

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 3:15 p.m., July 15, 2003**  
**Glenn S. Dumke Auditorium**

Shailesh J. Mehta, Chair  
Kyriakos Tsakopoulos, Vice Chair  
Debra Farar  
William Hauck  
Frederick W. Pierce, IV

#### **Consent Items**

Approval of Minutes of Meeting of May 8, 2003  
Approval of Minutes of Meeting of May 14, 2003

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on the Bureau of State Audits Report on the Common Management System, *Information*

**MINUTES OF THE SPECIAL 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**

**May 8, 2003**

**Members Present**

Shailesh J. Mehta, Chair  
William Hauck  
Kyriakos Tsakopoulos, Vice Chair (By Telephone)

**Members Absent**

Dee Dee Myers  
Erene S. Thomas  
Anthony M. Vitti

**Other Trustees Present**

Debra S. Farar, Chair of the Board  
Roberta Achtenberg (By Telephone)  
Murray L. Galinson (By Telephone)  
Harold Goldwhite  
Ricardo F. Icaza (By Telephone)  
M. Alexander Lopez (By Telephone)  
Ralph R. Pesqueira  
Charles B. Reed, Chancellor

**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  
Larry Mandel, University Auditor  
Jackie McClain, Vice Chancellor, Human Resources

Chair Mehta called the meeting to order at 1:19 p.m.

**Status Report on the Bureau of State Audits Report on the Common Management System**

Mr. Richard P. West, executive vice chancellor and chief financial officer, presented the item. He explained that the Common Management System (CMS) is a management improvement project that involves technology-based strategy to standardize on administrative best practices throughout the California State University (CSU). The project includes implementing common administrative software for financial, human resources, and student administration management that is operated at a shared data center.

Mr. West stated that the Board of Trustees approved the Integrated Technology Strategy (ITS) in 1996 and the ITS plan has guided the CSU's technology investments ever since. Up to and prior to 1996, an ad-hoc committee of the Board was responsible for overseeing the overall information technology planning process, which identified 11 initiatives. The two largest initiatives were CMS and the telecommunications infrastructure on the campuses. Many of the projects that were identified in the planning process have been completed, including the libraries-support system, which is also a centralized resource utilizing the Internet and modern technology to provide scholarly information to students and faculty. CSU reports annually to the Legislature on ITS implementation progress including CMS.

Mr. West indicated that the CMS objectives focus on providing high-quality customer service and information, improved efficiency of operations, and improved individual productivity for students, faculty, and staff, with an effort to increase campus collaboration.

Mr. West explained that CMS is an integrated software system, with a separate database for each campus. He further explained that employees in the chancellor's office are responsible for development with respect to using and testing the various versions of the software and for making CSU-required application changes as necessary. The campuses have the responsibility for delivering the services to the end users, that is, assisting with training, implementation, and customization.

Mr. West stated that the business case for CMS resulted from the information technology planning process, which began in the early 1990s. This process determined that legacy systems operated on antiquated technology no longer supported by the vendor and were duplicative and redundant, compromising data quality and integrity. In addition, most campuses did not have a human resource (HR) system and had to rely upon the central state payroll system for human resources information.

Trustee Hauck inquired as to whether the campuses had to develop their own system or systems without regard to any other campus.

Mr. West responded that most campuses did not have an HR system, and as a result, payroll was processed by a direct feed to the state payroll system. He explained that a financial records system (FRS) had been developed that was primarily built around reporting needs of the chancellor's office. Campuses supplemented the FRS with each of their individually developed systems.

Trustee Hauck asked for the vendor name of the legacy systems.

Mr. West responded that with respect to student systems, there were a variety of vendors from the marketplace, some of which were no longer in service.

Trustee Mehta inquired as to how payroll was processed without an automated HR system.

Mr. West explained that payroll was processed with a direct feed to the State Controller's Office, through a dedicated computer terminal, and was restricted to one or two people in each of the campus payroll offices.

Trustee Pesqueira inquired as to whether the problem of interpreting information was a result of each campus developing its own integrated system without the integration or commonality with the chancellor's office.

Mr. West responded that a mix and match approach existed at the campus level, where one area might have some strength and another might be quite deficient. He explained that each campus had its own method of producing the information required for central and reporting purposes. He stated that the central office could get access to the data, but the data was insufficient due to antiquated systems.

Trustee Icaza inquired about the state auditor's comment regarding the loss of functionality if the campuses were to implement CMS.

Mr. West responded that because campuses were at different development stages, the overall approach was to establish a common base with all campuses and then proceed together as major system changes were implemented. He stated that the campuses identified their needs with respect to the basic requirements and, as a result, are showing improvement in many areas of functionality.

Trustee Achtenberg inquired about specific losses in functionality that were identified by the state auditor.

Mr. West responded that he did not recall specifically which losses were identified by the state auditor, but stated that the campuses that have completed the implementation process have reported improvements in their functionality.

Trustee Lopez inquired as to whether California State University, Fullerton (CSUF) is one of the campuses that would be losing some functionality.

Mr. West responded that CSUF is one of the campuses that has yet to be implemented and, therefore, is unable to comment on its potential for loss in functionality.

Trustee Lopez commented that a report issued by the CSUF information technology department indicated that there would be a loss in the student services functions due to CMS.

## Audit

Trustee Mehta asked for confirmation on his understanding that the vision of CMS is to ensure that there is a continuing infrastructure operation for finance, HR, and student administration and that some campuses may gain improvements in functionality, while others may have to trade off between losing some features but gaining many others.

Mr. West responded affirmatively and indicated campuses that have implemented the full suite of systems have reported significant improvements in service, reporting capabilities, and functionality. He stated that the focus is to improve, as a system, a platform for services and to advance our overall strategy for efficiency of services.

Trustee Icaza inquired as to whether the state auditor failed to find evidence demonstrating the CSU's need to replace its existing administrative computing systems as well as a comprehensive cost-benefits analysis of the project.

Mr. West responded that although the state auditor had been presented with a series of documents that indicated the cost of the system, the objectives, and the specific requirements per campus, it was reported that there was no specific document, a business case, or, in the state auditor's view, a feasibility study or cost-benefits analysis. He indicated that the University believes that a business case existed, demonstrating a clear indication of need through the actual planning documents, campus surveys, and campus presidents' representations.

Trustee Hauck stated his opinion that the series of documents that were presented to the state auditor were essentially a business case as well as a cost-benefits analysis. He indicated that, in addition to the outdated legacy systems, these documents included forecasting regarding "Tidal Wave II" from the standpoint of how many additional students the system would have to accommodate and an evaluation as to whether existing systems at that point would be able to accommodate those students.

Mr. West agreed with Trustee Hauck and stated that it was a very thorough process, led by presidents and vice presidents, that included sufficient background documentation indicating the requirements and the need. He reported that as part of the initiative in 1984 or 1985 regarding these areas, PriceWaterhouse conducted a study that resulted in the same conclusions. The study was the basis for the 1993 initiative being restarted by the presidents and led to a comprehensive approach with respect to all technology.

Trustee Icaza expressed his concern regarding the state auditor's comment that the University cannot ensure that the CMS project is a worthwhile expenditure totaling more than \$662 million.

Mr. West clarified that the state audit estimate of \$662 million includes costs over an 8-year period. He explained that the state auditor is referring to the absence of a cost-benefits analysis. The University believes that the documents presented to the state auditor were essentially a business case and included testimony by presidents, vice presidents, staff, faculty, and students stating the need for improvement throughout the technology areas, as well as the Board's approval in 1996 to proceed with CMS as a priority.

Trustee Pesqueira indicated that from the initial presentations to the Board in 1994, it became very obvious that the campus systems were in dire need of updating before the onset of “Tidal Wave II.” He stated that everyone agreed that over a period of time, there definitely would be a positive cost benefit in making the change.

Trustee Hauck indicated that the CSU updated the systems to achieve its objective of being able to serve currently more than 400,000 students, and noted that the number of students is increasing significantly each year. He stated his opinion that without the update, the universities would be operating with antiquated systems that would have been tremendously inefficient and totally unfair to potential students wanting to enter our universities as well as to current students requesting service.

Trustee Icaza commented that the state auditor disagrees with the analysis.

Mr. West explained that CSU has acknowledged the fact that there is no document called a cost-benefits analysis; however, other documents, processes, and observations were presented that, in the University’s opinion, represented a business case.

Mr. West stated that the benefits of CMS include providing an improved level of service to students that allow a self-service-oriented approach so that students and faculty would have direct access to information regarding their academic program, degree requirements, financial aid, etc.

Mr. West indicated that the CSU had engaged Cap Gemini Ernst & Young (CGEY) to conduct two stages of a process of assessing the benefits of CMS and the costs associated with treating those benefits. The initial analysis included determining the operating cost post-implementation of CMS versus what would have been the operating cost of the legacy systems and determining the cost of an individual approach on a campus-by-campus basis to replace the systems versus the CMS approach. Prior to the audit and prior to the June 1999 estimate, many studies were conducted. IBM Consulting was hired to assist in the ITS planning process, and most of the operating costs associated with the legacy systems originated from this study. The state audit quotes only the 1994/95 estimate of costs at \$42 million; however, it was determined that the operating cost for CMS would be \$65 million in 2006/07. Mr. West stated that the CGEY analysis suggested that a different approach would have generated a \$105 million versus \$65 million for the legacy systems versus comparison systems. He further stated that the state audit did not make an adjustment for time and some reasonable amount of function. He indicated that the CGEY analysis determined that, based on the state auditor’s \$42 million estimate, the legacy systems would have cost \$78 million per year to operate in 2006/07 compared to an estimate of \$65 million for CMS when appropriately adjusted for time. Therefore, when done on a consistent value of time, the analysis indicated a benefit in the operating cost. He stated that depending on the analysis, other software and data center alternatives would have cost from 37 to 60 percent more by using an individual approach on a campus-by-campus basis. CGEY will provide a more comprehensive analysis of benefits in June 2003.

Mr. West discussed the cumulative project costs and emphasized that they are not annual numbers but are cumulative numbers for the period between 1998 and 2007. He explained that the University's implementation costs are within the original projected estimates. In 1999, the University's estimated costs of \$439.6 million included primarily implementation costs at the campuses and central office. The equivalent estimated cost based on the 2002 survey was \$444.5 million. The difference in interpretation of costs between the CSU and the state auditor is related to ongoing maintenance and operational costs after the project has been implemented at the campuses. The state auditor included other costs that they called upgrade and integration costs in their new costs of \$481.8 million. The University included those types of costs as ongoing costs, thereby excluding them from the University's estimate of new costs.

Trustee Icaza requested clarification as to whether operational and maintenance costs should have been included in the estimate of costs.

Mr. West responded that the state auditor and the University interpreted these costs differently. The University did not include operational and maintenance costs into the estimate because they are ongoing costs rather than implementation costs.

Trustee Mehta asked for clarification as to whether ongoing operating costs are more of a replacement operating cost, not a cost per se.

Mr. West responded that once the new costs have been completed, the ongoing costs are about the same as the legacy systems.

Trustee Icaza commented that the state auditor basically found that the University would spend \$23 million more annually to maintain and operate the CMS system.

Mr. West explained that as shown with the CGEY study, the \$23-million difference is from the \$42 million, which is a 1994/95 number, versus \$65 million, which is a 2006/07 number. He further explained that the state auditor did not adjust for the cost of the value of time for those dollars. He indicated that when the data was collected from the campuses, the campuses adjusted their outgoing years by a factor of approximately 5 percent; the same was done for the central costs.

Trustee Achtenberg inquired as to whether the operating costs of the legacy systems are comparable to the CMS system now that the operating costs have been quantified.

Mr. West responded affirmatively and stated that even though the new systems would have more functionality, the University believes that the operating costs are within \$5-\$10 million per year comparability, once fully implemented.

Trustee Mehta reiterated that when the comparison of operating costs was conducted, many campuses did not have an HR system and payroll was performed by direct feed to the central state payroll system. He then inquired as to whether that cost was included in the legacy systems operating costs.

Mr. West explained that the University used the \$42 million number that was identified in the 1994/95 IBM study of operating costs, which indicated a minimal amount of operating costs for HR systems because none existed. The \$65 million includes fully operating HR systems for 24 sites.

Trustee Mehta asked for a comparison of ongoing operating costs of the new HR system with the manual systems that were used by the campuses.

Mr. West responded that the operating costs of the new HR system would be lower based on the CGEY analysis.

Trustee Galinson asked if the University's treatment of operating costs for the CMS project is consistent with the CSU auditors' expectations of the universities and auxiliary organizations.

Mr. Larry Mandel, university auditor, responded that operating costs at the universities and auxiliary organizations would be treated differently from implementation costs and would not be included in the initial cost of the project.

Mr. West explained that the difference between the University's interpretation of the basic costs and the state auditor's estimate is the \$63.4 million labeled "In Kind" costs. He explained that In Kind costs represent existing staff, employed before the project started, that work in CSU offices associated with human resources, finance, and student services and in the chancellor's office as the lead purchasing person, accounting manager, assistant accounting manager, and staff whose responsibilities include incorporating new procedures and new systems. He further explained that this cost was not included as part of the University's estimate because it did not represent new costs to the campuses or central office.

Trustee Icaza commented that the state auditor noted that including the operational and maintenance costs provides the most comprehensive and consistent accountings of the University's costs.

Mr. West responded that the state auditor's approach of including operational and maintenance costs is one way to account for capital costs; however, the University's approach was to identify only new costs associated with the University.

Trustee Goldwhite asked for confirmation that there was no need to hire a lot of additional staff to manage the new system while the legacy system was still active.

## Audit

Mr. West responded affirmatively and stated that the hiring of additional staff, i.e., temporary staff hired to help support staff that was responsible for building the new system, was recorded as an implementation cost.

Mr. West stated that one of the major issues in the state auditor's report pertained to accountability for the CMS project. He further stated that the CSU provides the annual accountability report, Measures of Success, to the state, policymakers, and other interested parties each year. The measures in this report were jointly developed with the Department of Finance and the Legislative Analyst's office and describe the progress and results of CMS and ten other ITS initiatives. The University will continue to report on the developed costs of CMS. He indicated that the University also reports each year on the specific goals and objectives of the Partnership Agreements on major outcomes that include student access and success, investments in long-term needs, institutional productivity and efficiency, meeting the state's workforce needs in such areas as teacher education, and closing the faculty salary gap.

Mr. West stated that two security issues regarding the protection of confidential student and employee information and password control were included in the state auditor's report. In recognition of the serious nature of the security concerns identified and to protect the students and employees, the University implemented additional controls, including executive level approval and the issuance of confidentiality statements, over access to confidential information. In addition, the University is currently working with the vendor to make software improvements that will provide further increased security protection.

Trustee Pesqueira inquired as to whether the University would develop a different method of identifying students other than by social security number (SSN) and date of birth.

Mr. West explained that the CMS system uses a unique, system-generated identifier. However, there are still circumstances where the use of the SSN and date of birth is necessary to accurately identify the correct student or employee record, and these numbers continue to be required for national student tests, financial aid, tax reporting, and payroll. The University is working with the vendor to modify this function where the SSN or date of birth will be abbreviated, or masked, so that only the last four digits of the SSN or only the month and day of the birth date will be shown.

Trustee Mehta expressed his concern regarding the controls in place to prevent the sharing of confidential information.

Mr. West responded that confidentiality statements have been issued to staff as a means to clearly communicate the responsibilities and requirements pertaining to the access of confidential information. He stated, however, that there is an exposure and a risk in any system where a person could disclose a password control or disclose information to another individual.

Trustee Mehta suggested that staff with access to confidential information and password control be periodically reminded about this responsibility.

Trustee Achtenberg inquired as to how the security issue would have been addressed through the legacy systems.

Mr. West responded that legacy systems would have had the same basic requirements of establishing password controls and ensuring that employees know and understand the confidentiality responsibilities and requirements.

Ms. Jackie McClain, vice chancellor of human resources, stated that the confidentiality requirements and responsibilities have been communicated to employees several times in the last year as well as prior to the audit. She indicated that other methods of communicating accountability regarding confidentiality are being reviewed.

Trustee Achtenberg inquired as to whether the University has reviewed the methods used by other large institutions in communicating confidentiality requirements and whether we know of a better system and have failed to implement it.

Ms. McClain responded that when she was employed by the University of Michigan, the university also utilized a confidentiality statement that was signed by employees as a means of communicating their responsibility and advising them of their accountability. She indicated that Ohio State University uses a pop-up screen where a person has to check the box in order to access confidential data and indicates the person has knowledge of the confidentiality requirement. She further indicated that the majority of institutions are using signed confidentiality statements.

Mr. West stated that the University has retained a security consultant to examine our systems and make recommendations on further security measures.

Trustee Mehta expressed his concerns regarding security and was pleased about the retaining of a security consultant.

Mr. West explained that the selection of the application software was a long and thorough process and was very similar to the overall ITS planning process in that it was very campus based. The selection committee included individuals from the chancellor's office, presidents, vice presidents, and provosts as well as a task group that used specialists from the campuses in student services, HR, and finance to evaluate the various software. In 1998, the CMS task force made a recommendation to the campus presidents and the chancellor to acquire PeopleSoft. He stated that the state auditor had different opinions on whether the procurement process should have been stopped when the decision was made to choose only one vendor for the University and whether different quantitative methods should have been used. Mr. West clarified that the procurement process was competitively bid. He indicated that the state audit report does not call the license a sole source, as some people have interpreted it.

Mr. West stated that the audit indicated concerns about the hiring of consultants using sole-source contracts. He acknowledged the University's culpability on the use of a sole source, IO Consulting Group, as an implementation partner during the early stages of the project from 1999 to 2001. He stated that the University corrected this issue by soliciting competitive bids in July 2001. He explained that the sole-source engagement with IO Consulting Group lasted longer than it should have due to the objective of meeting the schedule and implementing the systems in a timely manner.

Trustee Hauck asked for a rating on the service provided by IO Consulting Group and inquired as to whether the expected result was achieved.

Mr. West responded that the University and the campuses believe that the service provided by IO Consulting Group was excellent and stated that the outcome was to meet the schedule and implement the systems as quickly as possible.

Trustee Icaza expressed his concern about the state auditor's comment regarding the University's pattern of awarding sole-source contracts for reasons that appear questionable and the fact that IO Consulting Group's contract increased from the base value of \$350 thousand to \$5 million.

Mr. West stated that he agreed with the state auditor's concerns that attempting to meet a schedule is not a valid reason for a sole source and corrected the issue by soliciting competitive bids in July 2001. He explained that IO Consulting Group continued under competitive bid arrangements to work for the University, both at the campus level and the central office. He indicated that the \$5 million associated with IO Consulting Group represents costs over a 2-year period.

Trustee Hauck inquired as to whether the reason for the sole-source contracts was a result of a lack of available personnel in this field for the CSU to hire.

Mr. West responded affirmatively and stated that in 1999 due to a large demand for individuals with PeopleSoft skills, it was a very difficult market to recruit either consultants or staff, especially those with expertise in the HR function. He acknowledged that scarcity in the market is not a valid reason for using sole source, but noted that it was the nature of the marketplace.

Trustee Icaza commented on the state auditor's concerns regarding the propriety of the procurement process used in the CMS software vendor system.

Mr. West stated that the procurement process included wide-based consultation and involvement of individuals from the chancellor's office, presidents, vice presidents, and provosts. The CMS task force, chaired by a campus vice president, made its recommendation to the campus presidents, who in turn made their recommendation to the chancellor. He indicated that the state auditor expressed his opinion that the University should have stopped the procurement process when one vendor was chosen. The University's view of the marketplace indicated that there were only two viable vendors, SCT and PeopleSoft, and restarting the process of resubmitting contracts seemed counterproductive. The University believed that by using the master-enabling

agreements for implementation partners, it complied with the competitive bidding process. However, he indicated that last summer, the state changed the process involving master-enabling agreements. As a result, the chancellor has issued Executive Order 862 that now requires both a feasibility study and a solicitation plan prior to bidding, review of at least three offers for pre-qualified multiple-master award agreements, and approval by the executive vice chancellor/chief financial officer and the campus chief financial officers for all information technology projects \$500,000 or more or of high risk.

Trustee Hauck commented that the state had a process of master service agreements, where if a vendor competitively made it to the master service agreement list then a state agency could select one vendor from the list. He stated his opinion that the state established that process to achieve some efficiencies in procurement for regularly occurring services. He indicated that the change in process is a relatively new general requirement by the state.

Mr. West referred to two cases identified in the state audit that suggested apparent conflict of interest for CSU employees. He indicated that in both cases, counsel and the vice chancellor of human resources believe that the University and its employees complied with conflict of interest law and policy. He stated that the state auditor has referred one case to the Fair Political Practices Commission for examination. He further stated that the University has offered full cooperation and has implemented or is in the process of implementing the state auditor's recommendations regarding conflict of interest training, ethics training, and reporting of economic conflict of interest statements, Forms 700. In addition, Senate Bill 971 has been amended to require reporting of outside income from for-profit organizations and the regular ethics training for designated employees.

Trustee Icaza inquired as to whether disciplinary action has been taken toward the two areas of conflict of interest.

Mr. West responded that counsel and the vice chancellor of human resources have reviewed these cases and believe that the University and its employees complied with policy and law and no disciplinary action is warranted.

Trustee Icaza asked for confirmation as to whether the conflict of interest issues have been the subject of the hearings in the Senate.

Mr. West responded affirmatively but stated that there is no evidence that suggests there was a violation of policy or law.

Trustee Galinson stated his opinion that the conflict of interest issues should be discussed with the Board in closed session and suggested that the subject be included on the agenda for a future Board meeting.

Chancellor Reed stated that the conflict of interest issue would be included on the agenda for the July 2003 meeting.

## Audit

Mr. West provided a summary of the presentation regarding the CMS system. He reported that 16 of the 30 recommendations in the state auditor's report have been implemented. Six more recommendations will be implemented by September 2003 and the final eight by December 2003. Regarding system implementation, as of July 2003, 16 campuses will be on HR, 15 will be on financial, and 6 will be fully implemented on student administration. In July 2004, 21 campuses are expected to be on HR, 15 on financial, and 8 on student administration.

Trustee Icaza asked for comments on whether it would be wise to defer the CMS project, in light of the current financial crisis, so that funds could be used for other campus projects.

Mr. West responded that deferring the CMS project would not result in additional savings, but as a deferral of an expense. He stated that whether there is a 10% or 15% reduction, the University is a very large institution with a need for basic financial, HR, and student services systems. He further stated his belief that spending 1.6% of the University budget on the replacement of these systems is reasonable given the mission and size of the University.

Trustee Tsakopoulos asked for the estimated deferral amount if all of the universities that have not been fully implemented chose to defer.

Mr. West responded that for fiscal year 2003/04, the estimate would be \$19 million. However, some campuses have already indicated opposition to deferral. The resulting deferral amount is only \$13 million.

The Committee heard comments on the CMS issue from the following individuals:

- Charles Goetzl, President, Academic Professionals of California
- David Bradfield, California Faculty Association
- Hubert Lloyd, California State Employees Association

The meeting was adjourned at 2:54 p.m.

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

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

**May 14, 2003**

**Members Present**

Kyriakos Tsakopoulos, Vice Chair  
William Hauck  
Erene S. Thomas

**Members Absent**

Shailesh J. Mehta, Chair  
Dee Dee Myers  
Anthony M. Vitti

**Other Trustees Present**

Debra S. Farar, Chair of the Board  
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Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Christine Helwick, General Counsel  
Larry Mandel, University Auditor  
Jackie McClain, Vice Chancellor, Human Resources

Vice Chair Tsakopoulos called the meeting to order at 8:09 a.m.

**Approval of Minutes**

The minutes of the meeting of March 11, 2003, were approved as submitted.

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

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

*FISMA* – Report writing is being completed on three campus reviews.

*Auxiliary Organizations* – Report writing is being completed on two campuses/six auxiliaries.

*Employee Relations* – Report writing is being completed on one campus review.

*Risk Management and Insurance* – Report writing is being completed on one campus review, while fieldwork continues at one campus.

*Disaster/Contingency Planning* – Report writing is being completed on one campus review.

As per the audit plan, 12 FISMA reviews, 26 auxiliary organization reviews, and 30 subject area reviews (10 in each subject area) will be completed this year.

*Follow-up* – Currently tracking approximately 50 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Delegations of Authority, Financial Aid, and Disability Support and Accommodations) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*Construction* – For fiscal year 2002/03, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Report writing is being completed on three campus reviews, two audits await a campus response prior to finalization, and one audit is in the fieldwork stage.

Trustee Tsakopoulos indicated that on May 8, 2003, the Committee on Audit held a special meeting to discuss the Bureau of State Audits report on the California State University's Common Management System. He stated that Richard West, executive vice chancellor and chief financial officer, identified the major issues resulting from the state audit and discussed the implementation of the recommendations. He indicated that the minutes would be presented to the Board for approval at the July 2003 meeting.

Mr. Mandel stated that all of the campuses are at or below the 12-month period for completing outstanding recommendations. He commented that the campuses have done an exceptional job in completing the recommendations and are to be commended for their efforts.

## **Adjournment**

The meeting was adjourned at 8:14 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 2003 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, Employee Relations, Risk Management and Insurance, Disaster/Contingency Planning, Information Systems, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Financial Aid, and Disability Support and Accommodations) is currently being conducted on approximately 50 prior campus/auxiliary/investigative reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the Committee meeting.

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

At the January 2003 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, Employee Relations, Risk Management and Insurance, Disaster/Contingency Planning, Information Systems, and Construction.

#### *FISMA*

The audit plan indicated that approximately 136 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed on three campus reviews.

#### *Auxiliary Organizations*

The audit plan indicated that approximately 234 staff weeks of activity (30 percent of the plan) would be devoted to auditing internal compliance/internal control at 7 campuses/26 auxiliaries. Report writing is being completed on four campuses/thirteen auxiliaries.

### *Employee Relations*

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of 10 campuses on activities involved in negotiating and administering collective bargaining agreements with represented employees, administering the management personnel plan for nonrepresented employees, and the systems for addressing staff grievances and complaints. One audit awaits a campus response prior to finalization, report writing is being completed on two campus reviews while fieldwork continues at one campus.

### *Risk Management and Insurance*

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of 10 campuses on risk and liability assessments, self insurance, selection of insurance coverage and carriers, risk mitigation and prevention programs, claims review and processing, and operations of the California State University Risk Management Authority. One audit awaits a campus response prior to finalization, report writing is being completed on three campus reviews, while fieldwork continues at one campus.

### *Disaster/Contingency Planning*

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of 10 campuses on compliance with bond resolutions, Trustee policy and systemwide directives, contingency and disaster recovery planning, backup communications, building safety and emergency egress including provisions for individuals with disabilities, the extent of plan testing, and relationships with state and federal emergency management agencies. Report writing is being completed on three campus reviews, while fieldwork continues at two campuses.

### *Information Systems*

The audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to review of systemwide projects such as: Disaster Recovery, Common Management Systems (CMS), and Web Security. In addition, support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary audits. Review and training are ongoing.

### *Follow-ups*

The audit plan indicated that approximately 30 staff weeks of activity (4 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 50 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Financial Aid, and Disability Support and Accommodations) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

### *Consultations and Investigations*

The audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to campus consultations and special requests. The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the Chancellor. Typically, the special requests are investigative in nature and often are the result of alleged defalcations or conflicts of interest.

### *Construction*

The audit plan indicated that approximately 5 staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2002/03 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. Two audits have been completed, two audits await a campus response prior to finalization, and report writing is being completed on two projects.

### *Training*

The audit plan indicated that approximately 10 staff weeks of activity (1 percent of the plan) would be devoted to training in control self-assessment. The program consists of a two-day workshop where risk assessment/mitigation and internal control training will be provided and a targeted risk assessment profile will be developed. In addition, the Office of the University Auditor is planning two, one-day workshops on various aspects of audit coordination and process.

## **COMMITTEE ON AUDIT**

### **Status Report on the Bureau of State Audits Report on the Common Management System**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

#### **Background**

A special meeting of the Committee on Audit was held on May 8, 2003 to discuss with the Board the findings and major issues associated with the recently completed audit by the Bureau of State Audits (BSA) on the California State University's Common Management System (CMS). This item is a report on further actions that have occurred to implement the recommendations contained in the CMS audit.

#### **Completed Recommendations**

The first of several periodic reports has been filed with the Bureau of State Audits. This 60-day report detailed the steps the university has taken to respond to the 30 recommendations contained in the BSA audit. At that time the CSU had implemented 16 of the recommendations. Another three responses will have been completed by the time of the July Board meeting. The university continues to work toward completion of all 30 recommendations by the end of this calendar year. The recommendations that have been implemented are:

1. Adopt policies and procedures that require a feasibility study before IT acquisition.
2. Continue tracking modification costs and apply cost to decisions on modifications.
3. Define CMS Baseline Scope.
4. Evaluate business processes against vendor products before procurement.
5. Establish sensitive information policy regarding CMS access.
6. Share risk with vendors and consultants through procurements.
7. Use procurement processes appropriate to procurement objectives.
8. Establish practice of using quantitative scoring on procurement decisions.
9. Enforce sole source policy.
10. Establish policy to require three offers for procurement under MEAs.
11. Continue to monitor and manage the data center contract and services.
12. Require procurement disclosure statements.

13. Enhance procurement disclosure statements.
14. Update conflict-of-interest code.
15. Require consultants to file Form 700s.
16. Remind HR personnel of their responsibility to manage Form 700s for seven-years.

### **Recommendations in Process**

The three recommendations that will be completed by the end of June are:

#### Consider use of an independent oversight consultant

The CSU is surveying EDUCAUSE and other higher education institutions to determine best practices in higher education regarding internal and external oversight of technology procurement and implementation. These findings will be considered along with the functional performance and independence of the University's campus-based oversight committee structure to determine whether additional expenditure of resources is required for oversight.

#### Establishment of an incompatible activities policy

A memorandum to campus presidents, key campus staff and the Office of the Chancellor is to be distributed, which identifies noteworthy California laws that govern the behavior and activities of CSU employees in areas of incompatible activities, conflict of interest and ethics. All future university employees will be informed of these requirements.

#### Remind employees of the prohibition against using non-public information

Employees will be reminded of this prohibition against using information not generally available to the public to benefit financially through the memo on incompatible activities described above. The Vice Chancellor of Human Resources will work with campus presidents and the chancellor's office, as necessary, on discipline related to infractions.

Following is a brief description of the remaining 11 recommendations and the status of implementation:

#### Establish quantitative measures of increased business process efficiencies through CMS

The CSU will involve its existing Quality Improvement process to measure process efficiencies. This will begin with production of a list of qualitative and quantitative measures of process efficiencies. A structure will be put in place for collecting these measurements.

Collect and compile system-wide project cost information, including campus costs quarterly and annually

We will establish quarterly and annual reporting procedures and parameters for implementation.

Include all costs of the CMS project in annual reports to the Legislature

The results of annual cost reporting will be included in the Measures of Success (MOS) report to the Legislature.

Establish a system-wide funding plan for the CMS project that includes campuses

The University will establish a process for collecting and reporting CMS funding plans for each campus to be combined in a system-wide report.

Reassess the design of CMS regarding data base instances

We will develop and issue an RFP for assessment of alternative technology approaches.

Examine cost of new campus functionality

The campuses are being asked to report the cost of planned functionality additions outside of the baseline core functionality.

Review design for CMS system-wide reporting

The University has defined the scope of CMS baseline core functionality to support reporting requirements. Documentation will be developed for each area of system-wide reporting (HR, Finance, Student) to identify the level of data required, sources of data, and the edits imposed on the data submissions for quality assurance and the schedule of submissions. CSU will evaluate the opportunity for improvements in system-wide reporting using CMS.

Establish quality assurance function for CMS

A quality assurance function for CMS releases has already been implemented. We are developing a quality assurance plan.

Expedite the inclusion of data warehousing in CMS

We will define the requirements for data warehousing on campuses and system-wide as a beginning step to develop or commission a feasibility study regarding data warehousing as a part of the CMS project.

Conduct periodic conflict-of-interest training

The University is developing a comprehensive web based conflict of interest and ethics training program for delivery to designated employees via the web by calendar year end.

Designated employees will be required to take the training and certify completion. The training will include instruction on the FPPC's eight-step process as well as the responsibility to seek advice of counsel when questions exist. CSU presented a Conflict of Interest workshop on February 27, 2003 designed to update campus and Chancellor's Office conflict of interest filing officers on FPPC filing requirements. The FPPC representative and CSU counsel addressed a number of issues including compliance requirements, the filing process, clarification of the role of consultant and principal investigator, CSU disclosure categories and designating a position.

CSU has supported amendments to sponsored bill SB 971 (Burton) to put in place tighter conflict of interest standards for all procurements and contracts in the future. Counsel has reviewed conflict of interest issues and the CSU will fully cooperate with any action taken by the FPPC.

A complete list of the recommendations and the target completion date can be found in Attachment A. The next report to the Bureau of State Audits is due September 11, 2003. The Joint Legislative Audit Committee has requested that we prepare a special 120-day report, due July 11, 2003, that we will send directly to the committee. We will continue to return to this committee to report on the status of the University's responses, and our continuing conversations with policymakers in Sacramento.

**CMS Audit Recommendations Status Summary – By Completion Date**

California State University  
 June 16, 2003



<u>CHAPTER / RECOMMENDATION</u>	<u>STATUS</u>	<u>DATE</u>
◦ 6B7. Remind HR personnel of their responsibility to manage Form 700s for seven-years	Complete	Feb '03
◦ 3A2. Continue tracking modification costs and apply cost to decisions on modifications.	Complete	Mar '03
◦ 3D3. Establish sensitive information policy regarding CMS access. (Expanded action by CSU)	Complete	Mar '03
◦ 3E1. Share risk with vendors and consultants through procurements.	Complete	Mar '03
◦ 5A. Continue to monitor and manage the data center contract and services.	Complete	Mar '03
◦ 1A: Adopt policies and procedures that require a feasibility study before IT acquisition.	Complete	Apr '03
◦ 3B. Evaluate business processes against vendor products before procurement.	Complete	Apr '03
◦ 4A1. Use procurement processes appropriate to procurement objectives.	Complete	Apr '03
◦ 4A2. Establish practice of using quantitative scoring on procurement decisions.	Complete	Apr '03
◦ 4A3. Enforce sole source policy.	Complete	Apr '03
◦ 4A4. Establish policy to require three offers for procurement under MEAs.	Complete	Apr '03
◦ 6B3. Require procurement disclosure statements.	Complete	Apr '03
◦ 6B4. Enhance procurement disclosure statements.	Complete	Apr '03
◦ 6B5. Update conflict-of-interest code.	Complete	Apr '03
◦ 6B6. Require consultants to file Form 700s.	Complete	Apr '03
◦ 3A3. Define CMS Baseline Scope.	Complete	May '03
◦ 3D2. Consider independent oversight consultant.	In Process	Jun '03
◦ 6B2. Establish an incompatible activities policy. (CSU will continue to implement existing law)	In Process	Jun '03
◦ 6B8. Remind employees of the prohibition against using non-public information.	In Process	Jun '03
◦ 3A4. Examine cost of new campus functionality.	In Process	Sep '03
◦ 3D1. Establish quality assurance function for CMS.	In Process	Sep '03
◦ 2A1 & 2. Collect and compile system-wide project cost information, including campus costs.	In Process	Oct '03
◦ 2B. Include all costs of the CMS project in annual reports to the Legislature.	In Process	Nov '03
◦ 1B. Establish quantitative measures of increased business process efficiencies through CMS.	In Process	Dec '03
◦ 2C. Establish a system-wide funding plan for the CMS project that includes campuses.	In Process	Dec '03
◦ 3A1. Reassess the design of CMS regarding data base instances.	In Process	Dec '03
◦ 5B. Expedite the inclusion of data warehousing in CMS.	In Process	Dec '03
◦ 6B1. Conduct periodic conflict-of-interest training.	In Process	Dec '03
◦ 3C1. Review design for CMS system-wide reporting.	In Process	Dec '03