

AGENDA

COMMITTEE ON AUDIT

Meeting: 3:00 p.m., Tuesday, January 26, 1999
Auditorium

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

Consent Items

Approval of Minutes of Meeting of November 10, 1998

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 1999, *Committee Action*
3. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
4. Single Audit Report of Federal Funds, *Information*
5. Year 2000 Compliance Program, *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
November 10, 1998**

Members Present

Stanley T. Wang, Chair
Ali C. Razi, Vice Chair
Ronald L. Cedillos
Jim Considine
Harold Goldwhite
James H. Gray
Eric C. Mitchell
Joan Otomo-Corgel
Ralph R. Pesqueira

Other Trustees Present

Martha C. Fallgatter
William Hauck, Chairman of the Board
Maridel Moulton
Charles B. Reed, Chancellor
Michael D. Stennis

Chancellor's Office Staff

Richard P. West, Senior Vice Chancellor, Business and Finance
Christine Helwick, General Counsel
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 2:47 p.m. The minutes of September 15, 1998, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

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

FISMA Audits – the 1998 audit plan called for the completion of twelve campus audits, all of which will be completed by January 1999.

Audit

Risk Management Audits – the 1998 audit plan called for the completion of eleven such audits. However, due to a redirection of resources, nine of the eleven reviews will be completed.

Continuing Education Audits – the 1998 audit plan called for the completion of eleven campus audits, all of which will be completed by January 1999.

Follow-up Reviews – approximately 35 follow-ups from prior audits are being monitored. Mr. Mandel referred to the matrix, which denotes the status of open follow-up items as of November 3, and explained that the cut-off date for accepting and reviewing campus responses to open recommendations is one week prior to each trustees' meeting. This allows management sufficient time to review follow-up reports submitted prior to this date. Mr. Mandel pointed out that campus responses to follow-up items received after November 3 were not reflected on the matrix; however, if it is deemed that the recommendations have been complied with, information regarding closure of items will be reflected on the matrix submitted to the board in January 1999.

Mr. Mandel referred to the information contained on the bottom right of the matrix regarding recommendations that have not been completed. He explained that a zero in any column is used as a placeholder until such time as sufficient documentation is provided as proof that the item has been closed. After the information is reviewed and a recommendation is deemed to have been closed, the new information is reflected on the matrix. Mr. Mandel noted that significant progress has been made on several open recommendations, however, such progress is not indicated on the matrix: The matrix denotes only those recommendations that have been completed.

Auxiliary Audit Program Development and Review – beginning in July 1999, auxiliary organizations will begin to receive internal compliance/internal control of reviews on a biennial basis. The Office of the University Auditor will conduct these reviews. Preliminary reviews of Sacramento's foundation and trust foundation are currently being performed. Mr. Mandel stated that he is soliciting campuses to volunteer for such reviews. These reviews will enable him to determine both the scope of the audit and the resources necessary to successfully carry them out. He added that, during the January 1999 board meeting, he will request additional funding necessary to conduct audits of the auxiliary organizations.

Trustee Otomo-Corgel inquired about timelines for completion of recommendations and referred to the open recommendations for two Development audits completed in September 1996 and November 1996.

Mr. Mandel responded by stating that he received updates from both campuses regarding the progress made in closing these items, and he has discussed the issue with the two campus presidents. Although his office had not completed the most recent updates from the campuses regarding the progress made in closing these items, Mr. Mandel conveyed his belief that, by the next board meeting, both open items would be closed. He added that the remaining recommendation on the systemwide Delegations of Authority audit, an issue that would be addressed during another committee meeting later in the day, should be satisfactorily addressed at that time.

Chair Razi inquired whether there were established deadlines for which outstanding recommendations must be closed.

Mr. Mandel responded by stating that there are currently no established deadlines; however, campuses are asked to provide an action plan and a target date by which recommendations will be closed, and the majority of recommendations are closed within a reasonable time frame. He went on to state that the issue of setting such deadlines was discussed with Trustee Wang, and the issue would be discussed further during the January board meeting.

Trustee Razi stated that auditing is an important function for the system, and the timely closure of recommendations should be enforced. He concurred that established timelines for closure of open recommendations should be discussed at the January meeting.

Trustee Wang indicated that Trustee Razi's point was well taken and added that the audit function is not only the foundation for improvement, but it is also an avenue by which potential problems are discovered. He emphasized the importance of closing recommendations in a timely manner and stated that, because there are currently no policies and procedures regarding timelines for which corrective action must be taken, it is important to explore the issue further and discuss it in more detail during the next board meeting. He affirmed that he received a letter from Humboldt regarding the campus's efforts in closing the open recommendation. He added that he is aware that, due to limited resources, some campuses may be unable to clear open items in a timely manner. However, an agreement must be made as to the proper course of action to be taken on recommendations that require additional resources to implement.

Trustee Wang stated that Richard West, senior vice chancellor, business and finance, would report on the year 2000 (Y2K) issue.

Senior Vice Chancellor West stated that the Governmental Accounting Standards Board (GASB), an organization that provides financial reporting direction to governmental entities, issued a technical bulletin in October. This bulletin addresses the Y2K issue and specifies what auditors should do about disclosures regarding this issue. Mr. West emphasized that, because this is an issue of great concern, we are attempting to ascertain what our exposure is to both our internal campus-based systems (including control systems for energy, elevator systems, etc.) and software systems (including financial, student, human resources, etc.). He went on to state that the American Institute of Certified Public Accountants strongly cautioned the outside auditing profession about being associated with the required disclosures of this bulletin. The auditing institute warns that, due to the unprecedented nature of the extent of Y2K issues and the success of remediation efforts, its impact will not be fully determined until after the fact. As such, it is likely that sufficient audit evidence will not exist to support the rendering of an unqualified opinion on the required disclosures. As a result, all financial statements that include the required disclosures will receive qualified opinions specifically referencing Y2K disclosures.

Each of the major auditing firms, including KPMG Peat Marwick, our external auditors, has taken a similar position. We have consulted with our financial experts including our bond counsel, financial

Audit

advisor, and bond insurance agents, and each indicated that the market for bonds should not be affected by this disclosure if the standards are uniformly applied.

Mr. West emphasized that, because of the comprehensive nature and potential severity of the Y2K issue, it is taken very seriously. We have several projects under way that will enable us to determine the university's exposure. One consideration might be to determine whether we are willing to accept some risk and simply see whether anything goes wrong on day two of the year 2000. However, Mr. West assured the board that he is concentrating on our financial systems to ensure that they are in good shape.

Mr. West stated that, as part of the Audit Committee presentation in January, the auditors will present the system's audited financial statements and the normal disclosure of our financial conditions, including a qualified opinion on the Y2K issue. The board will be given an update with respect to all projects under way for business and finance and the exposure that exists with respect to Y2K activities. Mr. West added that concern about exposures is not unique to the CSU system and pointed out that the state has the same type of exposure with respect to its debt. To identify exposures, the State Controller and the Department of Finance are examining the issue and reviewing inventory processes in this area.

Adjournment

The meeting adjourned at 3:01 p.m.

BRIEF

Information Item

Agenda Item 1
January 26-27, 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 1998 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Risk Management and Insurance, and Continuing Education. In addition, follow-up on past assignments (FISMA, Development, Delegations of Authority, Occupational Health, and Seismic Safety) is currently being conducted on 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
January 26-27, 1999

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

At the January 1998 meeting of the Committee on Audit, an audit plan was approved calling for the review of the following subject areas: FISMA (Financial Internal Controls), Risk Management and Insurance, Continuing Education, Information Systems Auditing, and Construction Auditing.

FISMA

The audit plan indicated that approximately 137 staff weeks of activity (32 percent of the plan) would be devoted to auditing financial internal controls on twelve campuses. To date, eleven of the twelve planned campus reviews have been completed, with fieldwork continuing on the twelfth.

Risk Management and Insurance

The audit plan indicated that approximately 106 staff weeks of activity (25 percent of the plan) would be devoted to a review of risk and liability assessments, insurance coverage and carriers, mitigation and loss prevention programs, and claims reviews and processing at eleven campuses. To date, nine reviews have been completed. This is a reduction of two reviews from the original plan due to a reallocation of resources to perform an investigation and to begin planning for the review of auxiliaries.

Continuing Education

The audit plan indicated that approximately 106 staff weeks of activity (25 percent of the audit plan) would be devoted to a review of continuing education programs and Continuing Education Revenue Fund operations at eleven campuses. To date, ten reviews have been completed, with only an exit conference remaining at the final one.

Information Systems

The audit plan indicated that approximately 40 staff weeks of activity (9 percent of the plan) would be devoted to the development of an information systems (IS) risk assessment and subsequent IS audit plan. The risk assessment has been completed and an audit plan has been developed for the rest of this year and 1999. The plan addresses the following areas: Year 2000,

Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), Electronic Commerce, and the Information Technology section of FISMA reviews.

Follow-ups

Approximately 13 weeks of audit time were spent in assessing management's corrective actions on audits of FISMA, Development, Delegations of Authority, Occupational Health, and Seismic Safety.

Consultations and Investigations

Approximately 13 staff weeks of audit time were devoted to campus consultations and a special investigation.

Auxiliary Audit Program Development and Review

Approximately nine staff weeks of activity were devoted to developing an audit program covering internal compliance/internal controls.

BRIEF

Committee Action

Agenda Item 2
January 26-27, 1999

COMMITTEE ON AUDIT

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 1999

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. An audit plan for calendar year 1999 will be presented to the committee for approval. The results of a risk assessment, along with a description of potential audit subjects, are presented for review.

Recommended Action

Adoption of committee resolution.

ITEM

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Agenda Item 2
January 26-27, 1999

COMMITTEE ON AUDIT

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 1999

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor (OUA). The following is an audit plan for calendar year 1999.

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 control. 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 control 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 1997/98 or 1998/99 (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
Receivable	Fixed Assets
Purchasing	Fiscal Information Technology
Revolving Fund	Investments
Cash Disbursements	Trust Funds

Eleven FISMA audits are planned for calendar year 1999. This represents 119 staff weeks of audit effort, which amounts to approximately 20 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 eleven campus audits will take place during calendar year 1999. This represents 99 staff weeks of audit effort, which is approximately 17 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 eleven campus audits will take place during calendar year 1999. This represents 99 staff weeks of audit effort, which is approximately 17 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 eleven campus audits will take place during calendar year 1999. This represents 99 staff weeks of audit effort, which is approximately 17 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 will develop and administer an audit program covering internal compliance/internal controls. This represents 99 staff weeks of audit effort, which is approximately 17 percent of the audit plan. Extensive auditing of auxiliary organizations has not previously been a part of the audit plan of the OUA. This will require the addition of four positions to the staff of the OUA.

INFORMATION SYSTEMS

Information Systems areas of review will include 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. Forty staff weeks are planned during 1999. This represents approximately 7 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. Eighteen staff weeks have been set aside for this purpose, representing approximately 3 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. Thirteen staff weeks have been set aside for this purpose, representing approximately 2 percent of the audit plan.

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Audit

Agenda Item 2

January 26-27, 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.

CONSTRUCTION

In addition to the above, construction auditing will be a continuing focus of the Office of the University Auditor. 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.

The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the Board of Trustees of the California State University, that the 1999 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 four staff 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.

Attachment A
Audit—Item 2

Results of 1996 Risk Assessment

Selection of Audit Topics for the Office of the University Auditor

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 1999. The list below reflects the topics developed by the 1996 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) and Delegations of Authority (Purchasing/Contracting, Leasing, Motor Vehicles - Education Code Section 89045(d)).

- | | |
|---|--|
| 1. Data Processing Centers, Security Management and Data Communications | 18. Employee Relations |
| 2. Student Records and Registration | 19. Operation and Maintenance of Plant |
| 3. Information Systems Development and Maintenance | 20. Unrelated Business Income |
| 10. Student Fees | 21. Information Systems Strategic Planning |
| 11. Facilities Planning | 22. Intercollegiate Athletics |
| 15. Oversight of Auxiliary Organizations | 23. Faculty Utilization |

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.

1. Data Processing Centers, Security Management and Data Communications

Data processing centers, security management and data communications includes the day-to-day operations of the centralized functions for data processing and the mechanical and electronic features of the system that facilitate data communications.

Potential impacts include:

- violation of privacy rights;
- loss of integrity of databases containing sensitive information;
- inability to provide continued services;
- defalcation; and
- conflict of interest.

Proposed audit scope would include operation and maintenance of the centralized computing centers, system environmental controls, security capabilities, and management of telecommunications.

2. Student Records and Registration

Student records and registration includes database integrity, security and confidentiality, and the enrollment process.

Potential impacts include:

- adverse publicity;
- excessive costs;
- erroneous records;
- release of inappropriate information; and
- low customer service.

Proposed audit scope would include review of: 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.

3. Information Systems Development and Maintenance

Information systems development and maintenance includes development or procurement of systems and the means by which such systems are modified, maintained and/or updated.

Potential impacts include:

- violation of privacy rights;
- loss of integrity of databases containing sensitive information;
- inaccurate reporting;
- unmet user/management expectations;
- inoperable or flawed systems;
- lack of accurate, relevant and timely information for decision-making;
- excessive costs; and
- defalcation.

Proposed audit scope would include evaluation of: information systems development approaches, documentation and steps for quality assurance; controls over changes in program modifications; and system life cycles.

10. Student Fees

The CSU approved a new student fee policy in May 1996.

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.

11. Facilities Planning

Facilities planning includes the capital outlay planning process and space utilization.

Potential impacts include:

- inability to meet demand for services due to facility constraints;
- unnecessary costs;
- deterioration of physical plant; and
- sub-optimal utilization.

Proposed audit scope would include review of the process for planning new facilities and the controls which assure that facilities meet needs and evolving technology.

15. Oversight of Auxiliary Organizations

Oversight of auxiliary organizations includes all of the activities involved in governance and the efforts involved in assuring that auxiliaries operate in conformity with regulations established by the trustees.

Potential impacts include:

- conflict of interest;
- increased exposure to enforcement actions by regulatory agencies;
- adverse publicity; and
- circumvention of state law/CSU policy.

Proposed audit scope would include survey of existing requirements and review of the processes for oversight.

18. Employee Relations

Employee relations includes activities involved in 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.

19. Operation and Maintenance of Plant

Operation and maintenance of plant includes building engineering, custodial services, grounds keeping, facility repairs and renovations, and utility distribution.

Potential impacts include:

- excessive costs;
- reduced service levels; and
- deterioration of physical plant.

Proposed audit procedures would include review of: funding arrangements; deferred maintenance; building and grounds conditions; and work order scheduling and control systems.

20. Unrelated Business Income

Unrelated Business Income and the tax thereon (UBIT is a common acronym) includes any regularly carried on trade or business activity that is not substantially related to the organization's tax exempt purpose. UBIT is governed by federal tax code and Internal Revenue Service regulations. The CSU has filed UBIT returns for 1995/96 and 1996/97. There has been recent UBIT enforcement actions and assessments against higher education institutions.

Potential impacts include:

- conduct of unrelated activities operated at a loss;
- assumption of excess liabilities;
- inadequate identification of activities subject to taxation;
- underpayment/overpayment of tax liability;
- possible fines and penalties; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of regulatory agency requirements and CSU practices for identification and compliance.

21. Information Systems Strategic Planning

Information systems strategic planning covers the process for developing information systems objectives and prioritizing systems and resources to meet evolving technologies. The CSU is in the process of implementing an Integrated Technology Strategy.

Potential impacts include:

- inappropriate workloads;
- unnecessary costs; and
- technological obsolescence.

Proposed audit scope would include review of information systems objectives and the processes for identification and implementation of the best information systems possible.

22. 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.

23. Faculty Utilization

Faculty utilization includes assignment of academic positions, workload measurement and evaluation of whether assigned duties are being met.

Potential impacts include:

- inappropriate workloads;
- unnecessary costs; and
- negative publicity.

Proposed audit scope would include controls to assure that: counting of faculty workload is commensurate with systemwide standards, reports are accurate, workload is properly evaluated, and the system accommodates changes in teaching methodology.

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

Year	Function
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
1990	Purchasing/Contracting Salaries, Wages and Benefits Student Records
1989	Computer Operations Enrollment Reporting

BRIEF

Information Item

Agenda Item 3
January 26-27, 1999

COMMITTEE ON AUDIT

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

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be reviewed and discussed at the meeting. including the Report to Management

Presentation By

Richard P. West, Senior Vice Chancellor
Business and Finance

Summary

The systemwide audit in accordance with generally accepted accounting principles and the report to management 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.

ITEM

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Agenda Item 3

January 26-27, 1999

COMMITTEE ON AUDIT

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

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be reviewed and discussed at the meeting.

BRIEF

Information Item

Agenda Item 4
January 26-27, 1999

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

Presentation By

Richard P. West, Senior Vice Chancellor
Business and Finance

Summary

The single audit report of federal funds will be reviewed and discussed at the meeting.

ITEM

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Agenda Item 4
January 26-27, 1999

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

The single audit report of federal funds and the related management letter for all CSU 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.

BRIEF

Information Item

Agenda Item 5
January 26-27, 1999

COMMITTEE ON AUDIT

Year 2000 Compliance Program

Presentation By

Richard P. West, Senior Vice Chancellor
Business and Finance

Summary

This information item provides an overview of the systemwide activities to become Year 2000 compliant. The objective of the program, the reporting process and the status of work in key mission-critical areas is described.

ITEM

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Agenda Item 5
January 26-27, 1999

COMMITTEE ON AUDIT

Year 2000 Compliance Program

Introduction

The CSU began work to become Year 2000 (Y2K) compliant in the mid-1990s. The initial focus of the program was in the areas of known-risk associated with mission-critical, mainframe computer applications. Over time, the program has evolved to encompass all additional dimensions of the Y2K problem including networks and servers, desktop computers, telecommunications equipment, embedded microprocessors in plant facilities and academic equipment.

While the CSU has been actively engaged in Y2K compliance activities for some time, interest in assuring readiness throughout and beyond the system has intensified as the millennium draws closer. The assistant vice chancellor for information resources and technology has testified twice before joint committees of the state legislature and survey responses have been supplied to the State Bureau of Audits. Furthermore, GASB Technical Bulletin 98-1 requires disclosures in audited financial statements relating to Y2K readiness and the SEC requires similar disclosures in the official statements prepared in connection with bond financing transactions.

CSU's Y2K program is designed to both achieve compliance and develop documentation appropriate for use by internal as well as external entities. As of the end of 1998, all CSU campuses and the Chancellor's Office were actively engaged in ensuring Y2K readiness and have reported that they expect to be compliant no later than December 1999. Most campuses expect to be compliant by mid-1999.

Overall Program Objective

The goal of the systemwide Y2K program is to ensure that the CSU will be able to maintain a safe and secure operating environment while continuing to fulfill its educational mission after critical date transitions. Highest priority is being given to systems that could affect the health and safety of students and staff and the protection of capital assets. Mission-critical functions including the ability to receive and disburse funds, process student records and deliver educational content are also receiving a high level of attention. Systems that have the potential to fail but with no substantive impact on operations are receiving the lowest attention and may not be remediated.

In pursuit of these goals, campuses have identified Y2K coordinators and functional leads who are responsible for developing hardware and software system inventories, evaluating the risk and consequences of failure, assigning priorities, and managing or performing remediation activities. The Chancellor's Office, as facilitator of Y2K communications, has collected and consolidated campus progress reports, reported progress internally and externally and, through the CSU Business Management Systems group, completed Y2K modifications of internally developed information systems in use on multiple campuses.

The timing of the millennium transition works in favor of the CSU. Because the date transition occurs on a weekend and at a time when three-quarters of the CSU campuses are on semester break, there will be additional opportunities for a significant numbers of campuses to verify system performance, complete manual operations and implement work-arounds that may be part of overall contingency plans.

Reporting Process

A formalized reporting process has been established which requires campuses to document their Y2K readiness activities in each of the critical areas noted in the "Introduction." Throughout 1999, campus and Chancellor's Office progress reports will be made on a quarterly basis. The reporting process incorporates the requirement that a campus official designated by the president will sign these reports attesting to their accuracy and completeness.

While the CSU is currently in the process of migrating toward common business practices supported by common application software, at the present time each campus is unique. Campus operations involve different combinations of business and student systems and are characterized by varying levels of automation, age of facilities and age of equipment. Consequently, a variety of remediation strategies are being utilized across the system. In some cases, campuses and/or the Chancellor's Office are or have reprogrammed specific modules of internally developed software systems. Where necessary, new operating systems are being installed and/or vendor-provided software patches purchased, installed and tested. In some cases, replacements of older software or hardware systems have been accelerated to avoid remediating noncompliant systems that lacked the required functionality for future business operations.

All campuses have reported the expectation that compliance will be achieved in each of the critical areas discussed below.

Mainframe Systems and Applications – Progress in this area work is well advanced. At the system level, the Business Management Systems group has modified the following systems to be Y2K compliant: Financial Records, Accounts Payable, Purchasing, Position Management, Maintenance Management Plus, Web for Financials and data warehouses. The most widely used of these centrally-maintained systems is the Financial Records System which is used on all but two campuses. Progressive releases of upgrades to the campuses where the different systems are in use are planned during 1999. These internal upgrades will coincide with upgrades in external interfacing systems such as those maintained by the State Controllers Office. Campuses are responsible for ensuring the compliance of all local modifications and "feeder" applications developed to support these systems.

All campuses have initiated substantial activities to achieve Y2K compliance in mainframe hardware and business and student applications. More than half of the campuses have been judged to be very well along in these activities.

Networks and Servers, Telecommunications and Desktop Systems – Activities to achieve Y2K compliance in each of these three areas have utilized the full range of available remediation strategies.

Routers and network servers have been replaced, software upgrades have been purchased, installed and tested, and vendors have notified campuses of upcoming software releases. Nineteen campuses have network compliance activities that can be characterized as actively in progress or well along toward compliance. Similarly, work in the areas of telecommunications systems is well advanced. In some cases switches have been upgraded or replaced and compliance certifications received from manufacturers or service providers. Twenty-one campuses are well along in this process. In the area of desktop systems, campus activities have included replacing workstations where required, updating machine BIOS and installing new software releases.

Facilities/Physical Plant – A pilot project to evaluate the Y2K issues associated with microprocessors and controllers embedded in fire, security, energy management and other facilities systems has been completed on the Long Beach campus. Approximately three percent of the items inventoried in the pilot project have been confirmed to be noncompliant and their failure consequences are now under investigation. The methodology, findings and lessons learned related to these “embedded systems” have been shared with the plant directors from all of the campuses. Approximately half of the campuses are in the early stages of performing a physical inventory. The other half can be characterized as either well along in the inventory and vendor contact phases, or nearly complete.

External Interfaces

In addition to activities within the system, attention is being given to external interfaces that could impact the ability of the CSU to fulfill its mission. Those critical interfaces include the State Controller’s Office, the State Department of Education, the Federal Department of Education, and contractors and suppliers that provide services to the CSU. Contract language to ensure vendor-certification of new equipment and services was distributed to all campuses in early 1998.

As a state entity, one of the critical differences between the CSU and other enterprises is that the CSU does not, itself, perform some of the activities where Y2K risks reside. An example is payroll, a function which is performed by the State Controller’s Office. Reliance on an external entity does not necessarily reduce risk, but it does reduce the scope of the internal Y2K remediation activities. In the case of payroll, the SCO recently provided assurances that its systems and interfaces will be compliant. Another characteristic of system operations that serves to mitigate risks associated with the Y2K issue is that the system has proven and long-established mechanisms in place that are used on a routine basis to handle changes in the content and structure of data transferred between internal and external systems.

Verification Process

In addition to the self-assessments performed on the campuses, the IT Audit Manager of the Internal Audits Department will conduct ongoing Y2K program reviews throughout 1999. The focus of those reviews will be on high risk and mission-critical functions. The reviews will verify the adequacy of campus plans and resource allocations, the completion of identified tasks and the adequacy of program documentation.