

AGENDA

COMMITTEE ON AUDIT

Meeting: 2:20 p.m., Tuesday, May 15, 2001
Glenn S. Dumke Conference Center

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

Consent Items

Approval of Minutes of Meeting of March 21, 2001

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Selection of External Auditors, *Action*

**MINUTES OF MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
California State University, Long Beach
University Student Union – Multipurpose Room ABC
Long Beach, California**

March 21, 2001

Members Present

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

Other Trustees Present

Laurence K. Gould, Jr., Chairman of the Board
William D. Campbell
Daniel N. Cartwright
Debra S. Farar
William Hauck
Dee Dee Myers
Ali C. Razi
Charles B. Reed, Chancellor

Chancellor's Office Staff

David 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

Approval of Minutes

Chair Pierce called the meeting to order at 8:26 a.m. The minutes of the January 23, 2001 meeting were approved as submitted.

Status Reports on Current and Follow-up Internal Audit Assignments

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

FISMA – Field work is currently taking place at four campuses.

Auxiliary Reviews – Field work is currently taking place at two campuses/six auxiliaries.

Contracts and Grants – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Development – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Delegations of Authority – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Follow-ups - currently tracking 40 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.

Mr. Mandel clarified that the number of recommendations in the auxiliary section of the matrix represents the number of recommendations for all organizations reviewed, and not one individual review. He further stated that the campuses have done an exceptional job of completing outstanding recommendations in all areas.

Trustee Galinson expressed his concern over the time and cost of the auxiliary reviews and asked whether it would be less disruptive if external auditors performed such reviews. He also noted that the auxiliary reviews were falling further behind than the schedule originally planned.

Mr. Mandel reassured Trustee Galinson that, while external auditors conduct financial statement reviews, they do not conduct the in-depth operational/performance reviews completed by the Office of the University Auditor. He further stated that consideration was initially given to having external auditors conduct the reviews, but the firms declined, indicating that the cost would be prohibitive due to the scope and attestation required. In regard to Trustee Galinson's concern of falling behind schedule, Mr. Mandel noted that three recent changes will allow the

audits to be performed on schedule. The first is the change to a triennial rather than a biennial review for each organization, the second is the authorization of two additional positions, and the third is recent recruitment efforts, which have led to a full staff.

Dr. Reed reiterated his belief that auxiliaries are the single biggest risk area in the CSU. He noted that performance audits of the auxiliaries were necessary on a regular basis, and that it was a good decision at the last board meeting to authorize the addition of two more auditors to be paid from the general fund.

Trustee Pierce clarified to Trustee Galinson that although external financial audits do occur, the firms do not provide in-depth reviews of internal controls; it is not an area where they will provide an attestation that everyone would be comfortable with.

Mr. Mandel indicated to Trustee Galinson that the Office of the University Auditor reviews the management letters along with the financial statements to see what issues have been noted, and incorporate those issues into operation reviews.

Trustee Pierce commended the campuses for so diligently responding and resolving open issues. He asked President Aspland to clear up the outstanding recommendations for the California Maritime Academy prior to Dr. Eisenhart's arrival.

President Rosser mentioned that a year ago, Chancellor Reed and Executive Vice Chancellor Richard West asked the presidents to designate a chief fiscal officer with responsibility for auxiliary organization operations. With the implementation of the chief fiscal officer, accountability to ensure proper controls has greatly improved, outside of the routine audits. President Rosser further stated that the improvements made from these organizational changes might address some of Trustee Galinson's concerns in terms of internal institutional responsibility for the financial operations of the organizations.

Trustee Wang suggested that a longer-term audit plan may be more beneficial to the CSU in that resources, both financial and human, could be seen in a broader perspective.

Adjournment 8:38 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 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 45 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 two campus/six auxiliary reviews, while fieldwork is currently taking place at one campus/two 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.

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 two campus reviews, while fieldwork continues on one campus.

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 one campus review, while fieldwork continues on two campuses.

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 45 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 exit conference, 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. Preliminary planning has begun in this area.

COMMITTEE ON AUDIT

Selection of External Auditors

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

The contract with KPMG, our current financial auditors, has expired. The contract included the systemwide financial statements, revenue bond audits, campus financial statement audits and the A-133 audit of federal funds. A Request for Proposal (RFP) has been issued for a new contract and vendor proposals have been reviewed by a selection committee composed of Chancellor's Office and campus personnel. The trustees will be asked to approve the selected vendor at this committee meeting.

Background

The CSU is required to audit its financial statements in accordance with generally accepted accounting principles. For the past four years, the University has contracted with KPMG to conduct these audits.

The existing audit contract expired in January. Two Requests for Proposals (RFP's) were issued to identify a successor auditor. The first RFP was issued on March 5, 2001. Since only a few firms indicated a willingness to respond to the RFP, it was determined that it would be in the best interest of the CSU to cancel it. After discussions with industry representatives, a second RFP, issued on April 4, 2001, resulted in three firms responding.

A Selection Committee evaluated the proposals using set criteria. The evaluation scored each proposal on the project team's experience; work plan and methodology; technical experience; organizational resources and cost. Cost counted for sixty percent of the overall score. The firm with the highest overall weighted score was selected. The contract covers three years with an option for three one year renewals.

The successful bidder and the firm recommended to this committee is KPMG. KPMG was also the lowest bidder with a bid averaging \$1.8 Million per year. The other two bids averaged \$2.5 Million and \$2.9 Million¹.

Revised

Finance

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Prior year audit fees totaled \$1.1 Million. The increase is a result of changes in the CSU environment including implementation of the sweeping changes of GASB 34 and 35; and the addition of several new audits including the CSUCI Site Authority, CSU Financing Authority and the CSU Commercial Paper Program.

Action

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of The California State University, that the trustees approve the selection of KPMG as the University's external auditor for the next three years with three optional renewals of one year each.