on cash contributions and donations of property and services, controls over the analysis of development needs, identification of prospective donors, solicitation and acknowledgment of donations, valuation of nonmonetary donations, recording gifts and posting to accounting records, expending donated funds, and preparation of reports on development activity. Report writing is being completed on one campus review, while fieldwork is currently taking place at two campuses.

Financial Aid

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of 10 campuses on identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports. Report writing is being completed on one campus review, while fieldwork is currently taking place at one campus.

Disability Support and Accommodations

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of 10 campuses on CSU programs for disabled employees, students and visitors. This would include accessibility of facilities, provision of enabling supportive services and use of adaptive technologies. Report writing is being completed on one campus review, while fieldwork is currently taking place at two campuses.

Information Systems

The audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to review of systemwide projects such as: Disaster Recovery, Collaborative Management Systems (CMS), and Web Security. In addition, support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary audits. Review and training are ongoing.

Follow-ups

The audit plan indicated that approximately 26 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 approximately 50 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Hazardous Materials Management, Public Safety, Development, Contracts and Grants, and Delegations of Authority) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Consultations and Investigations

The audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to campus consultations and special requests. 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.

Construction

The audit plan indicated that approximately 5 staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2001/02 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include change orders, project management services, contractor compliance, liquidated damages, close-out documents, and cost verification of major equipment and construction components. Report writing is being completed on three projects, while fieldwork is currently taking place on two projects.

Training

The audit plan indicated that approximately 6 staff weeks of activity (1 percent of the plan) would be devoted to training in control self-assessment. A Management Risk Assessment and Assurance program has been developed and is being implemented at those campuses indicating an interest in such a program during 2002. The proposed program consists of individual workshops where risk assessment/mitigation and internal control training will be provided and a targeted risk assessment profile will be developed. The program has been initiated at three campuses with two more in the planning stage.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 5/2/02)

	2002 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS																
	FISMA	Aux Orgs	Fin Aid	Dis Support	Dev	Special Investigations		FISMA		Auxiliary Organizations			HazMat Management		Public Safety		Development		Contracts and Grants		Delegations of Authority	
						*Recs	**Mo.	*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK								6/6	-								0/7	6				
CHI	RW		FW																		0/10	5
DH								17/17	-	3	21/30	9									5/9	9
FRE				FW				18/18	-						17/17	-	10/10	-			0/9	4
FUL				FW				12/17	10	3	59/59	-	9/9	-			0/7	3	0/6	6		
HAY	RW					22/32	5										0/7	5			0/8	2
HUM		RW				20/34	8	2/2	-						19/19	-			0/6	4	2/2	-
LB								10/10	-	3	16/47	7									3/7	4
LA	RW									4	10/54	5	8/8	-	14/14	-						
MA								5/12	12													
MB								18/18	-						19/20	17	3/9	7				
NOR	RW									5	54/54	-	6/6	-					0/9	3		
POM					FW			6/14	12	3	7/34	9	7/7	-	15/15	-					4/7	5
SAC		FW			RW			7/7	-				9/9	-					3/9	8		
SB				RW				14/14	-	3	23/24	14			14/14	-	0/7	4				
SD			RW					7/9	8				4/4	-	16/16	-			0/5	5		
SFO								12/12	-	4	67/67	-	7/7	-							11/11	-
SJ								0/9	8				6/6	-	21/21	-			0/10	6	0/10	2
SLO	RW																		3/4	6		
SM	RW									2	16/42	8	8/8	-			0/3	4				
SON								8/9	8	4	44/44	-										
STA					FW			14/16	8													
CO		RW						0/13	6													
SYS													5/7	12	13/13	-						
FW = Field Work In Progress RW = Report Writing in Progress AI = Audit Incomplete (awaiting formal exit conference and/or campus response) AC = Audit Complete						* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A '0' in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time. **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.																

Status Report on Current and Follow-Up Construction Audit Assignments

	Project No.	Project	Contractor	Project Cost	Start Date	Comp. Date	Managed By	Current *	Follow-Up	
									RECS	*MO.
2001/02	SF	Student Union Renovation	Amoroso	\$10,500,000	12/23/98	Sep-00	Campus	RW		
	SB	Coachella Off Campus	Swinerton and Walberg	\$11,048,000	1/1/00	Feb-02	Campus			
	SB	Student Housing Phase 1	P.H. Hagopian	\$11,369,000	10/1/99	Aug-01	Campus	RW		
	ST	Educational Services Building	McCarthy	\$24,409,000	6/1/99	Dec-01	Campus	RW		
	SD-452	Science Laboratory Building	Blake	\$29,828,000	7/1/99	Apr-01	Campus	FW		
	SD	Residential Suites	D.E. Barnhard	\$37,884,000	7/1/96	Sep-01	Campus	RW		
2000/01	LA-443	E&T Building Renovation	Emma Corporation	\$26,808,000	1/12/98	Jul-00	CPDC	AC	11/12	9
	PO-261	Science Addition I	Skidmore	\$30,346,000	9/22/97	Aug-00	CPDC	AC	7/8	9
	SO-461	Library/Information Center	McCarthy	\$39,597,000	8/3/98	Jul-00	Campus	AC	8/8	-
	SL-98-500	Sports Complex	Multiple	\$9,780,747	1/7/99	Aug-00	Campus	AC	8/10	5
	SA-448	Classroom Building II	McCarthy	\$13,910,000	4/1/99	Oct-00	Campus	AC	4/4	-
	SD-001-98	Parking Structure 5	Taylor/Ball	\$19,542,718	2/10/99	Nov-00	Campus	AC	9/9	-
<p>*FW = Field Work in Progress; RW = Report Writing in Progress; AI = Audit Incomplete (awaiting response); AC = Audit Complete **The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. ***The number of months that recommendations have been outstanding (since the formal exit conference).</p>										