

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:30 a.m., Wednesday, September 15, 2004
Glenn S. Dumke Auditorium

Anthony M. Vitti, Chair
Roberta Achtenberg, Vice Chair
Herbert L. Carter
Moctesuma Esparza
Debra Farar
Bob Foster
William Hauck
Raymond W. Holdsworth

Consent Items

Approval of Minutes of Meeting of July 14, 2004

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Corrective Action Plan for Findings in the Single Audit Reports, *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**

July 14, 2004

Members Present

Roberta Achtenberg, Vice Chair
Debra S. Farar
Bob Foster

Members Absent

Anthony M. Vitti, Chair
Herbert L. Carter
Moctesuma Esparza
William Hauck
Raymond W. Holdsworth

Other Trustees Present

Carol R. Chandler
Murray L. Galinson, Chair of the Board
George G. Gowgani
Eric Z. Guerra
Melinda Guzman Moore
Corey Jackson
Kathleen Kaiser
Shailesh J. Mehta
Frederick W. Pierce IV
Charles B. Reed, Chancellor
Kyriakos Tsakopoulos

Chancellor's Office Staff

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

Vice Chair Achtenberg called the meeting to order at 8:35 a.m.

Approval of Minutes

The minutes of the meeting of May 18, 2004, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

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

FISMA – Report writing is being completed on six campus reviews.

Auxiliary Organizations – Report writing is being completed at four campuses/fourteen auxiliaries.

Admissions – Report writing is being completed at one campus, and fieldwork is currently taking place at two campuses.

Human Resources – Report writing is being completed at two campuses, and fieldwork is currently taking place at two campuses.

Student Activities – Report writing is being completed at three campuses, and fieldwork is currently taking place at one campus.

As per the audit plan, 12 FISMA reviews, 27 auxiliary organization reviews, and 30 subject area reviews (10 in each subject area) will be completed this year.

Follow-up – Currently tracking approximately 50 prior audits (FISMA, Auxiliary Organizations, Financial Aid, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster and Contingency Planning) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Construction – For fiscal year 2003/04, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. One of these projects has been completed, and five projects await a campus response prior to finalization.

For the benefit of the newly elected trustees, Mr. Mandel described the types of audits that are performed by the Office of the University Auditor. He explained that FISMA, or Financial Integrity and State Manager's Accountability Act, refers to internal control reviews that are required to be performed at all campuses and the chancellor's office on a biennial basis. He further explained that the California State University (CSU) has approximately 84 auxiliary organizations that are audited on a triennial basis. In addition, he indicated that the three subject

area assignments, Admissions, Human Resources, and Student Activities, were selected by the Committee on Audit at the January 2004 meeting, based upon a three-year risk assessment that was completed in the last quarter of calendar year 2002.

Mr. Mandel stated that most of the campuses are making significant progress towards completing the outstanding recommendations.

Trustee Kaiser inquired about the outstanding recommendations pertaining to Disability Support and Accommodations at CSU Bakersfield and Systemwide, as well as the outstanding recommendations pertaining to Auxiliary Organizations at CSU Hayward and California Polytechnic State University (CPSU), San Luis Obispo.

Mr. Mandel responded that the delay in completing the two outstanding recommendations at CSU Bakersfield is due to the installation of disability signage by the contractor and added that completion is anticipated in the near future. He further responded that in light of the large number of recommendations generally reported at auxiliary organizations, both CSU Hayward and CPSU San Luis Obispo have made significant improvement in the completion of recommendations and noted that each campus has only two remaining outstanding recommendations. In addition, he indicated that the outstanding recommendation pertaining to Systemwide involves policy change by a systemwide advisory committee; and as per the assistant vice chancellor of access/retention for student academic support, completion is anticipated by the next committee meeting.

Trustee Mehta inquired as to the standards for the completion of construction project reviews. He then expressed his concern regarding the timeliness of the CSU San Bernardino Social and Behavioral Sciences Building and Renovations construction project review.

Mr. Mandel explained that six of the largest CSU construction projects are selected for review each fiscal year. He stated that although the Social and Behavioral Sciences Building and Renovations project was completed in December 2002, it was not selected for review until fiscal year 2003/04. He further stated that depending on the number of large construction projects, there could be a considerable time lag, maybe even up to a year after the completion of a project, before the start of the review.

Trustee Mehta asked if this selection process was due to a resource issue. He then expressed his concern that by delaying the start of the reviews and limiting the selection to six of the largest projects, there could be a loss of valuable findings in which the contractor could be held liable.

Mr. Mandel responded affirmatively that it is a resource issue. He noted that we have found that for the current dollar commitment, we can have six construction projects audited annually. He further noted that we have chosen to have those be the six largest projects completed in a given year.

4

Audit

Trustee Achtenberg asked Mr. Mandel to prepare a cost assessment for reviewing the six largest construction projects versus all of the large construction projects completed in any given year. She added that a judgment could then be made as to whether or not the benefit is commensurate with the additional cost.

Trustee Achtenberg recommended that the newly elected trustees meet with Mr. Mandel to further discuss the audit function and stated her belief that it would be beneficial in discharging their fiduciary responsibility.

The meeting was adjourned at 8:48 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 2004 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, Admissions/Evaluations, Human Resources, Student Activities, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) is currently being conducted on approximately 35 prior campus/auxiliary/investigative 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 2004 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, Admissions/Evaluations, Human Resources, Student Activities, 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. One audit has been completed, three audits await a campus response prior to finalization, and report writing is being completed on two campus reviews.

Auxiliary Organizations

The audit plan indicated that approximately 243 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/27 auxiliaries. Two campuses/six auxiliaries await a response prior to finalization, and report writing is being completed on three campus/twelve auxiliary reviews.

Admissions/Evaluations

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of admissions and evaluations activities through a review of the related control environment; processing of applications for admission; evaluations of student records; application fee and waiver controls; and the protection of confidential admission and evaluation data. One audit awaits a campus response prior to finalization, report writing is being completed on three campus reviews, and fieldwork is currently taking place at one campus.

Human Resources

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of human resources activities through a review of the related control environment; recruitment and advertising practices; the selection and orientation of new employees; employee compensation and selected benefits programs; and the protection of confidential employee information. One audit awaits a campus response prior to finalization, report writing is being completed on three campus reviews, and fieldwork is currently taking place at three campuses.

Student Activities

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of ten campuses to evaluate the effectiveness of operating controls and governance processes pertaining to student activities (including intramural and club sports but excluding intercollegiate athletics), student clubs and organizations (including the fraternities and sororities), and student judicial affairs. One audit awaits a campus response prior to finalization, report writing is being completed on five campus reviews, and fieldwork is currently taking place at one campus.

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, Common 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 30 staff weeks of activity (4 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 35 prior audits (FISMA, Auxiliary Organizations, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) 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 five staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2003/04 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. Two audits have been completed, and four audits await a response prior to completion.

Training

The audit plan indicated that approximately ten staff weeks of activity (1 percent of the plan) would be devoted to training in control self-assessment. The program consists of a two-day workshop where risk assessment/mitigation and internal control training will be provided and a targeted risk assessment profile will be developed. In addition, the Office of the University Auditor is planning two, one-day workshops on various aspects of audit coordination and process.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 8/30/2004)

	2004 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS												
	FISMA	Aux Orgs	Admiss	Human Res	Stdnt Act	FISMA		Auxiliary Organizations			Disabil Support and Accom		Employee Relations		Risk Mgt and Insurance		Disaster/Cont Plng	
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK					FW	4/13	3	3	42/42	-	10/12	15					5/5	-
CHI	AI			FW				3	55/55	-					7/7	-		
CI																		
DH			RW			9/12	7	3	0/36	3								
FRE					RW	13/13	-	6	107/107	-	5/5	-	4/5	10				
FUL					RW	6/6	-	4	32/32	-	8/8	-	2/2	-			8/8	-
HAY	AI							4	65/65	-			3/5	7	10/10	-		
HUM						4/4	-	3	53/53	-	16/16	-			6/8	8		
LB				RW	RW	4/7	3	3	26/27	5	3/3	-	3/3	-				
LA	AC	RW						4							7/7	-	0/7	5
MA			FW			14/14	-	2	21/21	-								
MB				RW		0/25	5	2	40/40	-							3/14	7
NOR	AI							5	46/46	-	3/3	-	2/2	-				
POM		AI				9/9	-								6/6	-	1/3	8
SAC				RW		13/13	-	5	65/65	-					7/7	-	3/12	6
SB			RW	FW		4/8	3	3	31/33	10	9/9	-						
SD		RW	RW			12/12	-	4			2/2	-	1/7	6			9/9	-
SF				AI	RW	8/8	-	4	42/48	9					8/8	-		
SJ		RW	AI			9/9	-	4	93/93	-	4/4	-	2/2	-	8/8	-		
SLO	RW							2	27/29	14					2/11	6	8/9	7
SM	RW	AI											9/9	-			9/9	-
SON					AI	14/14	-	4	44/44	-	0/0	-						
STA					RW	9/9	-	4	50/50	-			5/8	8				
CO				FW		10/10	-	2	16/16	-								
SYS											7/8	14			0/7	5		
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.												

COMMITTEE ON AUDIT

Corrective Action Plan for Findings in the Single Audit Reports

Presentation By:

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

At the January 2004 Board of Trustees meeting, the University's external auditor, KPMG, reported on the systemwide Single Audit in accordance with generally accepted accounting principles for the fiscal year ending June 30, 2003. The auditor reported that there were five reportable findings from the audit. At the March 2004 Board meeting, Chancellor's Office staff reported that corrective action plans were nearly completed and that once completed the University Auditor would review the plans. The University Auditor has now reviewed the correction plans from the campuses for completeness and compliance and now agrees there is full compliance with the Corrective Action Plans.

The following is a list of the corrective actions taken by those campuses with audit findings:

San Francisco State University

San Francisco State had two audit findings: 03-01 (Financial Statement Preparation Process) and 03-03 (Misappropriation of Assets).

With respect to 03-01, the campus has taken steps to remedy the problem, including changes in organizational structure that created a new Financial Reporting unit that reports directly to Associate Vice President (AVP) for Fiscal Affairs, adding staff resources dedicated to financial reporting, and strengthening the review process for the reporting package. The campus expects to complete all corrective steps by March 18, 2004, including the funding issue.

With respect to 03-03, the corrective action plan was completed by June 30, 2003.

California State University, Fresno

Fresno had two audit findings: 03-02 (Financial Statement Preparation Process) and 03-04 (Financial Reporting of Pell Payment Data to the U.S. Department of Education).

Audit

Agenda Item 2

September 14-15, 2004

Page 2 of 2

With respect to 03-02, as of the end of February the campus has completed the corrective action plan by assigning the Manager of General Accounting the responsibility of becoming familiar with the GAAP conversion process to augment those individuals working with the GAAP conversion process, and by strengthening review of the audit schedules and the reporting package prior to submission.

With respect to 03-04, the corrective action plan was completed by December 31, 2003 with the submission of the required data by the extended deadline granted by the Department of Education.

California State University, San Marcos

San Marcos had one audit finding: 03-05 (Direct Loan Program Reconciliation).

The San Marcos campus has completed its action plan by closing out its 2002-03 Direct Loan Program Year and has implemented procedures for monthly reconciliation of the Direct Loan School Account Summary (SAS) received from the Department of Education's Common Origination and Disbursement (COD) system with institutional records. The processes include the Record of loans on the monthly SAS report being compared to campus records in order to identify outstanding issues regarding loans originated, loans booked (a Promissory Note accepted by the Department of Education), and loan amounts disbursed.