

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:00 a.m., Wednesday, May 14, 2003
Glenn S. Dumke Auditorium

Shailesh J. Mehta, Chair
Kyriakos Tsakopoulos, Vice Chair
William Hauck
Dee Dee Myers
Erene S. Thomas
Anthony M. Vitti

Consent Items

Approval of Minutes of Meeting of March 11, 2003
Approval of Minutes of Meeting of May 8, 2003

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, Fullerton
Titan Student Union, Portola Pavilions B & C
800 North State College Boulevard
Fullerton, CA 92834**

March 11, 2003

Members Present

Shailesh J. Mehta, Chair
William Hauck
Erene S. Thomas

Members Absent

Dee Dee Myers
Kyriakos Tsakopoulos
Anthony M. Vitti

Other Trustees Present

Debra S. Farar, Chair of the Board
Roberta Achtenberg
Murray L. Galinson
Harold Goldwhite
M. Alexander Lopez
Ralph R. Pesqueira
Frederick W. Pierce, IV
Charles B. Reed, Chancellor

Chancellor's Office Staff

Louis Caldera, Vice Chancellor, University Advancement
Christine Helwick, General Counsel
Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Larry Mandel, University Auditor
Jackie McClain, Vice Chancellor, Human Resources
David S. Spence, Executive Vice Chancellor and Chief Academic Officer
Richard P. West, Executive Vice Chancellor and Chief Financial Officer

Chair Mehta called the meeting to order at 4:18 p.m.

Approval of Minutes

The minutes of the meeting of January 29, 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 – Fieldwork is currently taking place at three campuses.

Auxiliary Organizations – Fieldwork is currently taking place at two campuses/six auxiliaries.

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

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

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

As per the audit plan, 12 FISMA reviews, 28 auxiliary organization reviews, and 30 subject area reviews (10 in each subject area) will be completed this year.

Follow-up – Currently tracking approximately 55 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. Four of these projects are in the report-writing stage, and one project is in the fieldwork stage.

Mr. Mandel stated that most of the campuses are making significant progress towards completing the recommendations. However, three campuses have outstanding recommendations at or beyond the 12-month period and the Office of the University Auditor has been assisting them with the closing of these recommendations.

Trustee Mehta inquired about the outstanding recommendations pertaining to Auxiliary Organizations and Delegations of Authority at California State University, Chico.

Dr. Manuel A. Esteban, president of California State University, Chico, responded that the outstanding recommendations would be completed by the next Committee meeting.

Trustee Mehta asked if it would be more beneficial to perform construction reviews prior to the end of the project.

Mr. Mandel responded that due to the use of global changeorders at or near the end of each project, most construction reviews have been performed upon completion of the project. However, the issue will be discussed with KPMG and chancellor's office management for future consideration.

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

Mr. Richard P. West, executive vice chancellor/chief financial officer, indicated that this is a follow-up item from the January 2003 Committee meeting. He introduced Mr. Mark Thomas, partner in charge from KPMG, who presented the item.

Mr. Thomas stated that the management letter was prepared as a result of the audit of the financial statements. He explained that the management letter includes two comments identifying material weaknesses in internal controls. He further explained that a material weakness is a significant deficiency in the design or operation of the internal control and that insufficient controls have the potential to affect the accuracy of financial statements. He stated that both comments were a result of significant staff turnover in the accounting departments at both the chancellor's office and California State University, San Marcos (CSUSM).

Chancellor Reed responded to Mr. Thomas' comments regarding staff turnover at the chancellor's office and CSUSM. He explained that after several discussions with Dr. Alexander Gonzalez, president of CSUSM, a decision was made, based on poor performance, to terminate most of the personnel who were involved in the accounting functions. He stated his belief that a first-rate accounting team is now in place at CSUSM. Chancellor Reed explained that the staff turnover at the chancellor's office was due to burnout resulting from personnel working day and night to reconcile with a new Generally Accepted Accounting Principles (GAAP) accounting system and to implement the Common Management System. He further explained that these individuals accepted opportunities with other California State University (CSU) campuses that required their expertise and knowledge and offered higher salaries than the chancellor's office. He stated that the chancellor's office is in the process of hiring highly qualified accounting personnel and rebuilding stability within the accounting department. Chancellor Reed asked for Mr. West's comments.

Audit

Mr. West stated that they have been very successful in replacing some of the employees who have transferred to other campuses and asked Mr. Dennis Hordyk, assistant vice chancellor, financial services, to provide specifics on this.

Mr. Hordyk stated that most of the supervisors or mid-level managers had transferred to other campuses. He further stated that most of the vacant accounting positions have been filled with highly qualified individuals.

Trustee Galinson commented that receiving the management letter on the day of the meeting does not allow for sufficient time for review.

Trustee Mehta agreed with Trustee Galinson and stated that it would be helpful if, in the future, the management letter were mailed to the committee members in advance of the meeting.

Mr. West stated that a written response to the comments in the management letter would be provided in approximately ten days and the proper follow-up would be conducted to resolve these issues.

Single Audit Reports of Federal Funds

Mr. West introduced Mr. Thomas, who presented the item.

Mr. Thomas stated that the Single Audit Report is a review that is required by the federal government, specifically of federal funds. He explained that the most significant part of the CSU's federal funds is in student financial aid. He further explained that the CSU system receives over a billion dollars in federal funds annually through financial aid programs and other research programs, excluding the recognized auxiliary organizations. He stated that the Single Audit Report includes two compliance reports that are required by Government Auditing Standards and the Office and Management Budget (OMB) Circular A-133. He further stated that KPMG has issued an unqualified opinion on the audit of federal funds in accordance with OMB Circular A-133.

Trustee Galinson commented on receiving the Single Audit Report on the day of the meeting, especially when it was dated January 10, 2003.

Mr. Thomas responded that in accordance with Government Auditing Standards and OMB Circular A-133, the date of the report is determined based on the last day of fieldwork.

Trustee Mehta agreed with Trustee Galinson and stated that it would be helpful if, in the future, the Single Audit Report were mailed to the committee members in advance of the meeting.

The meeting was adjourned at 4:36 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 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, Delegations of Authority, Financial Aid, and Disability Support and Accommodations) is currently being conducted on approximately 50 prior campus/auxiliary 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 two campuses/six 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. Report writing is being completed on one campus review.

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. Report writing is being completed on one campus review, 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 one campus review.

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, 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.

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 await a campus response prior to finalization, while report writing is being completed on three 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.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 4/25/2003)

2003 ASSIGNMENTS										FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS										
FISMA	Aux Orgs	Emp Rel	Risk Mgt Insur	Disas/ Contin Ping	Special Investigations	FISMA	Auxiliary Organizations	Development	Contracts and Grants	Delegations of Authority	Financial Aid	Disabil Support and Accommod	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK						10/12	10	7/7	8/8											
CHI			RW			2/5	10	0/7	5	9/10	14									
DH						13/13	-	2/5	5	9/9	-	1/1								
FRE						13/13	-	10/10	-	9/9	-		0/5	6						
FUL	RW					17/17	-	7/7	6/6				8/8	-						
HAY						9/22	8	7/7	-	8/8	-	0/4	6							
HUM						2/2	-		6/6	2/2	-		3/16	4						
LB						10/10	-	8/8	-	7/7	-									
LA						3/5	7	6/7	7/8											
MA						12/12	-													
MB						0/17	10	9/9	-											
NOR						8/8	-	10/10	9/9				0/3	3						
POM			FW			14/14	-	4/11	5	7/7	-	6/8	6							
SAC						7/7	-	11/11	-	6/6	-									
SB						20/21	12	7/7	-				2/9	8						
SD						9/9	-		5/5				3/7	6						
SFO	RW						-	9/9	9/9	11/11	-	0/5	1							
SJ						9/9	-	0/11	7	10/10	-		0/4	6						
SLO						6/12	8	8/8	4/4											
SM						13/17	8	3/3	-				1/2	6						
SON	RW						-	7/7	-											
STA	RW						-	9/9	-				0/4	4						
CO						13/13	-	0/16	6											
SYS							-		8/9	10	8/8									

* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A "0" in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time.

**The number of months recommendations have been outstanding (since the formal campus exit conference).

• The number of auxiliary organizations reviewed.

FW = Field Work In Progress
RW = Report Writing in Progress
AI = Audit Incomplete (awaiting formal exit conference and/or campus response)
AC = Audit Complete

