

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 9:00 a.m., Wednesday, September 20, 2000**  
**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 July 19, 2000

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Report on Construction Auditing in the CSU 1999/00, *Information*

**MINUTES OF 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  
July 18, 2000**

**Members Present**

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

**Other Trustees Present**

Laurence K. Gould, Jr., Chairman of the Board  
Dee Dee Myers  
Roberta Achtenberg  
Daniel N. Cartwright  
Debra S. Farar  
Robert G. Foster  
William Hauck  
Ali C. Razi  
Charles B. Reed, Chancellor

**Chancellor's Office Staff**

Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Jackie McClain, Vice Chancellor, Human Resources  
Douglas X. Patiño, Vice Chancellor, University Advancement  
Christine Helwick, General Counsel  
Larry Mandel, University Auditor

**Approval of Minutes**

Chair Pierce called the meeting to order at 3:12 p.m. The minutes of the May 9, 2000, 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* – one audit has been completed, two are in the report writing stage, and we are awaiting campus responses for three audits.

*Auxiliary Reviews* – report writing is being performed for the four auxiliaries reviewed at the San Francisco campus, three auxiliaries on the San Bernardino campus, and four auxiliaries on the Sonoma campus.

Mr. Mandel explained that, during the January 2000 meeting of the Committee on Audit, the original audit plan called for completing reviews of 35 auxiliary organizations on 11 campuses. He pointed out that the amount of time required to properly complete these audits exceeded the original estimate. As a result, it was necessary to reduce the number of campuses visited to five; hence, the number of reviews performed during calendar year 2000 will total 17 auxiliary organizations.

*Student Health Centers* – four are in the report writing stage, fieldwork is being performed on one campus, and we are awaiting the campus response for one audit.

*Hazardous Materials Management* – five are in the report writing stage.

*Public Safety* – three are in the report writing stage, and fieldwork is being performed on two campuses.

*Follow-up Reviews* – thirty-eight prior audits are being tracked to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required. Mr. Mandel noted that campuses are making excellent progress in closing recommendations within a 12-month period and, although a few are over the 12-month period, they are attempting to comply with and close the recommendations.

*Construction Audit Assignments* – two campus reviews have been completed, and we are awaiting management responses for four reviews. All recommendations from 1997/98 and 1998/99 have been closed. By the September committee meeting, it is anticipated that all reviews will be completed. A representative from KPMG Peat Marwick will attend this meeting and address any questions the board may have regarding these audits.

Trustee Goldwhite inquired as to why the auxiliary audits are more complex than originally anticipated.

Mr. Mandel responded by stating that the preliminary survey of the nature and scope of auxiliary operations did not foretell the complexities of what the auditors have found to date. He went on to explain that the use of a risk-based approach has enabled the audit team to identify and understand the unique issues present at each auxiliary.

Dr. Reed stated that shortly after he assumed duties as Chancellor, Trustee Hauck had inquired as to his assessment of the greatest risk exposure to the system, and Dr. Reed

responded by stating that the auxiliary organizations posed the greatest risk. He added that such exposure is of concern to the presidents, changes must be made within these organizations, and the results of the reviews will be submitted to the board upon completion.

Trustee Galinson stated he understood the concern over the time required to properly complete these reviews. He added that there should not, however, be delays in the process and suggested the use of additional outside resources. He underscored the fact that delaying investigations or the auditing of problem areas would be asking for more trouble.

Dr. Reed indicated that modifications are being made during the initial reviews, both at the campuses and systemwide, and emphasized that the manner in which these organizations are managed is of vital importance.

Trustee Wang indicated that a training program, to be developed by the Office of the University Auditor, would provide the campuses with information regarding control self-assessments. He spoke of the need to provide campuses with case studies of issues found during the course of these audits, highlighted the fact that discussions related to actual cases would be an excellent learning tool, and stated that self-audits would enable campuses to become more self-sufficient. He added that, as the system continues to grow, it will become more challenging to perform a sufficient number of audits.

Chair Pierce asked Mr. Mandel whether his office was performing the type of outreach proposed by Trustee Wang.

Mr. Mandel stated that his office was in the process of developing a training program on risk identification, and one or more individuals from each campus would be invited to attend this training session.

### **Quality Assurance Review**

Mr. Mandel presented the item by stating that the government code requires the Department of Finance (DOF) to perform a periodic review of all state agencies that have internal audit departments. The Association of College and University Auditors (ACUA) recommends that peer reviews be performed at least once every five years. Mr. Mandel pointed out that the last quality assurance review was performed five years ago.

In January 2000, the Department of Finance announced that they would perform a review of the Office of the University Auditor. However, Mr. Mandel suggested that it would be more effective to assemble a team of chief audit executives from institutions across the country to perform this review, and the DOF was amenable to this suggestion.

Mr. Mandel explained that this review team would determine whether the Institute of Internal Auditors (IIA) standards for the professional practice of internal auditing had been adhered to. He went on to state that, during the first week in October, this review team will visit the Chancellor's Office to review the auditing practices of the Office of

the University Auditor. The team will interview various administrators, the current and past chairs of the Audit Committee, and possibly a few presidents as to the operation of the audit department. By late-November the team will issue a preliminary report as to whether these standards have been followed, and the final results of this review will be presented to the Audit Committee in January 2001.

**Adjournment**

The meeting adjourned at: 3:23 p.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
September 19-20, 2000

### **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 2000 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, Hazardous Materials Management, Student Health Centers, Public Safety, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Risk Management, Continuing Education, Student Records and Operations, and Maintenance of Plant) is currently being conducted on 33 prior campus and three auxiliary organization reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

## ITEM

2

Agenda Item 1

September 19-20, 2000

### COMMITTEE ON AUDIT

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

At the January 2000 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, Hazardous Materials Management, Student Health Centers, Public Safety, Information Systems, and Construction.

##### *FISMA*

The audit plan indicated that approximately 130 staff weeks of activity (18 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Four audits have been completed, while report writing continues on two campus reviews.

##### *Auxiliary Organizations*

The audit plan indicated that approximately 165 staff weeks of activity (23 percent of the plan) would be devoted to auditing internal compliance/internal control at 11 campuses. The number of campuses/auxiliaries to be reviewed has been reduced to 5/17 in order to accommodate the current scope of the project. Report writing is being completed on 3 campus reviews/11 auxiliaries.

##### *Hazardous Materials Management*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the plan) would be devoted to a review of 11 campuses on training; inventory procedures; labeling and other forms of warnings; Material Safety Data Sheets (MSDS); hazardous waste registration, permit, and manifesting; emergency and contingency planning; and hazardous waste disposal programs. The number of campuses to be reviewed has been reduced to nine as a result of a reduction in the number of available staff. One audit is awaiting a campus response prior to finalization, report writing is being completed on four campus reviews, while fieldwork continues on three campuses.

##### *Student Health Centers*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the plan) would be devoted to a review of 11 campuses on establishment of health services and fees; qualifications and continuing education of SHC practitioners; control of fee revenue; budgetary controls; expenditures;

maintenance of SHC accreditation status; security of medical records; and

pharmacy controls. The number of campuses to be reviewed has been reduced to ten as a result of a reduction in the number of available staff. One audit has been completed, report writing is being completed on five campus reviews, while fieldwork continues at two campuses.

### *Public Safety*

The audit plan indicated that approximately 101 staff weeks of activity (15 percent of the audit plan) would be devoted to a review of 11 campuses on communication of policies and procedures; relationships with external agencies; compliance with state-mandated POST standards and training requirements; budgetary and expenditure controls over public safety and parking funds; administration and accounting for POST funds and other special monies; cancellation of parking citations; accumulation and reporting of crime statistics; access controls over law enforcement data and confidentiality of records; effective use of physical assets and human resources; and controls over crime scene evidence and public safety equipment. The number of campuses to be reviewed has been reduced to nine as a result of a reduction in the number of available staff. One audit is awaiting a campus response prior to finalization, report writing is being completed on three campuses, while fieldwork continues at two campuses.

### *Information Systems*

The audit plan indicated that approximately 40 staff weeks of activity (5 percent of the plan) would be devoted to review of systemwide projects such as Year 2000, Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Electronic Commerce. In addition, training and support will be provided in the area of financial internal controls (FISMA) for both campus and auxiliary audits. Review and training are ongoing.

### *Follow-ups*

The audit plan indicated that approximately 25 staff weeks of activity (3 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking 32 prior campus (FISMA, Auxiliary Organizations, Student Records, Operation and Maintenance of Plant, and Continuing Education) and three auxiliary organization reviews to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

4

Aud.

Agenda Item 1

September 19-20, 2000

### *Consultations and Investigations*

The audit plan indicated that approximately 43 staff weeks of activity (6 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*

For the 1999/2000 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. All six audits have been completed.

**BRIEF**

**Information Item**

Agenda Item 2  
September 19-20, 2000

**COMMITTEE ON AUDIT**

**Report on Construction Auditing in the CSU–1999/00**

**Presentation By**

Larry Mandel  
University Auditor

Mark Thomas  
Systemwide Coordinating Partner

KPMG Peat Marwick

**Summary**

This item presents the results of construction auditing performed for the CSU during the 1999/00 fiscal year.

## **ITEM**

2

Agenda Item 2

September 19-20, 2000

### **COMMITTEE ON AUDIT**

#### **Report on Construction Auditing in the CSU – 1999/00**

For the 1999/00 fiscal year, construction auditing was performed for the CSU under a contract with KPMG Peat Marwick. The contract called for six construction projects to be reviewed with coordination from the Office of the University Auditor. Areas under review included subcontracting practices, change orders, design costs, project management services, liquidated damages, closeout documents, and verification of major equipment and construction components. Representatives from KPMG Peat Marwick, the external audit firm hired by the California State University to conduct the audit, will make a presentation and respond to questions.