

REVISED

AGENDA

COMMITTEE ON AUDIT

Meeting: 3:00 p.m., Tuesday, January 25, 2000
Glenn S. Dumke Conference Center

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

Consent Items

Approval of Minutes of Meeting of November 16, 1999

Discussion Items

1. Year 2000 Update, *Information*
2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
3. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2000, *Committee Action*
4. Report on Construction Auditing in the CSU–1998/99, *Information*
5. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
6. Single Audit Report of Federal Funds, *Information*

**MINUTES OF MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California
November 16, 1999**

Members Present

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

Member Absent

Ali C. Razi

Other Trustees Present

William D. Campbell
Martha C. Fallgatter
Laurence K. Gould, Jr.
William Hauck, Chairman of the Board
Ralph R. Pesqueira
Charles B. Reed, Chancellor

Chancellor's Office Staff

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

Chair Wang called the meeting to order at 10:30 a.m.

Approval of Minutes

The minutes of the September 14, 1999, meeting were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Larry Mandel, university auditor, presented the item by stating that current assignments are entering their final phase for 1999, with all subject area and auxiliary reviews in progress. Six FISMA (financial internal control) audits are in various phases of completion, while five additional FISMA audits will commence within the next few weeks and are scheduled to be completed by the January board meeting. In detail, fieldwork is being performed on eight campuses; report writing is in progress for sixteen recently completed reviews; we are awaiting campus responses to four completed audits; and twelve audits are complete in all phases.

Auxiliary Reviews – Mr. Mandel indicated that reviews are currently being conducted of the five auxiliaries at the Northridge campus and the three auxiliaries at the Fullerton campus. He indicated that these reviews are taking somewhat longer than originally anticipated due to the fact that this is the first cycle of auxiliary reviews. Mr. Mandel went on to state that, due to the recent resignations of two of the four staff auditors assigned to perform these reviews, additional staff are being recruited. The new staff will be used on subject area and FISMA audits while more experienced staff will be reassigned to the auxiliary reviews.

Follow-up Reviews – Mr. Mandel indicated that significant progress has been made since the last trustee meeting on closing recommendations. Outstanding recommendations from the Occupational Health audits will now be able to be closed as a result of the issuance of Executive Order 715, which was issued on October 27, 1999. This executive order addresses on- and off-campus student health and safety training issues. Mr. Mandel commented that, as the campuses implement the procedures outlined in this document, each of the outstanding Occupational Health recommendations will be brought to closure. For the Seismic Safety audits, significant progress has been made and, since the last committee meeting, the number of outstanding recommendations has decreased from fourteen to five. Mr. Mandel explained that the goal is to close all outstanding Seismic Safety recommendations by the next board meeting. For Risk Management audits, the number of outstanding recommendations has decreased from twenty-seven to thirteen since the last board meeting. Both Continuing Education and FISMA are ongoing, and most of the recommendations are being completed timely. The fourth round of FISMA audits has commenced. A FISMA audit of the Chancellor's Office is currently being performed, and FISMA audits will commence on the Dominguez Hills and Long Beach campuses within the next few weeks.

Trustee Otomo-Corgel congratulated President Maxson on the manner in which the Long Beach campus quickly addresses all audit recommendations. She requested that, by the next board meeting, the campuses close all recommendations from calendar year 1997. She queried Mr. Mandel as to progress made in hiring new auditors.

Mr. Mandel responded by stating that recruitment to hire qualified staff auditors is ongoing.

Trustee Otomo-Corgel inquired whether 99 staff weeks would be adequate to perform the auxiliary reviews.

Mr. Mandel explained that 99 weeks was the initial estimate, and it would be necessary to go through a one-year cycle of these audits to determine whether this estimate, which translates to approximately 3 weeks per auxiliary, is accurate. Because the Northridge and Fullerton campuses are the first in the series of this new audit, information is being carefully reviewed and risk-based audits are being modeled to each auxiliary. Given time constraints, a risk assessment of each auxiliary on each campus will be performed, and the higher risk areas will be reviewed.

Trustee Otomo-Corgel pointed out that it has been approximately four years since the Office of the University Auditor has been revamped and additional employees have been authorized. She inquired as to how the department is progressing in the area of risk management, whether the department has sufficient staffing, and whether there has been an overall improvement within the department during this time period.

Mr. Mandel indicated that, with regard to the future staffing needs of the department, this topic would require further discussions with the Audit Committee and the Executive Audit Committee, and this information will be presented at the next board meeting. He noted that major improvements have been made and he is seeking continuous improvements and methods of streamlining operations.

Trustee Otomo-Corgel inquired as to the number of external audits in progress.

Mr. Mandel stated that KPMG performs the systemwide financial statement audits in addition to the construction audits and explained that KPMG was contracted to perform six construction audits for the CSU this year. He noted that KPMG has completed all six construction audits, the last three of which require responses from the Chancellor's Office.

Chair Wang thanked the campuses and the Office of the University Auditor for a job well done.

Year 2000 Update

Trustee Wang asked Mr. Richard P. West, executive vice chancellor and chief financial officer, to present the update of systemwide activities on Year 2000 readiness.

Mr. West presented slides highlighting the contents of the readiness report. The report and slides reflect what our experience has been to date, and the status of various contingency plans.

Mr. West said that we are very close to full readiness in association with the pre_determined risk exposure categories. There are a few campuses where further work is needed. Those issues are expected to be resolved, and the work completed, prior to the end of the year. He assured everyone that there will be staff members on-site at the campuses and at the headquarters facility during the critical time period. They will be testing and observing all systems to assure that they are operational.

Most of the current activity revolves around structuring contingency plans and establishing methods for communicating with employees should problems occur. Mr. West noted that disclosure has been made to vendors stating we do not anticipate any significant impact on our operations. The issues of payroll and student registration have been examined and no major problems are anticipated. Mr. West said that should any problems occur, the only anticipated areas of potential difficulty could occur with the powering down of some equipment, and with various facility access issues.

Chancellor Reed thanked Mr. West and his staff for their hard work on this important and difficult project.

Trustee Wang also congratulated Mr. West and his team on a job well done.

Adjournment

The meeting adjourned at 11:00 a.m.

BRIEF

Information Item

Agenda Item 1
January 25-26, 2000

COMMITTEE ON AUDIT

Year 2000 Update

Presentation By

Richard P. West
Executive Vice Chancellor and Chief Financial Officer

Summary

As of January 3, no significant Y2K failures have been reported by the Chancellor's Office or any of the campuses. This information item will provide an update of Y2K problems, if any, experienced by the system since the year-end date rollover.

BRIEF

Information Item

Agenda Item 2

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 42 prior campus reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

ITEM

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Agenda Item 2

January 25-26, 2000

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. Four audits have been completed, report writing continues for five campus reviews, fieldwork is continuing at campus. We will carry one audit forward into the new year.

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. Five audits have been completed, while report-writing continues for six campus reviews. The systemwide report has been completed and is awaiting an exit conference with the Chancellor's Office.

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. Five audits have been completed, two audits are awaiting campus response prior to finalization, while report-writing continues for three reviews. The initial plan to review 11 campuses was reduced to 10 as a result of staffing vacancies. The systemwide report has been completed and is awaiting an exit conference with the Chancellor's Office.

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. Eight audits have been completed, two are awaiting a campus response prior to finalization, and report-writing continues for one review. The systemwide report has been completed and is awaiting an exit conference with the chancellor's office.

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. Report-writing continues for eight auxiliaries located on two campuses.

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 37 prior audits (FISMA, Occupational Health, Seismic Safety, Risk Management, and Continuing Education) 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 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.

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Audit

Agenda Item 2

January 25-26, 2000

Risk Assessment

The Office of the University Auditor performs triennial risk assessments. The last risk assessment was performed in 1996. Five staff weeks were set aside for this purpose in 1999, representing slightly less than 1 percent of the audit plan. The risk assessment is now complete. Results are being presented as part of Agenda Item 2 at the January 2000 meeting of the Committee on Audit.

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. All of the reports have been finalized and will be addressed as part of Agenda Item 4.

BRIEF

Committee Action

Agenda Item 3
January 25-26, 2000

COMMITTEE ON AUDIT

**Assignment of Functions to Be Reviewed by the Office of the University Auditor for
Calendar Year 2000**

Presentation By

Larry Mandel
University Auditor

Summary

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor. An audit plan for calendar year 2000 will be presented to the committee for approval. The results of a risk assessment, along with a description of potential audit subjects, are presented for review.

Recommended Action

Adoption of committee resolution.

ITEM

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Agenda Item 3
January 25-26, 2000

COMMITTEE ON AUDIT

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2000

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor (OUA). The following is an audit plan for calendar year 2000.

FINANCIAL INTEGRITY AND STATE MANAGER’S ACCOUNTABILITY ACT OF 1983

In 1983, the California legislature passed the Financial Integrity and State Manager’s Accountability Act of 1983 (FISMA). This act requires that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the agency fully complies with requirements, the head of each agency is required to prepare and submit a report on the adequacy of the systems of internal accounting and administrative control following the end of each odd-numbered fiscal year.

These audits will review compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which require annualized data, either the 1998/99 or 1999/2000 (as appropriate) fiscal year will be the primary period reviewed. In certain instances, we are concerned with representations of the most current data. In those cases, the test period will normally be the two months prior to our arrival on campus. Specifically, we will review and test the following areas:

- | | |
|--------------------|-------------------------------|
| Cash Receipts | Payroll/Personnel |
| Receivables | Fixed Assets |
| Purchasing | Fiscal Information Technology |
| Revolving Fund | Investments |
| Cash Disbursements | Trust Funds |

Twelve FISMA audits are planned for calendar year 2000. This represents 130 staff weeks of audit effort, which amounts to approximately 18 percent of the audit plan.

SUBJECT 1

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that eleven campus audits will take place during calendar year 2000. This represents 101 staff weeks of audit effort, which is approximately 15 percent of the audit plan.

SUBJECT 2

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that eleven campus audits will take place during calendar year 2000. This represents 101 staff weeks of audit effort, which is approximately 15 percent of the audit plan.

SUBJECT 3

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that eleven campus audits will take place during calendar year 2000. This represents 101 staff weeks of audit effort, which is approximately 15 percent of the audit plan.

AUDITS OF AUXILIARY ORGANIZATIONS

In order to provide assurance to the board that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor administers an audit program covering internal compliance/internal controls. This represents 165 staff weeks of audit effort, which is approximately 23 percent of the audit plan.

INFORMATION SYSTEMS

Information Systems areas of review will include systemwide projects such as: Year 2000, Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Web Security. In addition, training and support will be provided in the area of financial internal controls (FISMA) for both campus and auxiliary audits. Forty staff weeks are planned during calendar year 2000. This represents approximately 5 percent of the audit plan.

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Audit

Agenda Item 3

January 25-26, 2000

FOLLOW-UPS

The purpose of this category is to follow up on prior audit recommendations. The Office of the University Auditor reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Twenty-five staff weeks have been set aside for this purpose, representing approximately 3 percent of the audit plan.

CONSULTATION AND INVESTIGATIONS

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. Forty-three staff weeks have been set aside for this purpose, representing approximately 6 percent of the audit plan.

CONSTRUCTION

In addition to the above, construction auditing will be a continuing focus of the Office of the University Auditor. For the 1999/00 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.

The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the Board of Trustees of The California State University, that the 2000 internal audit plan, including FISMA, Information Systems, Auxiliary Organizations, Construction, _____, _____ and _____ (to be determined by the committee) be approved.

**OFFICE OF THE UNIVERSITY AUDITOR
 RESULTS OF 1999 RISK ASSESSMENT**

PROSPECTIVE AUDIT TOPICS (TOP 50% OF RISK)

	TOPIC	TIME SINCE LAST AUDIT BY THE OUA
1	Disaster/contingency planning	Less Than 2 Yrs
2	Student records and registration	Less Than 2 Yrs
3	Hazardous materials management	2 Yrs - 5 Yrs
4	Procurement	Less Than 2 Yrs
5	Employee relations	Never Audited
6	Occupational health	Less Than 2 Yrs
7	Public safety	More Than 5 Yrs
8	Student health centers	More Than 5 Yrs
9	Student fees	More Than 5 Yrs
10	Development	2 Yrs - 5 Yrs
11	Intercollegiate athletics	Never Audited
12	Risk management and insurance	Less Than 2 Yrs
13	Oversight of auxiliary organizations	Less Than 2 Yrs
14	Granting (Financial Aid)	2 Yrs - 5 Yrs
15	Cash, temporary and long term investments	Less Than 2 Yrs
16	Accounts payable	Less Than 2 Yrs
17	Payroll and payroll taxes/withholding	Less Than 2 Yrs
18	Cashiering and ticket sales	Less Than 2 Yrs
19	Reimbursements and cost recovery practices	Less Than 2 Yrs
20	Disabled student services	More Than 5 Yrs
21	Receivables	Less Than 2 Yrs
22	Disbursements and collections (Financial Aid)	Less Than 2 Yrs
23	Discretionary accounts	Never Audited
24	Child care centers	Less Than 2 Yrs
25	Continuing education/extended learning	Less Than 2 Yrs
26	Financial Reporting	More Than 5 Yrs
27	Recruiting	Never Audited

FISMA = Financial Integrity and State Manager's Accountability Act of 1983

Items 4, 15, 16, 17, 18, 19, 21, and 22 are covered within the FISMA audit cycles.

Items 1, 2, 6, 12, and 25 were recent audit subjects.

Items 13 and 24 are covered during auxiliary reviews.

**OFFICE OF THE UNIVERSITY AUDITOR
SELECTION OF AUDIT TOPICS FOR 2000**

The purpose of this attachment is to present additional information to assist the Committee on Audit in deciding the audit assignments for the Office of the University Auditor for 2000. The list below reflects the topics developed by the 1999 risk assessment process exclusive of priorities that are addressed by recent assignments and/or mandatory audits, e.g., Financial Integrity and State Manager's Accountability Act (FISMA), Delegations of Authority (Purchasing/Contracting, Leasing, Motor Vehicles - Education Code Section 89045(d)), and Auxiliary Reviews.

- | | |
|-----------------------------------|-------------------------------|
| 3. Hazardous Materials Management | 11. Intercollegiate Athletics |
| 5. Employee Relations | 14. Granting (Financial Aid) |
| 7. Public Safety | 20. Disabled Student Services |
| 8. Student Health Centers | 23. Discretionary Accounts |
| 9. Student Fees | 26. Financial Reporting |
| 10. Development | 27. Recruiting |

The following information is not necessarily complete. A complete survey of risks, controls and associated audit procedures can only be compiled through the audit process. Accordingly, the descriptions should be read with the understanding that they are preliminary and presented for discussion purposes, and may change after audit survey/work commences.

**OFFICE OF THE UNIVERSITY AUDITOR
FUNCTIONS AUDITED DURING PAST TEN YEARS**

YearFunction

- 1999 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Continuing Education/Extended Education
Operation and Maintenance of Plant
Student Records and Registration
Auxiliary Organizations
Construction
- 1998 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Risk Management and Insurance
Continuing Education/Extended Education
Construction
- 1997 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Occupational Health
Seismic Safety and Disaster Readiness
Construction
- 1996 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Delegations of Authority (Procurement, Motor Vehicles, Agreements and Leases)
Development
Construction
- 1995 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Development
Hazardous Materials Management Follow-up
Construction
- 1994 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Construction
Student Financial Aid
- 1993 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Administrative Costs (Benchmarking)
- 1992 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Financial Reporting
Hazardous Materials
Public Safety
- 1991 Construction
Real Property Transactions
- 1990 Purchasing/Contracting
Salaries, Wages and Benefits
Student Records

3. Hazardous Materials Management

Hazardous materials management includes the systems and procedures for controlling the purchase, generation, storage, treatment, use and disposal of hazardous materials and wastes and responding to hazardous spills.

Potential impacts include:

- environmental damage;
- adverse publicity;
- excessive costs and legal liabilities;
- facilities that present inordinate health risks;
- regulatory fines and sanctions; and
- inability to identify hazardous materials in emergency situations.

Proposed audit scope would include review of: the reliability and integrity of information; compliance with laws, policies, plans, procedures and regulations; the safeguarding of assets; the economical and efficient use of resources; and the accomplishment of objectives and goals.

5. Employee Relations

Employee relations includes activities involved in negotiating and administering collective bargaining agreements and personnel policies such as prohibitions against sexual harassment.

Potential impacts include:

- increased exposure to litigation; and
- discrimination.

Proposed audit scope would include collective bargaining and implementation of laws and regulations concerning terms and conditions of employment.

7. Public Safety

Public safety includes primarily police activities and law enforcement including parking/traffic citations and crime reporting.

Potential impacts include:

- lack of, out-of-date, or undistributed policies and procedures;
- undeveloped or unused measures for self-evaluation and improvement;
- poor or undefined relationships with external agencies;
- inefficient use of physical assets or human resources;
- noncompliance with state-mandated standards and training requirements;
- unauthorized use of law enforcement data;
- inadequate crime reporting;
- lack of control or poor maintenance over sensitive or special equipment;
- excessive costs;

- inadequate control or supervision over activities having safety or liability considerations; and
- poor adjudication of internal investigations or personnel complaints.

Proposed audit scope would include review of: the reliability and integrity of information; compliance with laws, policies, plans, procedures and regulations; the safeguarding of assets; the economical and efficient use of resources; and the accomplishment of objectives and goals.

8. Student Health Centers

Student health centers includes all services rendered in or through the student health facilities including activities of doctors, nurses and other medical providers.

Potential impacts include:

- substandard medical care;
- inconsistent accessibility;
- erroneous dispensing of pharmaceuticals;
- inadequate health education;
- excessive costs and fees; and
- circumvention of state law/CSU policy.

Proposed audit scope would include survey of existing requirements and review of the processes for oversight.

9. Student Fees

The CSU approved a new student fee policy in 1996 through Resolution of the Committee on Finance (RFIN) 05-96-06 and Executive Order 661.

Potential impacts include:

- adverse impacts on access, affordability and quality;
- loss of budgetary control; and
- increased external regulation.

Proposed audit scope would include review of policy implementation and activities to date regarding fee advisory committees, student fee referendums, consolidation or elimination of fees, and annual reporting processes.

10. Development

Development includes institutional or university advancement and fund raising.

Potential impacts include:

- inadequate nonstate funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of non-monetary gifts;
- non-compliance with Internal Revenue Service regulations;

- use of funds that conflict with donor intentions/potential violations of trust arrangements; and
- inaccurate reporting of donations and development activity.

Proposed audit scope would include campus development offices, foundations and other organizational constituencies involved in development; cash contributions and donations of property and services; and 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.

11. Intercollegiate Athletics

Intercollegiate athletics involves all activities pertaining to the sports programs administered in accordance with the rules and regulations of the National Collegiate Athletic Association.

Potential impacts include:

- admission of student athletes who do not show reasonable promise of being successful in a course of study leading to an academic degree;
- continuing eligibility of student athletes to participate in intercollegiate athletics based on academic progress that will not assure graduation within a specific time frame;
- infractions of National Collegiate Athletic Association (NCAA) rules and regulations that significantly impact the university in terms of lost revenues, adverse publicity, and NCAA sanctions;
- inequities in funding and participation opportunities between the men's and women's athletic programs;
- inappropriate use of funds raised and spent in intercollegiate athletics; and
- inappropriate use of state resources or funds budgeted for instructionally related activities in intercollegiate athletics.

Proposed Audit Scope

Based on a study commissioned by the Association of College and University Auditors (ACUA), 75 percent of survey respondents (196 institutions - 71 percent of which participated at the NCAA Division I level) performed annual internal audits of the athletic department in addition to whatever work was being done under the NCAA mandate with independent CPAs. In priority order, this internal audit work covered:

- compliance audits of internal controls;
- financial audits;
- audits of compliance with NCAA rules and regulations; and
- operational testing for efficient and effective use of resources.

14. Granting (Financial Aid)

Granting financial aid includes identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Potential impacts include:

- inappropriate financial aid packaging due to student aid from various sources not controlled and coordinated;
- financial aid not provided to the neediest students;
- over-awarding beyond need and funding availability;
- awarding aid to ineligible students;
- financially needy students not being apprised of available financial aid resources;
- excessive costs;
- students not receiving timely award/denial notices, or awards to ineligible students;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit procedures would include review of: funding arrangements; compliance with federal and state laws, trustee policy, and Chancellor's Office directives; reliability, confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

20. Disabled Student Services

Disabled student services includes counseling and supportive services (such as readers, note takers, and test proctors) and provisions for physical accessibility including programs for learning disabilities.

Potential impacts include:

- adverse publicity;
- inadequate accommodations and services for disabled;
- legal liabilities; and
- regulatory fines and sanctions.

Proposed audit procedures would include review of: funding arrangements; compliance with federal and state laws, trustee policy, and Chancellor's Office directives; reliability, confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

23. Discretionary Accounts

Discretionary accounts include unrestricted resources and funds used at the option of system officials.

Potential impacts include:

- negative publicity;
- inappropriate expenditures;
- legal liability;
- violations of fiduciary responsibility over endowment and trust funds; and
- obstacles to effective fund raising.

Proposed audit procedures would include survey of discretionary accounts and research of enabling documents and expenditures to evaluate compliance with potential restrictions.

26. Financial Reporting

Financial reporting includes all forms of financial reports and the systems and procedures in use to provide constituent groups with accurate, timely and useful financial information.

Potential impacts include:

- excessive costs incurred in reporting of financial information;
- inaccurate and/or untimely financial reports;
- unauthorized access to financial data;
- reporting of financial data that does not meet user needs; and
- publication of misleading financial statements.

Proposed audit procedures would include review of existing financial reporting procedures and processes for: compliance with state law, trustee policy and Chancellor's Office directives; establishment and maintenance of a financial reporting system commensurate with user needs; efficiency and effectiveness of operations; and attainment of objectives and goals.

27. Recruiting

Recruiting includes development of appropriate job descriptions and recruiting materials, solicitation of applicants including advertising open positions, interviewing and screening applicants, communication with applicants regarding conditions of employment, and processing of all job offers and acceptances.

Potential impacts include:

- inadequate applicant pools;
- excessive costs and position vacancies;
- reduced service levels; and
- violation of employment laws and regulations.

Proposed audit procedures would include review of hiring processes and transactions for: compliance with policies, laws and regulations; the economical and efficient use of resources; and the accomplishment of objectives and goals.

BRIEF

Information Item

Agenda Item 4
January 25-26, 2000

COMMITTEE ON AUDIT

Report on Construction Auditing in the CSU–1998/99

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 1998/99 fiscal year.

ITEM

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Agenda Item 4
January 25-26, 2000

COMMITTEE ON AUDIT

Report on Construction Auditing in the CSU – 1998/99

For the 1998/99 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 change orders, project management services, billings, contractor compliance, liquidated damages, closeout documents, project administration process compliance, and cost 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.

BRIEF

Information Item

Agenda Item 5
January 25-26, 2000

COMMITTEE ON AUDIT

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

Presentation By

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

Summary

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be reviewed and discussed at the meeting. Representatives from KPMG Peat Marwick, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions.

ITEM

2

Agenda Item 5
January 25-26, 2000

COMMITTEE ON AUDIT

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

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be reviewed and discussed at the meeting.

BRIEF

Information Item

Agenda Item 6
January 25-26, 2000

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

Presentation By

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

Summary

The single audit report of federal funds and the related management letter for all campuses and the Chancellor's Office will be reviewed and discussed at the meeting.

ITEM

2

Agenda Item 6
January 25-26, 2000

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

The single audit report of federal funds and the related management letter for all CSU campuses and the Chancellor's Office will be reviewed and discussed at the meeting. Representatives from KPMG Peat Marwick, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions.