

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 8:30 a.m., Thursday, November 9, 2000**  
**Glenn S. Dumke Conference Center**

Frederick W. Pierce, IV, Chair  
Harold Goldwhite, Vice Chair  
Murray L. Galinson  
Shailesh J. Mehta  
Neel I. Murarka  
Stanley T. Wang

#### **Consent Items**

Approval of Minutes of Meeting of September 20, 2000

#### **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  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**September 20, 2000**

**Members Present**

Frederick W. Pierce IV, Chair  
Harold Goldwhite, Vice Chair  
Murray L. Galinson  
Laurence K. Gould, Jr., Chair of the Board, ex officio  
Neel I. Murarka  
Stanley T. Wang

**Members Absent**

Shailesh J. Mehta

**Other Trustees Present**

Daniel N. Cartwright  
Debra S. Farar  
Robert G. Foster  
William Hauck  
Ralph R. Pesqueira  
Charles B. Reed, Chancellor, ex officio

**Chancellor's Office Staff**

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

**Approval of Minutes**

Chair Pierce called the meeting to order at 8:56 a.m. The minutes of the July 18, 2000, meeting were approved as submitted.

**Status Reports 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* – four audits have been completed, and we are awaiting campus responses for two audits. Mr. Mandel explained that one-half of the annual planned reviews had been completed.

*Auxiliary Reviews* – report writing is being performed for the four auxiliaries reviewed at the San Francisco campus, three auxiliaries on the San Bernardino campus, and four auxiliaries on the Sonoma campus. Mr. Mandel pointed out that, due to the complexity of these audits and additional work required to complete them, nearly one-half of the planned auxiliary audits would not be completed during this calendar year. He added that, during the second week in October, six auxiliary reviews would be started on the Long Beach and Dominguez Hills campuses.

*Student Health Centers* – one audit has been completed, four are in the report writing stage, fieldwork is being performed on two campuses, and we are awaiting the campus response for one audit.

*Hazardous Materials Management* – four are in the report writing stage, fieldwork is being performed on three campuses, and we are awaiting the campus response for one audit.

*Public Safety* – three are in the report writing stage, fieldwork is being performed on two campuses, and we are awaiting the campus response for one audit

With regard to planned reviews, Mr. Mandel explained that, due to staff turnover and challenges in recruiting qualified personnel, it was necessary to reduce the number of planned audits by six.

*Follow-up Reviews* – thirty-four prior audits are being tracked to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required. Mr. Mandel noted that reviews for two campus audits had exceeded the 12-month timeframe for closure; however, he is working with the campuses to ensure that the responses to these recommendations are satisfactorily addressed.

*Construction Audit Assignments* – all six campus reviews have been completed. Mr. Mandel stated that Mark Thomas, the Systemwide Coordinating Partner from KPMG, will discuss these assignments.

Trustee Goldwhite asked Mr. Mandel to elaborate on the issue of hiring qualified auditors and inquired as to whether the CSU is competitive in terms of the ability to attract and retain qualified staff.

Mr. Mandel responded by stating that one of the challenges in attracting and retaining qualified employees is the required 40% out-of-area travel. He explained that the recruitments are ongoing and, during the recruitment and interview process, his recruitment panel stresses the outstanding employee benefits and future career opportunities with the CSU.

### **Report on Construction Auditing in the CSU–1999/00**

Mr. Mandel presented the item by explaining that, per CSU's contract with KPMG Peat Marwick, six construction reviews have been completed. He added that each of the six projects represented a project of \$10 million or more, and projects of this size represent sixty percent of all construction projects within the CSU. Mr. Mandel then turned the floor over to Mark Thomas of KPMG.

Mr. Thomas emphasized that the construction audits are not static in scope; they change from year to year based upon past experience. Mr. Thomas explained that as improvements are noted in one area, different areas are reviewed to ensure that all areas that warrant attention are addressed. He explained that the six projects reviewed for the year 2000 represented approximately \$75 million in completed construction projects, and that these reviews included projects at the Channel Islands, Hayward, Humboldt and San Marcos campuses and two projects on the San Jose campus.

Mr. Thomas explained that because the KPMG construction team reviews projects at post completion, there are limitations as to what can be observed (i.e., cannot see inside the walls); however, extensive inspections are performed of documentation. Such documentation occurs at the job site, with the contractor, with the architect engineer, and with the project manager. He added that the bid process is reviewed to ensure contractor compliance and compliance with the Public Contract Code, subcontracting practices, change orders, the number and types of change orders, the dollar amounts of change orders, payment analysis, method of payment, project management, liquidated damages, major equipment purchases, and the close-out of the contract.

Mr. Thomas noted that, although these reviews are fairly comprehensive, there are limitations. He pointed out that there were 60 findings encompassing all six projects and that there were certain common threads such as the need for an improved project management system and a revision of the State University Administrative Manual (as it pertains to construction). He noted

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that the revision becomes very important as the campuses start to take on the responsibility for construction management.

Mr. Thomas noted that other issues addressed were financial recoveries and credits claimed as based on the audit, recommendations in the area of documentation, and monitoring, tracking, establishing, and revising standard agreements. He emphasized that as a result of these audits, excellent revisions to future processes were made, and indicated that it is likely that the CSU will be continually revising the processes. Mr. Thomas indicated that as a result of these ongoing reviews there is increased contractor awareness, a greater understanding of the rules, and a general knowledge that each project may well be audited.

Trustee Galinson inquired as to the existence of matrix denoting problematic contractors, for example, contractors who have completed projects for which there have been an above-average number of problem areas, change orders, or lawsuits.

Patrick Drohan, Assistant Vice Chancellor, CPD&C, stated that his department performs annual and semi-annual evaluations of in-progress and completed projects. These evaluations address issues surrounding contractor performance and provide a benchmark. Mr. Drohan stated that such reports would continue to be provided to the board.

### **Adjournment:**

9:09 a.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 2000 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, Hazardous Materials Management, Student Health Centers, Public Safety, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Risk Management, Continuing Education, Student Records and Operations, and Maintenance of Plant) is currently being conducted on 39 prior campus and three auxiliary organization reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting

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

At the January 2000 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, Hazardous Materials Management, Student Health Centers, Public Safety, Information Systems, and Construction.

#### *FISMA*

The audit plan indicated that approximately 130 staff weeks of activity (18 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Four audits have been completed, report writing is being completed on two campus reviews, while fieldwork continues on three campuses.

#### *Auxiliary Organizations*

The audit plan indicated that approximately 165 staff weeks of activity (23 percent of the plan) would be devoted to auditing internal compliance/internal control at 11 campuses. The number of

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campuses/auxiliaries to be reviewed has been reduced to 5/17 in order to accommodate the current scope of the project. Report writing is being completed for three campus reviews/11 auxiliaries, while fieldwork continues at two campuses/six auxiliaries.

### *Hazardous Materials Management*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the plan) would be devoted to a review of 11 campuses on training; inventory procedures; labeling and other forms of warnings; Material Safety Data Sheets (MSDS); hazardous waste registration, permit, and manifesting; emergency and contingency planning; and hazardous waste disposal programs. The number of campuses to be reviewed has been reduced to nine as a result of a reduction in the number of available staff. Three audits have been completed, one audit is awaiting a campus response prior to finalization, report writing is being completed on four campus reviews, while fieldwork continues on one campus.

### *Student Health Centers*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the plan) would be devoted to a review of 11 campuses on establishment of health services and fees; qualifications and continuing education of SHC practitioners; control of fee revenue; budgetary controls; expenditures; maintenance of SHC accreditation status; security of medical records; and pharmacy controls. The number of campuses to be reviewed has been reduced to ten as a result of a reduction in the number of available staff. Four audits have been completed, one audit is awaiting a campus response prior to finalization, report writing is being completed on four campus reviews, while fieldwork continues at one campus.

### *Public Safety*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the audit plan) would be devoted to a review of 11 campuses on communication of policies and procedures; relationships with external agencies; compliance with state-mandated POST standards and training requirements; budgetary and expenditure controls over public safety and parking funds; administration and accounting for POST funds and other special monies; cancellation of parking citations; accumulation and reporting of crime statistics; access controls over law enforcement data and confidentiality of records; effective use of physical assets and human resources; and controls over crime scene evidence and public safety equipment. The number of campuses to be reviewed has been reduced to nine as a result of a reduction in the number of available staff. One audit has been completed, one audit is awaiting a campus response prior to finalization, report writing is being completed on two campuses, while fieldwork continues at four campuses.

### *Information Systems*

The audit plan indicated that approximately 40 staff weeks of activity (5 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 25 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 39 prior campus (FISMA, Auxiliary Organizations, Student Records, Operation and Maintenance of Plant, and Continuing Education) and three auxiliary organization reviews 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 (6 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*

For the 2000/2001 fiscal year, six construction projects will be reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include subcontractor bidding, change orders, design costs, project management services, contractor compliance, liquidated damages, and cost verification of major equipment. Fieldwork has not yet commenced.