

AGENDA

COMMITTEE ON AUDIT

Meeting: 5:00 p.m., Tuesday, November 16, 2004
Glenn S. Dumke Auditorium

Anthony M. Vitti, Chair
Roberta Achtenberg, Vice Chair
Herbert L. Carter
Moctesuma Esparza
Debra Farar
Bob Foster
William Hauck
Raymond W. Holdsworth

Consent Items

Approval of Minutes of Meeting of September 15, 2004

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Report on Construction Auditing in the California State University–2003/2004, *Information*

**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**

September 15, 2004

Members Present

Roberta Achtenberg, Vice Chair
Herbert L. Carter
Moctesuma Esparza
Debra S. Farar
Bob Foster
Murray L. Galinson, Chair of the Board
William Hauck
Raymond W. Holdsworth

Approval of Minutes

The minutes of the meeting of July 14, 2004, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the September 14-15, 2004, Board of Trustees agenda.

As per the audit plan, 12 FISMA reviews, 27 auxiliary organization reviews, and 30 subject area reviews (10 in each subject area) were scheduled to be completed this year. However, due to a staff resource issue, the number of subject area reviews will be reduced to eight in each area.

Mr. Mandel stated that most of the campuses have completed the outstanding recommendations. He noted that only two campuses have outstanding recommendations beyond 12 months, and as per discussions with both the campus and the chancellor's office, progress is being made on their completion.

Trustee Kaiser inquired about the still outstanding recommendations pertaining to Disability Support and Accommodations at California State University (CSU), Bakersfield and Systemwide.

Audit

Dr. Horace Mitchell, president, CSU Bakersfield, responded that completion of the recommendations is anticipated toward the end of this year. He explained that rather than responding only to the limited scope of what was required in terms of disability access, broader issues are being addressed regarding wayfaring for the entire campus.

Mr. Allison Jones, assistant vice chancellor, student academic support, responded that the recommendation pertaining to policy change by a systemwide advisory committee has not been completed due to its complexity. He explained that the recommendation not only involves students but also faculty and staff, as well as visitors to the campus. He stated that the Office of General Counsel has reviewed the policy and anticipates it will be issued by December 2004.

Trustee Kaiser suggested that perhaps a short synopsis reporting on outstanding recommendations with complicated circumstances would be helpful in understanding the campus' unresponsiveness. In addition, she asked Mr. Mandel if the staff resource issue was placing the CSU at any legal risk.

Mr. Mandel responded that the CSU is not at any legal risk due to the staff resource issue. He explained that the FISMA (internal control) reviews, which are required by the State of California to be performed at all campuses and the chancellor's office on a biennial basis, would all be completed. The auxiliary organization reviews, which are required by the CSU Trustees, would also be completed. He indicated that eight rather than ten audits would be completed in each of the three subject areas (which are selected based upon a risk assessment), with conclusions represented in systemwide reports.

Trustee Kaiser asked if a cost assessment on the review of construction projects had been completed, as requested at the last Committee on Audit meeting.

Mr. Mandel explained that six of the largest CSU construction projects are selected for review each fiscal year and are currently being conducted by KPMG. He further explained that large construction projects are defined as those costing over \$10 million. In any given year, the CSU averages approximately 18 projects over \$10 million. He indicated his belief that if reviews of all 18 projects were conducted, the CSU would probably receive a 15 to 20 percent reduction in the average cost for review per project. This would still increase the overall cost by approximately 250 percent.

Chancellor Reed commented that the CSU has previously considered the possibility of reviewing all large construction projects; however, in the past seven years, no major problems with construction projects have been reported by the external auditor.

Trustee Holdsworth expressed his concern regarding web security and disaster recovery and requested additional information on how the CSU handles this critical issue.

Chancellor Reed acknowledged that web security is a major concern and added that a national search is currently being conducted for a chief security officer.

Trustee Holdsworth inquired as to the CSU system disaster recovery plan in the event of a major incident in California.

Chancellor Reed responded that the CSU's data system is housed in Salt Lake City, Utah, with backup stored in a separate location.

Trustee Mehta expressed his concern regarding the timeliness of the completion of construction reviews and inquired as to the typical time frame allowed for these reviews.

Mr. Mandel clarified that the Status Report on Current and Follow-Up Construction Audit Assignments indicates when the construction project began and ended, not the time frame of the review. He stated that a construction project is selected for review only after it has been completed.

Single Audit Reports of Federal Funds

Mr. Dennis Hordyk, assistant vice chancellor, financial services, discussed the status of the corrective action plans for the five findings in the systemwide Single Audit Reports for fiscal year ending June 30, 2003, which is in response to the KPMG audit of federal funds. He stated that the university auditor has reviewed the corrective action plans from the campuses and agrees the plans are complete and in full compliance.

Vice Chair Achtenberg concluded the meeting.

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 2004 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, Admissions/Evaluations, Human Resources, Student Activities, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) is currently being conducted on approximately 25 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 2004 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, Admissions/Evaluations, Human Resources, Student Activities, 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. Four audits have been completed, two audits await a campus response prior to finalization, and fieldwork is currently taking place at two campuses.

Auxiliary Organizations

The audit plan indicated that approximately 243 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/27 auxiliaries. Two campuses/six auxiliaries have been completed, one campus/four auxiliaries await a

response prior to finalization, and report writing is being completed on four campus/fourteen auxiliary reviews.

Admissions/Evaluations

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of admissions and evaluations activities through a review of the related control environment; processing of applications for admission; evaluations of student records; application fee and waiver controls; and the protection of confidential admission and evaluation data. One audit has been completed, one audit awaits a campus response prior to finalization, report writing is being completed on four campus reviews, and fieldwork is currently taking place at one campus. Due to a reduction in available staff, only seven of the original ten audits of this area will be completed.

Human Resources

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of human resources activities through a review of the related control environment; recruitment and advertising practices; the selection and orientation of new employees; employee compensation and selected benefits programs; and the protection of confidential employee information. One audit has been completed, while report writing is being completed on seven campus reviews. Due to a reduction in available staff, only eight of the original ten audits of this area will be completed.

Student Activities

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of ten campuses to evaluate the effectiveness of operating controls and governance processes pertaining to student activities (including intramural and club sports but excluding intercollegiate athletics), student clubs and organizations (including the fraternities and sororities), and student judicial affairs. One audit has been completed, while report writing is being completed on seven campus reviews. Due to a reduction in available staff, only eight of the original ten audits of this area will be completed.

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 25 prior audits (FISMA, Auxiliary Organizations, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) 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 five staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2003/04 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. All six audits have been completed.

Training

The audit plan indicated that approximately ten 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 11/18/2004)

	2004 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS													
	FISMA	Aux Orgs	Admiss	Human Res	Stdnt Act	FISMA		Auxiliary Organizations			Disabil Support and Accom		Employee Relations		Risk Mgt and Insurance		Disaster/Cont Plng		
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	
BAK					RW	11/13	5	3	42/42	-	12/12	-					5/5	-	
CHI	AC				RW	0/6	2	3	0/32	4					7/7	-			
CI						17/23	4	2											
DH				RW	RW	12/12	-	3	21/36	5									
FRE				FW		RW	6/8	7	6	107/107	-	5/5	-	5/5	-				
FUL				RW		RW	6/6	-	4	32/32	-	8/8	-	2/2	-			8/8	-
HAY	AC					0/17	3	4	65/65	-				5/5	-	10/10	-		
HUM	FW						-	3	53/53	-	16/16	-			6/8	10			
LB					RW	RW	7/7	-	3	27/27	-	3/3	-	3/3	-				
LA	AC	AI				0/7	4	4							7/7	-	7/7	-	
MA				RW		14/14	-	2	21/21	-									
MB					RW	19/25	7	2	40/40	-							12/14	9	
NOR	AC			FW		8/11	2	5	46/46	-	3/3	-	2/2	-					
POM	FW	AI					-	3							6/6	-	3/3	-	
SAC					RW	13/13	-	5	65/65	-					7/7	-	11/12	8	
SB				RW	RW	6/8	5	3	33/33	-	9/9	-							
SD		AI	AI		RW	12/12	-	4			2/2	-	7/7	-			9/9	-	
SF					AC	RW	8/8	-	4	48/48	-				8/8	-			
SJ		RW	AC			9/9	-	4	93/93	-	4/4	-	2/2	-	8/8	-			
SLO	AI							2	29/29	-					11/11	-	9/9	-	
SM	AI	AI						3					9/9	-			9/9	-	
SON					AC	14/14	-	4	16/21	5	0/0	-							
STA		RW			RW	9/9	-	4	50/50	-			7/8	10					
CO		RW			RW	10/10	-	2	16/16	-									
SYS											7/8	16	3/8	4	7/7	-	0/10	4	
FW = Field Work In Progress RW = Report Writing in Progress AI = Audit Incomplete (awaiting formal exit conference and/or campus response) AC = Audit Complete						* 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. Numbers/letters in red are updates since the agenda mailout. **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.													

COMMITTEE ON AUDIT

Report on Construction Auditing in the California State University–2003/2004

Presentation By

Larry Mandel
University Auditor

Mark Thomas
Systemwide Coordinating Partner, KPMG

Summary

For the 2003/04 fiscal year, construction auditing was performed for the CSU under a contract with KPMG. The contract called for six construction projects to be reviewed with coordination from the Office of the University Auditor. Areas under review included design costs, construction bid process, sub-contracting practices, change orders, project management/inspection services, liquidated damages, and cost verification of major equipment and construction components. Representatives from KPMG, the external audit firm hired by the California State University to conduct the audit, will make a presentation and respond to questions.