

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 3:45 p.m., Tuesday, January 29, 2002**  
**Glenn S. Dumke Conference Center**

Shailesh J. Mehta, Chair  
Stanley T. Wang, Vice Chair  
Daniel N. Cartwright  
Murray L. Galinson  
Harold Goldwhite  
Ricardo F. Icaza  
Frederick W. Pierce IV

#### **Consent Items**

Approval of Minutes of Meeting of November 13, 2001

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Function to be Reviewed by the Office of the University Auditor for Calendar 2002, *Action*
3. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *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**

**November 13, 2001**

**Members Present**

Stanley T. Wang, Vice Chair  
Daniel N. Cartwright  
Murray L. Galinson  
Harold Goldwhite  
Ricardo F. Icaza  
Frederick W. Pierce IV

**Other Trustees Present**

Roberta Achtenberg  
Laurence K. Gould, Jr., Chair of the Board  
Martha C. Fallagher  
Debra S. Farar  
Robert Foster  
William Hauck  
Charles B. Reed, Chancellor  
Kyriakos Tsakopoulos  
Anthony M. Vitti

**Chancellor's Office Staff**

Louis Caldera, Vice Chancellor, University Advancement  
Christine Helwick, General Counsel  
Larry Mandel, University Auditor  
Jackie R. 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

Vice Chair Wang called the meeting to order at 3:53 p.m.

**Approval of Minutes**

The minutes of the meeting of July 10, 2001, were approved as submitted.

**Status Report 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* – Report writing is being completed for two campus reviews, a formal exit conference and/or campus response is pending for one campus, while audits have been completed for three campuses.

*Auxiliary Organizations* – Report writing is being completed for one campus/four auxiliary reviews, fieldwork is continuing at one campus/four auxiliaries, formal exit conferences and/or campus responses are pending for three campuses/nine auxiliaries, while the audit has been completed for one campus/three auxiliaries.

*Delegations of Authority* – Report writing is being completed for six campus reviews, fieldwork is continuing at two campuses, a formal exit conference and/or campus response is pending for one campus, while the audit has been completed at one campus.

*Contracts and Grants* – Report writing is being completed for eight campus reviews, fieldwork is continuing at one campus, while the audit has been completed at one campus.

*Development* – Report writing is being completed for five campus reviews, fieldwork is continuing at three campuses, a formal exit conference and/or campus response is pending at one campus, while the audit has been completed at one campus.

As per the audit plan, audits will be performed for the subject areas at about ten campuses each this year – approximately 24 auxiliary organizations and 11 FISMA audits.

*Follow-up* – Currently tracking 40 prior audits (FISMA, Auxiliary Organizations, Continuing Education, Student Health Centers, Hazardous Materials Management, and Public Safety) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*Construction* – Six construction reviews have been completed by KPMG with coordination from the Office of the University Auditor. Follow-up reviews are currently in process for these projects. Current construction assignments for 2001/02 are on schedule. Two of these projects are in the fieldwork stage.

Mr. Mandel stated that most of the campuses have completed the recommendations within a one-year period. He further stated that a couple of the campuses still have outstanding recommendations and the Office of the University Auditor has been assisting them with the closing of these recommendations. Mr. Mandel commented that campuses have done an exceptional job in completing the recommendations and are to be commended for their efforts.

Trustee Wang thanked the presidents for their efforts in completing the outstanding recommendations and stated that he was happy with the results on the matrix. He indicated his hope that at the next meeting, the matrix would be cleared of all outstanding recommendations over twelve months old.

Trustee Wang asked for an explanation as to why Student Health Centers at Dominguez Hills has outstanding recommendations extending to 13 months.

Dr. James Lyons, President, Dominguez Hills, commented on the status of the remaining open recommendation. He explained that the recommendation involves the accreditation of the health services area and that the campus is currently awaiting the scheduling of an appointment for an evaluation by the agency.

Trustee Wang inquired as to the timeline for this appointment.

President Lyons stated that no date has been set for the evaluation and that the campus has expressed its concern to the agency regarding this delay. As a result, he stated that, currently, closing the recommendation is beyond the campus' control.

### **Report on Construction Auditing in the CSU (2000/2001)**

Mr. Mandel presented the item by explaining that, per CSU's contract with KPMG, six construction reviews have been completed. Mr. Mandel then introduced Mark Thomas, partner in charge from KPMG, who discussed the construction assignments for 2000/2001.

Mr. Thomas stated that KPMG has been performing construction project reviews with coordination from the Office of the University Auditor for the last several years. He explained that the construction projects are selected for review by the Office of the University Auditor based upon size of project. Once the construction project has been completed, KPMG begins their audit by visiting the site of the contractors and reviewing documents, change orders, etc. He stated that the six projects reviewed for fiscal year 2000/2001 represented approximately \$115 million and that these reviews included projects at the Los Angeles, Pomona, San Diego, Sacramento, and San Luis Obispo campuses. The areas of emphasis included the bid process, subcontracting practices, design costs, project management, liquidated damages, review of major equipment, and change orders.

Mr. Thomas explained that the Construction Auditing at the CSU (2000/2001) audit report, which was distributed at the Board meeting, contains individual audit reports for the six construction projects, responses to the findings from the campuses and the chancellor's office, and the Chancellor's acceptance of the responses to the findings. He indicated that areas of emphasis in the report included obtaining approvals for substitution of subcontractors; errors in change orders; revisions to monitoring processes and forms currently in use; conflicts of interest;

## Audit

and clarity of milestone completion dates in contracts and equipment substitutions. He also noted that recommendations were made for recoveries of more than \$60,000 as a result of contractor errors. He stated that two new types of projects were reviewed: one pertaining to design/build, where the same entity was hired to do both the design and building work and the other involving the use of multiple prime contractors.

Mr. Thomas stated that as they prepare for the 2001/2002 construction assignments, the process will include reviewing the prior year's findings and determining the areas of greatest risk.

Trustee Galinson stated that in the future, he believes it would be more beneficial to the committee to receive the construction audit report before the meeting date. This would allow the committee members to review the report and to be prepared with any questions and/or comments.

Trustee Hauck inquired about Mr. Thomas's overall assessment of both the construction audit report and its impact.

Mr. Thomas indicated his belief that there is a much more refined process in place and a much better handling of risk than there was four years ago. He noted that while the financial impacts from the audit do not appear to be great, the improvement in process, as evidenced by the response to the recommendations, places the CSU in a much better position than previously. This is especially true when considering the shift from the construction projects being handled centrally by Capital Planning, Design and Construction (CPDC) to the campuses managing their own projects.

Trustee Icaza inquired about the audit process from this point.

Mr. Mandel explained that the audit reports have already been distributed to both CPDC and the campuses. He further explained that exit conferences have been held and that both CPDC and the campuses have been asked to respond to the recommendations, which they have done. He noted that the 2000/2001 construction projects are listed on the back of the matrix, which indicates the status of the open recommendations.

Trustee Pierce noted the use of design/build and construction management with multiple primes and asked if everything else was being done lump sum or guaranteed maximum price (GMP).

Mr. Patrick Drohan, Assistant Vice Chancellor, CPDC, stated that the CSU is still primarily a lump-sum, low-bid environment in terms of design, bid, and construct. He also stated that he believes the construction reviews performed by KPMG have proven to be an effective tool for improving business practice around the construction management operation. Mr. Drohan agreed with Mr. Thomas that the issues of fiscal problems are diminished and business practice has improved, including updates to project manuals and the State University Administrative Manual (SUAM), which campuses follow in carrying out their delegated authority.

Trustee Pierce asked Mr. Thomas if reviews are performed to determine if appropriate credit back on buy-out has been done in accordance with the contract documents with regard to multiple prime contractors. He also asked if any findings were noted in this area.

Mr. Thomas responded that the San Luis Obispo sports complex used multiple prime contractors. Regarding the buy-out process, there were no significant findings.

Trustee Wang asked for Mr. Thomas's professional judgment on any concerns and also asked him for any general comments.

Mr. Thomas responded by stating that there is a good trend toward improvement in administrative and construction practices; and there are no significant findings.

Trustee Wang asked Mr. Mandel if it would be possible for future construction audit reports to be distributed to the committee members in advance of the meeting to allow them appropriate time for review.

Mr. Mandel responded affirmatively and stated that future construction audit reports will be mailed in advance of the Board meeting.

The meeting was adjourned at 4:13 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 2001 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, Delegations of Authority, Contracts and Grants, Development, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Continuing Education, Student Health Centers, Hazardous Material Management, and Public Safety) is currently being conducted on approximately 40 prior campus/auxiliary reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

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

At the January 2001 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, Delegations of Authority, Contracts and Grants, Development, Information Systems, and Construction.

#### *FISMA*

The audit plan indicated that approximately 119 staff weeks of activity (16 percent of the plan) would be devoted to auditing financial internal controls on 11 campuses. Five audits have been completed, report writing is being completed on three campus reviews, while fieldwork is currently taking place at three campuses.

#### *Auxiliary Organizations*

The audit plan indicated that approximately 165 staff weeks of activity (28 percent of the plan) would be devoted to auditing internal compliance/internal control at 7 campuses/24 auxiliaries. Audits have been completed at two campuses/five auxiliaries, three campuses/eleven auxiliaries await a campus response prior to finalization, report writing is being completed on one

campus/four auxiliary reviews, while fieldwork is currently taking place at one campus/four auxiliaries.

#### *Delegations of Authority*

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the plan) would be devoted to a review of 10 campuses on areas delegated to the CSU by the legislature. These areas include Purchasing/Contracting, Leasing, and Motor Vehicles. Three audits have been completed, two audits await a campus response prior to finalization, while report writing is being completed on five campus reviews.

#### *Contracts and Grants*

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the plan) would be devoted to a review of 10 campuses on solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation, and transfer processes; and award administration. Three audits have been completed, two audits await a campus response prior to finalization, while report writing is being completed on five campus reviews.

#### *Development*

The audit plan indicated that approximately 94 staff weeks of activity (13 percent of the audit plan) would be devoted to a review of 10 campuses on cash contributions and donations of property and services, controls over the analysis of development needs, identification of prospective donors, solicitation and acknowledgment of donations, valuation of nonmonetary donations, recording gifts and posting to accounting records, expending donated funds, and preparation of reports on development activity. Three audits have been completed, two audits await a campus response prior to finalization, while report writing is being completed on five campus reviews.

#### *Information Systems*

The audit plan indicated that approximately 84 staff weeks of activity (11 percent of the plan) would be devoted to review of systemwide projects such as: Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), 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 27 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 40 prior audits (FISMA, Auxiliary Organizations, Continuing Education, Student Health Centers, Hazardous Material Management, and Public Safety) 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 12 staff weeks of activity (2 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 2001/02 fiscal year, six construction projects are being reviewed by KPMG 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. Fieldwork has begun on three projects.

### *Training*

The audit plan indicated that approximately 9 staff weeks of activity (1 percent of the plan) would be devoted to training in control self-assessment. A Management Risk Assessment and Assurance program has been developed and is being implemented at those campuses indicating an interest in such a program during 2001. The proposed program consists of individual workshops where risk assessment/mitigation and internal control training will be provided, and a targeted risk assessment profile will be developed. The program has been initiated at three campuses with two more in the planning stage.

## **COMMITTEE ON AUDIT**

### **Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2002**

#### **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. The following is an audit plan for calendar year 2002.

#### **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 2000/01 or 2001/02 (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 2002. This represents 136 staff weeks of audit effort, which amounts to approximately 17 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 10 campus audits will take place during calendar year 2002. This represents 97 staff weeks of audit effort, which is approximately 12 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 10 campus audits will take place during calendar year 2002. This represents 97 staff weeks of audit effort, which is approximately 12 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 10 campus audits will take place during calendar year 2002. This represents 97 staff weeks of audit effort, which is approximately 12 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. It is estimated that 29 auxiliary reviews will take place during calendar year 2002. This represents 261 staff weeks of audit effort, which is approximately 32 percent of the audit plan.

#### INFORMATION SYSTEMS

Information Systems areas of review will include systemwide projects such as: Disaster Recovery, Collaborative 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 organization audits. Forty-three staff weeks are planned during calendar year 2002. This represents approximately 5 percent of the audit plan.

### 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-six 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 5 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 2001/02 fiscal year, six construction projects are being reviewed by KPMG 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. Five staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

### TRAINING

Training in control self-assessment is proposed for 2002. The proposed 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. Six staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

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Agenda Item 2  
January 29-30, 2002  
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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 2002 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	3 Yrs - 5 Yrs
2	Student records and registration	3 Yrs - 5 Yrs
3	Hazardous materials management	2 Yrs or Less
4	Procurement	2 Yrs or Less
5	Employee relations	Never Audited
6	Occupational health	3 Yrs - 5 Yrs
7	Public safety	2 Yrs or less
8	Student health centers	2 Yrs or less
9	Student fees	More Than 5 Yrs
10	Development	2 Yrs or Less
11	Intercollegiate athletics	Never Audited
12	Risk management and insurance	3 Yrs - 5 Yrs
13	Oversight of auxiliary organizations	2 Yrs or Less
14	Financial aid	More Than 5 Yrs
15	Cash, temporary and long term investments	2 Yrs or Less
16	Accounts payable	2 Yrs or Less
17	Payroll and payroll taxes/withholding	2 Yrs or Less
18	Cashiering and ticket sales	2 Yrs or Less
19	Reimbursements and cost recovery practices	2 Yrs or Less
20	Disability support and accommodations	More Than 5 Yrs
21	Receivables	2 Yrs or Less
22	Disbursements and collections (Financial Aid)	2 Yrs or Less
23	Discretionary accounts	Never Audited
24	Child care centers	2 Yrs or Less
25	Continuing education/extended learning	3 Yrs - 5 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 3, 7, 8, 10, were recent audit subjects.  
 Items 13 and 24 are covered during auxiliary reviews.

**OFFICE OF THE UNIVERSITY AUDITOR  
SELECTION OF AUDIT TOPICS FOR 2002**

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 2002. 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. In addition, Contracts and Grants, an area not addressed by the risk assessment, has been added to the list of auditable subject areas.

- |                                   |   |
|-----------------------------------|---|
| 1. Disaster Contingency Planning  | 14. Granting (Financial Aid)              |
| 5. Employee Relations             | 20. Disability Support and Accommodations |
| 6. Occupational Health and Safety | 23. Discretionary Accounts                |
| 9. Student Fees                   | 26. Financial Reporting                   |
| 10. Development                   | 27. Recruiting                            |
| 11. Intercollegiate Athletics     | NR. Contracts and Grants                  |

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.

### **1. Disaster Contingency Planning**

Disaster contingency planning includes facility and personnel preparedness and resource planning for actions related to natural disasters and the recovery therefrom.

Potential impacts include:

- injury of students, staff, faculty and visitors;
- disruption of services;
- financial exposures;
- damage claims from injured parties; and
- property damage.

Proposed audit scope would include review of: compliance with the bond resolutions, Trustee policy, building codes, and systemwide directives; contingency and disaster recovery planning; back-up 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.

### **5. Employee Relations**

Employee relations includes activities involved in collective bargaining and negotiating and administering personnel policies such as prohibitions against sexual harassment and retaliating against employees for reporting improper activities.

Potential impacts include:

- excessive costs;
- inappropriate business environment;
- 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.

## **6. Occupational Health and Safety**

Occupational health and safety includes required evaluation of job and workplace conditions, illness and injury prevention planning, safety training and programs for complying with federal and state occupational regulations.

Potential impacts include:

- excessive costs;
- personal injury;
- erroneous records/information; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of the controls that relate to employee safety such as illness and injury prevention planning, health and safety inspections and training, employee medical monitoring, and mitigation of imperiling job-related conditions or potential hazards in the workplace.

## **9. Student Fees**

The CSU Board of Trustees approved a revised student fee policy at the March 14-15, 2000, meeting - Resolution of the Committee on Finance (RFIN) 03-04-00 that was implemented by the chancellor through Executive Order 740.

Potential impacts include:

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

Proposed audit scope would include review of policy implementation and activities to date regarding fee categorization, operation of fee advisory committees, campus-based student fee referendum, consolidation or elimination of fees, meeting the one-third financial aid requirement for increases in the State University Fee, and annual reporting of student fees.

## **10. Development**

Development includes institutional or university advancement and fundraising.

Potential impacts include:

- inadequate nonstate funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of nonmonetary gifts;
- noncompliance 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; controls over the analysis of development needs; identification of prospective donors; solicitation and acknowledgment of donations; valuation of nonmonetary 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 (NCAA).

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;
- NCAA infractions that significantly impact the university in terms of lost revenues, adverse publicity, and regulatory 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 would include evaluation of internal controls, review of financial audits, compliance with NCAA rules and regulations, and operational testing for efficient and effective use of resources.

#### **14. Financial Aid**

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;
- overawarding 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;
- 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. Disability Support and Accommodations**

Disability support and accommodations covers the CSU programs for disabled employees, students and visitors. This would include accessibility of facilities, provision of enabling supportive services and use of adaptive technologies.

Potential impacts include:

- excessive costs;
- adverse publicity;
- inadequate accommodations and services;
- 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 funds used at the option of system officials that are not appropriated by the state nor limited by resource providers to specific purposes. These funds could reside in campus or auxiliary organization accounts.

Potential impacts include:

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

Proposed audit procedures would include survey of discretionary accounts and research of enabling documents and expenditures to evaluate usage in relation to general public expectations for fiscal propriety.

## **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; and
- reporting of financial data that does not meet user needs.

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;
- unacceptable position vacancies;
- high turnover among new employees;
- 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.

### **NR. Contracts and Grants**

Contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- commitments/proposals not in the best interest of the CSU;
- conflicts of interest by principal investigators;
- inadequate/excessive recovery of costs or contribution of matching requirements;
- misuse of funds;
- noncompliance with pertinent grantor/sponsor regulations;
- audit disallowances, regulatory fines and sanctions;
- misconduct in research such as fabrication, falsification, plagiarism or abuse of human subjects; and
- failure to provide deliverables.

Proposed audit procedures would include review of: solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation and transfer processes; and award administration. The latter would include proposal development (faculty assistance, funding information, pre-award resource material); proposal preparation and review of compliance issues (human and laboratory animal use, certifications, other regulatory requirements); award negotiation and acceptance (negotiation, award and project initiation); closeout and audit (final reporting, audit issues, project conclusion); and post-award administration (management systems, agency liaison, accounting, fiscal and reporting issues).

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

**YearFunction**

2001 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Delegations of Authority (Procurement, Motor Vehicles, Agreements and Leases)  
Development  
Contracts and Grants  
Auxiliary Organizations  
Construction

2000 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Hazardous Materials Management  
Public Safety  
Student Health Centers  
Auxiliary Organizations  
Construction

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

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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

**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 presented 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.