

AGENDA

COMMITTEE ON AUDIT

Meeting: 1:00 p.m., Tuesday, September 14, 1999
Glenn S. Dumke Conference Center

Stanley T. Wang, Chair
Harold Goldwhite, Vice Chair
Dee Dee Myers
Joan Otomo-Corgel
Frederick W. Pierce, IV
Ali C. Razi

Consent Items

Approval of Minutes of Meeting of July 7, 1999

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Year 2000 Update, *Information*
3. Status Report on the Preparation of Systemwide Audited Financial Statements, *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 7, 1999

Members Present

Stanley T. Wang, Chair
Harold Goldwhite, Vice Chair
Dee Dee Myers
Joan Otomo-Corgel
Frederick W. Pierce IV
Ali C. Razi

Other Trustees Present

William Hauck, Chairman of the Board
Martha C. Fallgatter
Laurence K. Gould, Jr.
Charles B. Reed, Chancellor
Michael D. Stennis

Chancellor's Office Staff

Christine Helwick, General Counsel
Larry Mandel, University Auditor

Chair Wang called the meeting to order at 3:44 p.m.

Approval of Minutes

The minutes of the May 12, 1999, meeting were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Larry Mandel, university auditor, presented the item and stated that, of the current 1999 audits, fieldwork is being conducted on seven campuses and report writing is in progress for seventeen recently completed reviews. Mr. Mandel referred to the matrix and noted the following:

FISMA Audits – report writing is currently being conducted on four of the eleven campuses to be reviewed this year.

Audit

Student Records and Registration – fieldwork is continuing at two campuses, while report writing continues at four.

Operation and Maintenance of Plant – fieldwork is being conducted at two campuses, while report writing continues at three.

Continuing Education – fieldwork is currently being conducted at three campuses, while report writing continues at six.

Auxiliary Reviews – fieldwork will commence in early October of this year.

Follow-up Reviews – 44 follow-ups are currently being monitored. A policy related to on- and off-campus student health and safety training issues is being developed for the Occupational Health follow-ups and, until this policy is established, this recommendation will remain open for each of the nine Occupational Health follow-ups.

Mr. Mandel noted that significant progress has been made in clearing recommendations that have been open for extended periods of time, and he added that he and his staff are continuing to work with the campuses to clear open items.

Mr. Mandel pointed out that, due to special investigations, it was necessary to reduce the number of Operation and Maintenance of Plant audits by one for the current year.

Trustee Otomo-Corgel asked for clarification regarding the systemwide policy related to the Occupational Health audits. Mr. Mandel responded by stating that the Chancellor's Office is in the process of writing a policy related to on- and off-campus student health and safety training and, after the policy is distributed, campuses will be able adopt guidelines around this policy. This will enable the campuses to satisfactorily address the open recommendation related to this issue.

Chancellor Reed suggested that Mr. Mandel develop an audit plan that allocates a certain percentage of the audit staff's time for unscheduled special investigations that must be performed. Dr. Reed added that, to prevent the postponement of regularly scheduled campus audits, this type of contingency should be built into the audit plan.

Trustee Wang agreed that a specific percentage should be allocated for such contingencies.

Mr. Mandel indicated that, based on the number of special investigations performed in prior years, a percentage is included in each year's audit plan for such contingencies. However, in those years in which the average number of special investigations exceeds that of prior years, it may be necessary to delay an audit in order to devote sufficient time toward the completion of a special investigation.

Chair Wang stated that, in his reviews of the Status Report on Current and Follow-up Internal Audit Assignments, some of the older outstanding recommendations have not been satisfactorily addressed and remain outstanding. However, he acknowledged that campuses have made progress in closing many of the outstanding recommendations, and he thanked them for their efforts in doing so. In closing, Chair Wang strongly encouraged the campuses to utilize Mr. Mandel's expertise in providing consultative services related to how to satisfactorily address and close audit recommendations.

Adjournment

The meeting adjourned at 3:50 p.m.

BRIEF

Information Item

September 14-15, 1999

Agenda Item 1

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 1999 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education, and Auxiliaries. In addition, follow-up on past assignments (FISMA, Occupational Health, Seismic Safety, Risk Management, and Continuing Education) is currently being conducted on 43 prior campus reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

Agenda Item 1
September 14-15, 1999

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

At the January 1999 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (Financial Internal Controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education, Auxiliaries, Information Systems Auditing, and Construction Auditing.

FISMA

The audit plan indicated that approximately 119 staff weeks of activity (20 percent of the plan) would be devoted to auditing financial internal controls on 11 campuses. One audit has been completed, two are awaiting a campus response prior to finalization, and report writing continues for one campus review.

Student Records and Registration

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of 11 campuses on database record-keeping and registration systems, procedures for creating and changing records, and security measures protecting against unauthorized or inadvertent modification, removal or destruction of records. One audit is awaiting a campus response prior to finalization, report writing continues for five campus reviews, and fieldwork continues at two campuses.

Operations and Maintenance of Plant

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of building engineering, custodial services, groundskeeping, facility repairs and renovations, deferred maintenance, utility distribution, and work order scheduling and control systems. Two audits are awaiting campus responses prior to finalization, report writing continues for three reviews, and fieldwork continues at three campuses.

Continuing Education

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to a review of 11 campuses on continuing education programs and Continuing Education Revenue Fund operations. Two audits have been completed, two are awaiting a campus response prior to finalization, report writing continues for four reviews, and fieldwork continues at three campuses.

Auxiliaries

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to internal compliance/internal control reviews of auxiliary organizations. Preliminary review and audit program development is currently taking place, and campus reviews are scheduled to begin the week of October 4.

Information Systems

The audit plan indicated that approximately 40 staff weeks of activity (7 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 18 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 43 prior audits (FISMA, Occupational Health, Seismic Safety, Risk Management, and Continuing Education) to determine the responsiveness of the corrective action taken for each recommendation and whether additional action is required.

Consultations and Investigations

The audit plan indicated that approximately 13 staff weeks of activity (2 percent of the plan) would be devoted to campus consultations and special requests. The Office of the University Auditor consults with the campuses and the Chancellor's Office on an ongoing basis.

Risk Assessment

The Office of the University Auditor performs triennial risk assessments. The last risk assessment was performed in 1996. Five staff weeks have been set aside for this purpose in 1999, representing slightly less than 1 percent of the audit plan. The risk assessment will begin the third week in September.

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Audit

Agenda Item 1

September 14-15, 1999

Construction

For the 1998/99 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, billings, contractor compliance, liquidated damages, close out documents, project administration process compliance, and cost verification of major equipment and construction components. A draft report has been received for each of the first five projects; fieldwork is in progress on the remaining project.

BRIEF

Information Item

Agenda Item 2
September 14-15, 1999

COMMITTEE ON AUDIT

Year 2000 Update

Presentation By

Richard P. West, Executive Vice Chancellor and Chief Financial Officer
Business and Finance

Summary

This information item provides an update of systemwide activities to achieve Year 2000 readiness. The status of activities on the campuses and in the Chancellor's Office along with the findings of the verifications performed by the Office of the University Auditor will be presented.

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Agenda Item 2

September 14-15, 1999

COMMITTEE ON AUDIT

YEAR 2000 UPDATE

Introduction

An information item providing an overview of the CSU's Year 2000 (Y2K) readiness program was presented at the January meeting of the Board of Trustees. At the May meeting, a progress report with special emphasis on financial and student information systems was provided. This report includes an update of systemwide readiness activities with a focus on embedded systems and the results of a campus-by-campus review performed by the Office of the University Auditor.

Current Status

All campuses submitted reports summarizing cumulative Y2K readiness activities through the end of June. As in the previous quarterly report, campuses updated the status of individual Y2K projects and provided a self-assessment of their progress in seven specific categories and their overall program.

All campuses reported progress over the last reporting period. As of the end of the first quarter, campuses characterized their overall programs as between 55 percent and 100 percent complete with an approximate average of 80 percent complete. By the end of the second quarter, campuses reported their overall programs as being in the range of 70 percent to 100 percent complete with an approximate average of 87 percent complete. Many campuses noted plans to upgrade certain critical systems in August and September.

Embedded Systems

"Embedded" systems are microprocessor-based systems containing one or more "chips" or microprocessors used to control, monitor and/or operate equipment. Embedded microprocessors are present in communications systems, utility systems, security systems, energy management systems, and others. The challenge relating to embedded systems is to perform an inventory of all such systems distributed throughout the physical plant (a time-intensive operation); evaluate the risks associated with the failure of systems that are critical to protecting the health and safety of personnel or protecting the capital assets and surroundings of the university; research the Y2K compliance of those systems that are determined to be critical (also a time-intensive activity); and remediate or replace those systems that are both critical and non-compliant.

Every campus situation is unique depending upon the age of the installed systems, degree of reliance on automation, and the availability of detailed systems data. In order to assist campuses in addressing the embedded systems issue, a pilot project was conducted on the Long Beach campus where 70 buildings were inventoried and more than 4400 devices or components were identified and evaluated. Many of those devices displayed a date or caused a date to be displayed, but did not perform an internal date calculation and therefore were not subject to functional failure. A phone system with a digital time and date display may be an example of such a system. The lessons learned from the pilot project were shared with the campus Y2K coordinators and facilities directors. Following the

pilot project, the chancellor authorized a special allocation of \$50,000 to each campus to assist them in their Y2K assessments. Additionally, a follow-on project was performed in which seven campuses individually compiled physical inventories of embedded systems which were then combined and turned over to a contractor who performed the Y2K compliance research.

The Y2K readiness of embedded systems is being addressed on all campuses. Campuses report that their activities to achieve Y2K readiness in this area are in the range of 50 percent to 100 percent complete. The systemwide average is approximately 83 percent complete.

Campus Reviews

The Office of the University Auditor has completed an independent verification of the information contained in the campus Y2K progress reports. The verification process entailed visiting each campus and reviewing the following areas for Y2K preparedness: financial and student information systems, organizational awareness, risk assessment, resources, project planning, testing, monitoring, and contingency planning. The process was also used to determine whether the status reports adequately reflect actions taken by the campuses to reduce Y2K failures that could affect personal safety and security, increase costs substantially, damage the institution's public image, or expose it to litigation risks.

The verification activity revealed that the quarterly progress reports accurately reflect the Y2K actions taken by the campuses and that the campuses are adequately preparing to mitigate the risks associated with the Y2K issue.

Monitoring by the Y2K team will continue through the remainder of the year. A report to the Board focusing on contingency planning is scheduled for November.

BRIEF

Information Item

**Agenda Item 3
September 14-15, 1999**

COMMITTEE ON AUDIT

Status Report on the Preparation of Systemwide Audited Financial Statements

Presentation By

**Richard P. West, Executive Vice Chancellor
and Chief Financial Officer**

Summary

In November 1996, the Committee on Audit approved the appointment of KPMG Peat Marwick LLP as the independent auditor for the California State University. The three-year contract has been extended for one additional year.

The consolidated financial statements for fiscal year ending June 30, 1999, are being prepared and will be presented to the Board of Trustees at the January 2000 meeting.

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Agenda Item 3
September 14-15, 1999

COMMITTEE ON AUDIT

Status Report on the Preparation of Systemwide Audited Financial Statements

In September 1996, the Committee on Audit approved a competitive negotiation process to hire an audit firm for a three-year audit package. The scope of work in the audit required the selected firm to:

1. Conduct an audit of the consolidated financial statements of the California State University for the express purpose of rendering an opinion on the CSU general purpose financial statements;
2. Conduct an independent audit of the federal funds received by the CSU. The audit will be performed in accordance with OMB Circular A-133; and
3. Conduct audits of the CSU revenue bond programs encompassing all CSU bonds sold for housing, student unions, and the headquarters building authority.

The Committee on Audit selected KPMG Peat Marwick LLP to serve as the independent auditor for fiscal years ending June 30 of 1997, 1998, and 1999. The initial contract with KPMG has been amended to cover fiscal year ending June 30, 2000 at an annual cost of \$1.1 million, which is eight percent higher than the average annual cost of the three prior years. This increase was necessary to fund inflationary cost increases and to cover the potential additional cost of adding a 23rd campus audit. The entire contract will be competitively bid early in calendar year 2001 for the next five-year period that begins with fiscal year ending June 30, 2001.

The consolidated financial statements for fiscal year ending June 30, 1999 are being prepared and will be presented to the Board of Trustees at the January 2000 meeting.