

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 1:00 p.m., Tuesday, January 23, 2001  
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 November 9, 2000

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Functions to be Reviewed by the Office of the University Auditor for Calendar Year 2001, *Action*
3. Quality Assurance Review of the Office of the University Auditor, *Information*
4. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
5. Single Audit Report of Federal Funds, *Information*

**MINUTES OF 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**

**November 9, 2000**

**Members Present**

Frederick W. Pierce IV, Chair  
Harold Goldwhite, Vice Chair  
Murray L. Galinson  
Laurence K. Gould, Jr., Chair of Board, ex-officio  
Shailesh J. Mehta  
Neel I. Murarka  
Charles B. Reed, Chancellor, ex-officio  
Stanley T. Wang

**Other Trustees Present**

Roberta Achtenberg  
Martha C. Fallgatter  
Debra S. Farar  
Ralph R. Pesqueira  
Ali C. Razi

**Chancellor's Office Staff**

Christine Helwick, General Counsel  
Douglas X. Patiño, Vice Chancellor, University Advancement  
Larry Mandel, University Auditor

**Approval of Minutes**

Chair Pierce called the meeting to order at 8:36 a.m. The minutes of the September 20, 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:

## Audit

*FISMA* – four audits have been completed, report writing is being completed on two campus reviews, while fieldwork continues on three campuses.

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

*Student Health Centers* – 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 on one campus.

*Hazardous Materials Management* – 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.

*Public Safety* – 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.

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-nine 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 seven 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* – Mr. Mandel indicated that, for the 2000/01 fiscal year, six construction projects will be reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review for the coming year include subcontractor bidding, change orders, design costs, project management services, contractor compliance, liquidated damages, and cost verification of major equipment. Initial contact has been made with the campuses on projects to be reviewed this year.

Trustee Goldwhite made note of the fact that, as a member of the chemistry department at a campus currently undergoing a hazardous materials management audit, he wanted to assure the Board that the audits are taken very seriously. He noted that it is a very thorough process and that audit is a very important function of both the board and the Office of the Chancellor.

Trustee Wang expressed concern with the need to reduce the number of audits and with the number of follow-ups extending beyond twelve months.

Trustee Pierce suggested that, perhaps, the audit plan was overly ambitious in that it was based on no turnover during the year. He recommended that next year the audit plan be based upon an assumed level of turnover so that we have reasonable expectations. He also indicated that additional audit personnel may need to be added to accomplish the desired audit plan.

Mr. Mandel assured the committee that, although there had been some recent turnover of the staff, none of those leaving were in the audit manager positions. He indicated that these are the positions that review all follow-up material from the campuses and that the review process had continued unabated. He agreed with Trustee Pierce's recommendation to build in a reasonable turnover rate in the annual audit plan.

Trustee Pierce elaborated on Trustee Wang's observation of the number of long-outstanding recommendations. He noted that five of the campuses had recommendations still incomplete more than one year after the initial audit report. He once again stressed the need to complete recommendations timely, and indicated that twelve months should be sufficient time to do so.

Trustee Wang suggested that the campuses may be able to do some audits if training was provided to them. He indicated that hiring personnel locally may also help in the short term.

**Adjournment:**

8:46 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 30 prior campus and seven 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, two audits are awaiting a campus response prior to finalization, report writing is being completed on three 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. One campus audit, representing four auxiliaries has been completed, while report writing continues for four campus reviews/13 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. Five audits have been completed, two audits are awaiting a campus response prior to finalization, while report writing is being completed on two campus reviews.

### *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. Six audits have been completed, two audits are awaiting a campus response prior to finalization, while report writing is being completed on two campus reviews.

### *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 eight as a result of a reduction in the number of available staff. Three audits has been completed, one audit is awaiting a campus response prior to finalization, while report writing is being completed on 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 30 prior campus (FISMA, Auxiliary Organizations, Student Records, Operation and Maintenance of Plant, and Continuing Education) and seven 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. Audit fieldwork has commenced on these projects.

**COMMITTEE ON AUDIT**

**Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2001**

**Presentation By**

Larry Mandel  
University Auditor

**Summary**

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor. The following is an audit plan for calendar year 2001.

**FINANCIAL INTEGRITY AND STATE MANAGER'S ACCOUNTABILITY ACT OF 1983**

In 1983, the California legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act requires that state agencies establish and maintain a system of internal accounting and administrative controls. To ensure that the agency fully complies with requirements, the head of each agency is required to prepare and submit a report on the adequacy of the systems of internal accounting and administrative controls following the end of each odd-numbered fiscal year.

These audits will review compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which require annualized data, either the 1999/00 or 2000/2001 (as appropriate) fiscal year will be the primary period reviewed. In certain instances, we are concerned with representations of the most current data. In those cases, the test period will normally be the two months prior to our arrival on campus. Specifically, we will review and test the following areas:

Cash Receipts	Payroll/Personnel
Receivables	Fixed Assets
Purchasing	Fiscal Information Technology
Revolving Fund	Investments
Cash Disbursements	Trust Funds

Eleven FISMA audits are planned for calendar year 2001. This represents 119 staff weeks of audit effort, which amounts to approximately 16 percent of the audit plan.

#### SUBJECT 1

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2001. This represents 94 staff weeks of audit effort, which is approximately 13 percent of the audit plan.

#### SUBJECT 2

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2001. This represents 94 staff weeks of audit effort, which is approximately 13 percent of the audit plan.

#### SUBJECT 3

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2001. This represents 94 staff weeks of audit effort, which is approximately 13 percent of the audit plan.

### AUDITS OF AUXILIARY ORGANIZATIONS

In order to provide assurance to the board that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor administers an audit program covering internal compliance/internal controls. It is estimated that twenty-four auxiliary reviews will take place during calendar year 2001. This represents 209 staff weeks of audit effort, which is approximately 28 percent of the audit plan. This will require the addition of two positions to the staff of the OUA.

### INFORMATION SYSTEMS

Information Systems areas of review will include systemwide projects such as: Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Web Security. In addition, support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary audits. Eighty-four staff weeks are planned during calendar year 2001. This represents approximately 11 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. Twenty-seven staff weeks have been set aside for this purpose, representing approximately 4 percent of the audit plan.

## CONSULTATION 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. Twelve staff weeks have been set aside for this purpose, representing approximately 2 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 2000/01 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, contractor compliance, liquidated damages, close out documents, and cost verification of major equipment and construction components. Five staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

## TRAINING

Working in conjunction with Quality Improvement (QI) efforts in the CSU, training in self-assessment is proposed for eleven campuses during 2001. The proposed 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. Nine staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

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The following committee resolution is presented for approval:

**RESOLVED**, By the Committee on Audit of the Board of Trustees of The California State University, that the 2001 internal audit plan, including FISMA, Information Systems, Auxiliary Organizations, Construction, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ (to be determined by the committee) be approved.; and be it further

**RESOLVED**, that an additional two 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.

**OFFICE OF THE UNIVERSITY AUDITOR  
 RESULTS OF 1999 RISK ASSESSMENT**

PROSPECTIVE AUDIT TOPICS (TOP 50% OF RISK)

	TOPIC	TIME SINCE LAST AUDIT BY THE OUA
1	Disaster/contingency planning	Less Than 2 Yrs
2	Student records and registration	Less Than 2 Yrs
3	Hazardous materials management	Less Than 2 Yrs
4	Procurement	Less Than 2 Yrs
5	Employee relations	Never Audited
6	Occupational health	2 Yrs - 5 Yrs
7	Public safety	Less Than 2 Yrs
8	Student health centers	Less Than 2 Yrs
9	Student fees	More Than 5 Yrs
10	Development	2 Yrs - 5 Yrs
11	Intercollegiate athletics	Never Audited
12	Risk management and insurance	2 Yrs - 5 Yrs
13	Oversight of auxiliary organizations	Less Than 2 Yrs
14	Granting (Financial Aid)	More Than 5 Yrs
15	Cash, temporary and long term investments	Less Than 2 Yrs
16	Accounts payable	Less Than 2 Yrs
17	Payroll and payroll taxes/withholding	Less Than 2 Yrs
18	Cashiering and ticket sales	Less Than 2 Yrs
19	Reimbursements and cost recovery practices	Less Than 2 Yrs
20	Disabled student services	More Than 5 Yrs
21	Receivables	Less Than 2 Yrs
22	Disbursements and collections (Financial Aid)	Less Than 2 Yrs
23	Discretionary accounts	Never Audited
24	Child care centers	Less Than 2 Yrs
25	Continuing education/extended learning	Less Than 2 Yrs
26	Financial Reporting	More Than 5 Yrs
27	Recruiting	Never Audited

FISMA = Financial Integrity and State Manager's Accountability Act of 1983  
 Items 4, 15, 16, 17, 18, 19, 21, and 22 are covered within the FISMA audit cycles.  
 Items 1, 2, 3, 6, 7, 8, 12, and 25 were recent audit subjects.  
 Items 13 and 24 are covered during auxiliary reviews.

**OFFICE OF THE UNIVERSITY AUDITOR  
SELECTION OF AUDIT TOPICS FOR 2001**

The purpose of this attachment is to present additional information to assist the Committee on Audit in deciding the audit assignments for the Office of the University Auditor for 2001. The list below reflects the topics developed by the 1999 risk assessment process exclusive of priorities that are addressed by recent assignments and/or mandatory audits, e.g., Financial Integrity and State Manager's Accountability Act (FISMA), Delegations of Authority (Purchasing/Contracting, Leasing, Motor Vehicles - Education Code Section 89045(d)), and Auxiliary Reviews. In addition, Contracts and Grants, an area not addressed by the risk assessment, has been added to the list of auditable subject areas.

- |                               |                               |
|-------------------------------|-------------------------------|
| 5. Employee Relations         | 20. Disabled Student Services |
| 9. Student Fees               | 23. Discretionary Accounts    |
| 10. Development               | 26. Financial Reporting       |
| 11. Intercollegiate Athletics | 27. Recruiting                |
| 14. Granting (Financial Aid)  | NR. Contracts and Grants      |

The following information is not necessarily complete. A complete survey of risks, controls and associated audit procedures can only be compiled through the audit process. Accordingly, the descriptions should be read with the understanding that they are preliminary and presented for discussion purposes, and may change after audit survey/work commences.

## **5. Employee Relations**

Employee relations includes activities involved in negotiating and administering collective bargaining agreements and personnel policies such as prohibitions against sexual harassment.

Potential impacts include:

- increased exposure to litigation; and
- discrimination.

Proposed audit scope would include collective bargaining and implementation of laws and regulations concerning terms and conditions of employment.

## **9. Student Fees**

The CSU approved a new student fee policy in 1996 through Resolution of the Committee on Finance (RFIN) 05-96-06 and Executive Order 661.

Potential impacts include:

- adverse impacts on access, affordability and quality;
- loss of budgetary control; and
- increased external regulation.

Proposed audit scope would include review of policy implementation and activities to date regarding fee advisory committees, student fee referendums, consolidation or elimination of fees, and annual reporting processes.

## **10. Development**

Development includes institutional or university advancement and fund raising.

Potential impacts include:

- inadequate nonstate funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of non-monetary gifts;
- non-compliance with Internal Revenue Service regulations;
- use of funds that conflict with donor intentions/potential violations of trust arrangements; and
- inaccurate reporting of donations and development activity.

Proposed audit scope would include campus development offices, foundations and other organizational constituencies involved in development; cash contributions and donations of property and services; and controls over the analysis of development needs, identification of prospective donors; solicitation and acknowledgment of donations; valuation of non-monetary donations; recording gifts and posting to accounting records; expending donated funds; and preparation of reports on development activity.

## **11. Intercollegiate Athletics**

Intercollegiate athletics involves all activities pertaining to the sports programs administered in accordance with the rules and regulations of the National Collegiate Athletic Association.

Potential impacts include:

- admission of student athletes who do not show reasonable promise of being successful in a course of study leading to an academic degree;
- continuing eligibility of student athletes to participate in intercollegiate athletics based on academic progress that will not assure graduation within a specific time frame;
- infractions of National Collegiate Athletic Association (NCAA) rules and regulations that significantly impact the university in terms of lost revenues, adverse publicity, and NCAA sanctions;
- inequities in funding and participation opportunities between the men's and women's athletic programs;
- inappropriate use of funds raised and spent in intercollegiate athletics; and
- inappropriate use of state resources or funds budgeted for instructionally related activities in intercollegiate athletics.

### Proposed Audit Scope

Based on a study commissioned by the Association of College and University Auditors (ACUA), 75 percent of survey respondents (196 institutions - 71 percent of which participated at the NCAA Division I level) performed annual internal audits of the athletic department in addition to whatever work was being done under the NCAA mandate with independent CPAs. In priority order, this internal audit work covered:

- compliance audits of internal controls;
- financial audits;
- audits of compliance with NCAA rules and regulations; and
- operational testing for efficient and effective use of resources.

## **14. Granting (Financial Aid)**

Granting financial aid includes 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.

Potential impacts include:

- inappropriate financial aid packaging due to student aid from various sources not controlled and coordinated;
- financial aid not provided to the neediest students;

- over-awarding beyond need and funding availability;
- awarding aid to ineligible students;
- financially needy students not being apprised of available financial aid resources;
- excessive costs;
- students not receiving timely award/denial notices, or awards to ineligible students;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit procedures would include review of: funding arrangements; compliance with federal and state laws, trustee policy, and Chancellor's Office directives; reliability, confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

### **20. Disabled Student Services**

Disabled student services includes counseling and supportive services (such as readers, note takers, and test proctors) and provisions for physical accessibility including programs for learning disabilities.

Potential impacts include:

- adverse publicity;
- inadequate accommodations and services for disabled;
- legal liabilities; and
- regulatory fines and sanctions.

Proposed audit procedures would include review of: funding arrangements; compliance with federal and state laws, trustee policy, and Chancellor's Office directives; reliability, confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

### **23. Discretionary Accounts**

Discretionary accounts include unrestricted resources and funds used at the option of system officials.

Potential impacts include:

- negative publicity;
- inappropriate expenditures;
- legal liability;
- violations of fiduciary responsibility over endowment and trust funds; and
- obstacles to effective fund raising.

Proposed audit procedures would include survey of discretionary accounts and research of enabling documents and expenditures to evaluate compliance with potential restrictions.

### **26. Financial Reporting**

Financial reporting includes all forms of financial reports and the systems and procedures in use to provide constituent groups with accurate, timely and useful financial information.

Potential impacts include:

- excessive costs incurred in reporting of financial information;
- inaccurate and/or untimely financial reports;
- unauthorized access to financial data;
- reporting of financial data that does not meet user needs; and
- publication of misleading financial statements.

Proposed audit procedures would include review of existing financial reporting procedures and processes for: compliance with state law, trustee policy and Chancellor's Office directives; establishment and maintenance of a financial reporting system commensurate with user needs; efficiency and effectiveness of operations; and attainment of objectives and goals.

## **27. Recruiting**

Recruiting includes development of appropriate job descriptions and recruiting materials, solicitation of applicants including advertising open positions, interviewing and screening applicants, communication with applicants regarding conditions of employment, and processing of all job offers and acceptances.

Potential impacts include:

- inadequate applicant pools;
- excessive costs and position vacancies;
- reduced service levels; and
- violation of employment laws and regulations.

Proposed audit procedures would include review of hiring processes and transactions for: compliance with policies, laws and regulations; the economical and efficient use of resources; and the accomplishment of objectives and goals.

## **NR. Contracts and Grants**

Contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- ▶ Commitments/proposals not in the best interest of the CSU;
- ▶ Conflicts of interest by principal investigators;
- ▶ Inadequate/excessive recovery of costs or contribution of matching requirements;
- ▶ Misuse of funds;
- ▶ Non compliance with pertinent grantor/sponsor regulations;

- ▶ Audit disallowances, regulatory fines and sanctions;
- ▶ Misconduct in research such as fabrication, falsification, plagiarism or abuse of human subjects; and
- ▶ Failure to provide deliverables.

Proposed audit procedures would include review of: solicitation activities and project approval; contract/grant budgeting and financial planning;; cost accounting, allocation, and transfer processes; and award administration. The latter would include proposal development (faculty assistance, funding information, pre-award resource material), proposal preparation and review of compliance issues (human & laboratory animal use, certifications, other regulatory requirements), award negotiation and acceptance (negotiation, award and project initiation), closeout and audit (final reporting, audit issues, project conclusion), and post-award administration (management systems, agency liaison, accounting, fiscal and reporting issues)

**OFFICE OF THE UNIVERSITY AUDITOR  
FUNCTIONS AUDITED DURING PAST TEN YEARS**

**Year Function**

- 2000 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Hazardous Materials Management  
Public Safety  
Student Health Centers  
Auxiliary Organizations  
Construction
- 1999 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Continuing Education/Extended Education  
Operation and Maintenance of Plant  
Student Records and Registration  
Auxiliary Organizations  
Construction
- 1998 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Risk Management and Insurance  
Continuing Education/Extended Education  
Construction
- 1997 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Occupational Health  
Seismic Safety and Disaster Readiness  
Construction
- 1996 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Delegations of Authority (Procurement, Motor Vehicles, Agreements and Leases)  
Development  
Construction
- 1995 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Development  
Hazardous Materials Management Follow-up  
Construction
- 1994 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Construction  
Student Financial Aid
- 1993 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Administrative Costs (Benchmarking)
- 1992 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Financial Reporting  
Hazardous Materials  
Public Safety

1991 Construction  
Real Property Transactions

## **COMMITTEE ON AUDIT**

### **Quality Assurance Review of the Office of the University Auditor**

#### **Presentation By**

Larry Mandel  
University Auditor

Kent Kay  
General Auditor, University of Alabama System  
Review Team Leader

#### **Summary**

Government Code Section 1236 requires that all state agencies which conduct internal audits do so in conformity with the *Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors. Government Code Section 8546.5 indicates that the Department of Finance is the agency which shall ensure that such standards are utilized.

The Department of Finance has agreed that a Quality Assurance Review, conducted by a team of chief audit executives from peer institutions using guidelines provided by the Institute, would fulfill Government Code requirements.

### **Quality Assurance Review of the Office of the University Auditor**

As required by Government Code Section 8546.5, the Department of Finance (Department), Office of State Audits and Evaluations, periodically conducts reviews of state agency internal audit departments. In addition, the Association of College and University Auditors (ACUA) recommends that Quality Assurance Reviews be conducted of internal auditing departments at least once every five years. The last Quality Assurance Review of the Office of the University Auditor was conducted in 1995.

In January of this year, the Department indicated its plans to review the Office of the University Auditor (OUA). The proposed review team was to be made up of members of the Department who were familiar with the inner workings of internal audit staffs at various state agencies. At that time, a request was made to substitute a review team composed of Chief Audit Executives from state educational systems across the country. The use of a review team composed of such individuals follows a process

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which has been used by many universities throughout the United States with positive outcomes. The Department agreed that the results of a review by peers from within the higher education community could be more beneficial than one conducted by those from another state agency.

The purpose of the review was to issue an opinion on the OUA's compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* cover the areas of independence, professional proficiency, scope of work, and management of the Internal Audit Office.

The review was conducted in accordance with the guidelines provided in the Institute of Internal Auditors' *Quality Assurance Manual* as adapted for educational institutions by the Association of College and University Auditors. Mr. Kent Kay, General Auditor for the University of Alabama System and Review Team Leader, will make a presentation and respond to questions.

**COMMITTEE ON AUDIT**

**Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management**

**Presentation By**

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

**Summary**

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be presented at the meeting. Representatives from KPMG Peat Marwick, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions.

Following presentation of the audit, staff will initiate the process to select the external auditor for the next contract period—covering fiscal years 2000/2001 to 2005/2006. The current schedule anticipates that a request for proposal will be issued in February 2001 resulting in a recommendation to the Board of Trustees presented at the May 2001 meeting.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

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

#### **Summary**

The single audit report of federal funds and the related management letter for all campuses and the Chancellor's Office will be reviewed and discussed at the meeting. Representatives from KPMG Peat Marwick, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions.

Following presentation of the audit, staff will initiate the process to select the external auditor for the next contract period—covering fiscal years 2000/2001 to 2005/2006. The current schedule anticipates that a request for proposal will be issued in February 2001 resulting in a recommendation to the Board of Trustees presented at the May 2001 meeting.