

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:** 9:30 a.m., Wednesday, May 12, 1999  
Glenn S. Dumke Conference Center

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

#### **Consent Items**

Approval of Minutes of Meeting of March 17, 1999

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Revision of Policies and Procedures for the Office of the University Auditor, *Committee Action*
3. Year 2000 Update, *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  
March 17, 1999**

**Members Present**

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

**Other Trustees Present**

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

**Chancellor's Office Staff**

David S. Spence, Executive Vice Chancellor and Chief Academic Officer  
Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
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 9:56 a.m. He asked if there were any additions or corrections to the minutes. Trustee Pierce called the board's attention to the last paragraph on page 4 of the January 26, 1999 minutes and, because he was given credit for comments made by Trustee Mitchell, he requested that the record be amended. The minutes of January 26, 1999, were approved as amended.

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

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

*FISMA Audits* – Eleven such audits are scheduled to be performed this year, with field work currently being performed on four campuses. In addition, we are in the closing stages for three audits that commenced during the latter part of 1998 and will be conducting exit conferences during the next two weeks.

*Student Records and Registration* – This audit was approved at the January board meeting, and a pilot audit is currently being performed at the Chico campus.

*Operation and Maintenance of Plant* – This audit was approved at the January board meeting, and a pilot audit is currently being performed at the Hayward campus.

*Continuing Education* – We are continuing with this audit subject, a carry-over from 1998. Audits are currently being performed on three campuses.

*Auxiliary Audits* – Reviews in this area will be initiated after the beginning of the fiscal year. To allow campuses sufficient time to perform year-end financial closings, such reviews will not commence until mid-August.

*Follow-up Reviews* – Forty-six follow-ups from prior audits are currently being performed.

Trustee Otomo-Corgel called attention to the matrix that had been distributed noting the status of all current and follow-up internal audit assignments. She noted that all recommendations for FISMA and Seismic Safety audits for the CSU Long Beach campus had been satisfactorily addressed and she congratulated the Long Beach campus for its efforts in closing the recommendations in a timely manner. She noted that CSU Los Angeles, while being timely in addressing the FISMA recommendations, still had several open items on the Seismic Safety audit. Trustee Otomo-Corgel indicated that the matrix is an effective tool in enabling the board to quickly establish the status of audits on all campuses and she thanked Mr. Mandel for developing it.

Trustee Pierce referred to the discussion during the last board meeting related to that portion of facilities management addressing the planning for new facilities and asked if it would be consolidated into the Operations and Maintenance of Plant audit.

Mr. Mandel responded that a review of the process for planning new facilities has been included within the scope of the Operations and Maintenance of Plant audit.

Mette Adams, CSSA chair, indicated that, while the auxiliaries wish to comply with the new audit requirements, they need to have direct communications from the presidents as to what the financial reporting requirements will be if they are changed. Ms. Adams stressed the importance of notifying the chief executive officer of each auxiliary to ensure that communications are clear.

Chair Wang touched upon Trustee Otomo-Corgel's observations of the fact that some campuses satisfactorily address audit recommendations more quickly than other campuses, and he pointed out that Mr. Mandel is readily available to provide consultative services for those campuses in need of such assistance. Chair Wang explained that, in the area of corrective action, it is sometimes necessary to spend money in order to remedy problems and resolve issues. He articulated his belief that monies spent on taking precautionary actions are worthwhile investments, as they often result in future savings, and the return on investment can be substantial. He also emphasized the importance of accountability, and the auditing and monitoring of follow-up functions will help us to ensure that the campuses are accountable.

Chair Wang thanked all the campus presidents for the efforts they have made, and will continue to make, in complying with and closing audit recommendations, and he encouraged the campuses to contact Mr. Mandel for assistance. He also expressed his appreciation of the fact that the campuses have devoted a substantial amount of time and effort in satisfactorily addressing audit issues.

### **Adjournment**

The meeting adjourned at 10:03 a.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
May 11-12, 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-nine 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

May 11-12, 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, report writing continues for 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. Fieldwork is continuing at two campuses, while report writing continues at one.

#### *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. Fieldwork is continuing at two campuses, while report writing continues at one.

#### *Continuing Education*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to a review of eleven campuses on continuing education programs and Continuing Education Revenue Fund operations. Fieldwork is continuing at three campuses, while report writing continues at an additional three.

*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. A workshop was held in late April to discuss the upcoming reviews.

*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 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. A draft report has been received for each of the first three projects; fieldwork has begun on the remaining three.

## **BRIEF**

**Committee Action**

Agenda Item 2  
May 11-12, 1999

### **COMMITTEE ON AUDIT**

#### **Revision of Policies and Procedures for the Office of the University Auditor**

##### **Presentation By**

Larry Mandel  
University Auditor

##### **Summary**

A revision of the Policies and Procedures for the Office of the University Auditor (OUA) is proposed. The purpose of the revision is to recognize the increased duties and responsibilities of the OUA, as well as the administrative relationship with the Chancellor's Office.

## COMMITTEE ON AUDIT

### Revision of Policies and Procedures for the Office of the University Auditor

#### Background

Education Code Section 89045, enacted by Chapter 1406 of the Statutes of 1969, was sponsored originally as Senate Bill 542 by Senator Harmer. This section provides as follows:

##### Internal Audit Staff

89045. (a) The trustees shall establish an internal audit staff, which shall include the staff positions authorized for internal auditing. The internal auditing staff shall report directly to the trustees and shall be available for consultation with any audit committee of the trustees, which may be established by the trustees.

(b) The duties of the internal audit staff shall include, but shall not be limited to, auditing, reviewing, cost and systems analysis, analyzing, and recommending operating procedures for the California State University.

(c) Management audits shall be made to determine the effectiveness and efficiency of the organization, operation, and procedures of each state university, each auxiliary organization, and the Office of the Chancellor. Officials and employees of each state university, each auxiliary organization, and the Office of the Chancellor shall furnish all books, papers, contracts, management charts, and related information necessary for such management audits.

(d) In addition, the internal audit staff shall perform audits, at least once every five years, of the activities of the California State University pursuant to Sections 89031.5, 89046, and 89048 of the Education Code, Section 11007.7 of the Government Code, and Sections 10295, 10389, and 12100.5 of the Public Contract Code.

Subsequent to the enactment of Section 89045, the CSU Board of Trustees amended its Rules of Procedure (Subdivision (f) of Section 5 of Article VI) as follows:

##### (f) Committee on Audit

The Committee on Audit shall provide general oversight to the audit functions of the Trustees' Audit Staff (Office of the University Auditor), assign functions to be audited, review audit reports and responses, and approve the annual budget for the audit staff.

On February 25, 1970, the Board of Trustees adopted policies and procedures for the internal audit unit. These policies and procedures have been amended to reflect various changes occurring in the California State University and to provide a more formal delineation of the handling of audit reports, as follows:

November 28, 1973 (RA 11-73-1)

March 26, 1975 (RA 3-75-1)

June 3, 1981 (RA 6-81-1)

January 26, 1983 (RA 1-83-2)

September 15, 1987 (RA 9-87-2)

September 13, 1988 (RA 9-88-3)

September 15, 1992 (RA 9-92-1)

May 14, 1996 (RA 05-96-03)

This proposed amendment to the Policies and Procedures for the Office of the University Auditor is being presented to the committee at this time for the purpose of updating and clarifying the duties and responsibilities of the Office of the University Auditor (OUA). The following is a summary of the significant changes:

1. Financial internal control (FISMA), auxiliary organization, and construction reviews are mandated as part of the annual audit plan of the OUA.
2. Legislative delegations related to the purchasing function, motor vehicle inspection process, leases of state university property, and real and personal property transactions are mandated for audit at least once every five years.
3. OUA audit reports must be provided to those individuals/agencies indicated in Education Code §89761.
4. Audit follow-up procedures have been formalized and strengthened.
5. The administrative reporting relationship of the OUA to the Chancellor's Office has been clarified.

The proposed changes follow, with deletions shown by ~~strikeout~~ and additions shown by underline.

**Policies and Procedures for the [Office of the University Auditor](#) (RA 05-99-01)**

**RESOLVED**, By the Board of Trustees of the California State University, that the following general operating statement for direction of all activities of the [Office of the University Auditor](#) is adopted consistent with the provisions of Government Code Sections [1236](#) [and 13400 et seq.](#), Education Code Sections [89045](#) [and 89761](#), and the California State University Internal Audit Management Charter (RA 11-91-03):

## I. General

The objective of the Board of Trustees is to provide an effective internal audit program for the California State University.

- A. The University Auditor is responsible for all administrative duties and requirements pertaining to the operation of the Office of the University Auditor and represents the CSU system in all relationships with State audit agencies.
- B. The Office of the University Auditor shall conduct internal audits, consistent with the *Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors, as its primary function.
- C. The Board of Trustees reserves the right to assign the Office of the University Auditor to review any area within the jurisdiction of the Board of Trustees.
- D. The Office of the University Auditor has the right to examine any and all official books, papers, records, contracts, files, and other related documents subject to Board of Trustee responsibility located in university administrative offices and/or auxiliary organization administrative offices.

## II. Audit Planning, Direction, and Supervision

- A. Oversight of the audit function provided by the Office of the University Auditor, including the priority of work assignments, shall be the responsibility of the Committee on Audit which shall report on such matters to the Board of Trustees.
- B. An audit plan will be prepared annually by the University Auditor and submitted to the Executive Audit Committee for review. Composition of the membership of the Executive Audit Committee shall be determined by the Chancellor. After review by the Executive Audit Committee, the audit plan shall be submitted for approval by the Board through the Committee on Audit. Audit topics will be selected based upon: a detailed risk assessment that is performed triennially; [legislatively mandated reviews noted in Education Code §89045 and Government](#)

Code 13400 et seq.; and in the action taken by the trustees' Committee on Audit in agenda item 2 at the January 1999 meeting (currently reflected in the Chancellor's Executive Order #698) ~~Audit topics will not normally include subjects within the auxiliary organizations unless specifically requested by executive management and/or the Chair of the Committee on Audit.~~

- C. Unscheduled audits of the Office of the Chancellor or of any campus can be requested by the Trustees or the Chancellor. Unscheduled audits of a campus can also be requested by the campus president but must be approved by the Chancellor.
- D. The University Auditor will be responsible for assignment of field work to staff and contracted agencies and the timely completion of, and reporting on, audits.
- E. Communication liaison and consultation with the Committee on Audit will be maintained by the University Auditor, through the Chair of the Committee.

### III. Audit Reporting, Follow-Up Procedures, and Program Accountability

#### A. Reporting the Results of Audits

1. Copies of all audit reports will be sent to the ~~members of the Board of Trustees~~Joint Legislative Audit Committee, the Joint Legislative Budget Committee, the Department of Finance, the appropriate legislative fiscal and policy committees, the trustees, and each campus of the California State University. In addition, a copy of the audit reports shall be available for public inspection in the library of each campus of the university.
2. ~~Copies of systemwide audit report shall be forwarded to the Legislative Analyst, the Auditor General, and the Education Systems and Financial and Performance Audits Units of the Department of Finance.~~
3. ~~—~~Audit matters concerning the evaluation of employee performance shall be reported to the Committee in closed session as permitted by statute.

#### B. Follow-Up

The President or Chancellor will communicate to the University Auditor in writing the progress made towards implementing the plan of corrective action noted in the response to the audit no more than six months after the close of the audit. The University Auditor will review the responsiveness of the corrective action taken and determine whether additional action may

## Audit

## Agenda Item 2

May 11-12, 1999

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. Some corrective action may require more than six months to implement. All findings will be tracked until corrective action is taken. Reports of follow-up activity will be made ~~semi-annually to at each~~ meeting of the Committee on Audit.

C. Audit Program Accountability

~~Semi-annually~~ At each meeting of the Committee on Audit, the University Auditor will report ~~to the Committee on Audit~~ the assignment workload showing the status of audits in progress, workload backlog, and disposition taken on completed audit assignments.

IV. Coordination of Work

A. The University Auditor is the point of contact for all entrance and exit conferences held with the Office of the Chancellor by State audit agencies.

B. The University Auditor will coordinate all system responses to audits performed by state audit agencies.

C. The University Auditor will coordinate internal audit effort with the external auditors to reduce the potential for duplication of audit effort.

V. Budget, ~~and~~ Personnel and Operational Procedures for the Office of the University Auditor

For purposes of general administration, staff personnel, budget and space, there shall exist an administrative relationship to the Chancellor.

Except for certain personnel actions related to the position of University Auditor noted below, the Office of the University Auditor is subject to all the rules and procedures established by the Chancellor's Office.

An independent consultant appointed by the Committee on Audit will prepare triennial performance appraisals of the University Auditor. The consultant will solicit the opinions of trustees, system and campus personnel necessary to evaluate performance. The Committee on Audit will discuss performance expectations and the results of the appraisal with the University Auditor in closed session.

All matters concerning the employment, dismissal, and salary for the position of University Auditor will be initiated by the Chancellor and brought to the Board, through the Committee on Audit for approval.

**BRIEF**

**Information Item**

Agenda Item 3  
May 11-12, 1999

**COMMITTEE ON AUDIT**

**Year 2000 Update**

**Presentation By**

Richard P. West, Executive Vice Chancellor and  
Chief Financial Officer

**Summary**

This information item provides an update of systemwide activities to become Year 2000 compliant. The status of activities on the campuses and in the Chancellor's Office in each of six functional categories is presented with an emphasis on financial and student information systems.