

AGENDA

COMMITTEE ON AUDIT

Meeting: 3:00 p.m., Tuesday, July 10, 2001
Glenn S. Dumke Conference Center

Shailesh J. Mehta, Chair
Stanley T. Wang, Vice Chair
Daniel N. Cartwright
Murray L. Galinson
Harold Goldwhite
Frederick W. Pierce IV

Consent Items

Approval of Minutes of Meeting of May 15, 2001

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
California State University, Long Beach
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

May 15, 2001

Members Present

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

Members Absent

Shailesh J. Mehta

Other Trustees Present

Laurence K. Gould, Jr., Chair of the Board
Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
William Hauck
Charles B. Reed, Chancellor
Anthony M. Vitti

Chancellor's Office Staff

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

Chair Pierce called the meeting to order at 2:38 p.m.

Approval of Minutes

The minutes of the meeting of March 21, 2001, were approved as submitted.

Status Reports on Current and Follow-up Internal Audit Assignments

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

FISMA – Report writing is being completed for four campus reviews, while fieldwork is continuing at one campus.

Auxiliary Reviews – Report writing is being completed for two campus/six auxiliary reviews, while fieldwork is continuing at one campus/two auxiliaries.

Contracts and Grants – Report writing is being completed for two campus reviews, while fieldwork is continuing at one campus.

Development – Report writing is being completed for one campus review, while fieldwork is continuing for one campus.

Delegations of Authority – The audit program for this subject has been completed, using the Dominguez Hills campus as the pilot campus. Report writing is being completed for one campus review.

As per the audit plan, audits will be performed for the subject areas at about ten campuses each this year – approximately 24 auxiliary organizations and 11 FISMA audits.

Follow-ups - Currently tracking 45 prior audits (FISMA, Auxiliary Organizations, Student Records, Operations and Maintenance of Plant, Continuing Education, Student Health Centers, Hazardous Materials Management, and Public Safety) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Mr. Mandel stated that, as indicated on the matrix, most of the campuses have completed the recommendations. He further stated that recommendations for Student Records and Continuing Education, both systemwide reviews, have been outstanding for 13 months. However, as reported to the chancellor, implementation of recommendations can be completed from 12-18 months. Therefore, these systemwide audits are on schedule.

Trustee Galinson expressed his concern over the timing of audits at the campuses. He stated that he hoped audits would be conducted at times that are not of critical time importance to the auditee so as not to disrupt the operation.

Mr. Mandel reassured Trustee Galinson that at the beginning of each year, an audit schedule is planned, especially with FISMA audits that deal with the financial internal controls. He stated that, generally, agreement has been made with the campuses that audits would not be performed between June 15 and August 15, while financial statement audits are conducted by the external auditors.

Trustee Pierce commended the audit staff for their accomplishments over the course of the last year and further commended the campuses and presidents for diligently working to complete the recommendations within the allotted time. He noted that one campus had some recommendations outstanding for 17 months and asked that they be brought to closure as soon as possible.

Trustee Wang expressed his concern as to the presentation of outstanding recommendations on the matrix. He suggested that recommendations be separated into two categories: one indicating the receipt of recommendations and another stating reasons for outstanding recommendations.

Mr. Mandel explained to Trustee Wang that responses are received from every campus and are included with the report that is forwarded to the chancellor for his approval. He further explained that the responses include fixed times for implementation and follow-up is conducted to determine if the recommendations have been implemented. Mr. Mandel stated that there has been communication with the campuses regarding the outstanding recommendations, but implementation has not been completed.

Trustee Wang expressed concern about the length of some of the outstanding recommendations and inquired as to whether there could be a time limitation placed on the implementation of recommendations. He stated that there should be communication with the campuses to determine why these recommendations have not been implemented.

Mr. Mandel indicated his agreement with Trustee Wang. He stated that it may be possible to include the original response estimation on the matrix. He further indicated that there is continual communication with the campuses to ensure progress towards implementation.

Trustee Pierce suggested that, instead of including additional columns on the matrix, a footnote be added to the bottom of the matrix, explaining the reasons for the outstanding recommendations.

Selection of External Auditors

Mr. West explained the process of selecting the external auditors. He indicated that there is a limited number of qualified firms specializing in higher education and, as a result, presented a challenge in this selection process. From a selection of three firms, KPMG was the preferred bidder. He noted that KPMG has the scope and breadth of handling engagements of the CSU size, were the most competitive from a price perspective, and were the best price for the quality. Mr. West then stated that it is his recommendation and the campus and systemwide committee's recommendation to award the three-year contract to KPMG at the average cost of \$1.8 million a year.

Trustee Galinson expressed concern regarding the length of time that KPMG has been conducting the CSU audit and, perhaps, would be in the best interest of the CSU to contract with another firm in the future.

Audit

Mr. West agreed with Trustee Galinson and explained the challenge in this market. He stated that he consulted with industry leadership and spoke with some of the larger firms regarding their reasons for not bidding and determined it was due to the uncertainty of obtaining similar clients with similar backgrounds for future projects. Mr. West acknowledges this problem as this market consolidates and stated that he does recognize the issue.

Trustee Goldwhite asked for the clarification on the meaning of GASB and the changes of 34 and 35.

Mr. West responded that GASB is the acronym for Governmental Accounting Standards Board and explained that they are accounting standards by which audits are to be prepared and by which accounting books should be maintained. He stated that he could not comment on all of the specific changes included in standards 34 and 35, but that a major change was the expectation that governmental entities' financial statements would now reflect depreciation as an explicit expense.

Trustee Pierce presented a motion for the acceptance of the three-year contract with KPMG as the external auditors for the CSU. The committee awarded KPMG the contract for a three-year period.

The meeting was adjourned at 2:57 p.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 2001 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, Delegations of Authority, Contracts and Grants, Development, Information Systems and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Continuing Education, Student Records, Operations and Maintenance of Plant, Student Health Centers, Hazardous Material Management, and Public Safety) is currently being conducted on 43 prior campus/auxiliary 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 2001 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, Delegations of Authority, Contracts and Grants, Development, Information Systems, and Construction.

FISMA

The audit plan indicated that approximately 119 staff weeks of activity (16 percent of the plan) would be devoted to auditing financial internal controls on 11 campuses. Report writing is being completed on four campus reviews, while fieldwork is continuing at one campus.

Auxiliary Organizations

The audit plan indicated that approximately 165 staff weeks of activity (28 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/24 auxiliaries.

Report writing is being completed on three campus/eight auxiliary reviews, while fieldwork is currently taking place at one campus/four auxiliaries.

Delegations of Authority

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the plan) would be devoted to a review of 10 campuses on areas delegated to the CSU by the legislature. These areas include Purchasing/Contracting, Leasing, and Motor Vehicles. Report writing is being completed on one campus review, while fieldwork is continuing at one campus.

Contracts and Grants

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the plan) would be devoted to a review of 10 campuses on solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation, and transfer processes; and award administration. Report writing is being completed on three campus reviews, while fieldwork continues on two campuses.

Development

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the audit plan) would be devoted to a review of 10 campuses on cash contributions and donations of property and services, 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. Report writing is being completed on three campus reviews, while fieldwork continues on one campus.

Information Systems

The audit plan indicated that approximately 84 staff weeks of activity (11 percent of the plan) would be devoted to review of 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. Review and training are ongoing.

Follow-ups

The audit plan indicated that approximately 27 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 43 prior audits (FISMA, Auxiliary Organizations, Continuing Education, Student Records, Operations and Maintenance of Plant, Student Health Centers, Hazardous Material Management, and Public Safety) 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 12 staff weeks of activity (2 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 5 staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. 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. Three reports are awaiting a system response, while report writing continues on three reviews.

Training

The audit plan indicated that approximately 9 staff weeks of activity (1 percent of the plan) would be devoted to training in control self-assessment. 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 individual workshops where risk assessment/mitigation and internal control training will be provided, and a targeted risk assessment profile will be developed. Planning continues in this area.