

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 4:15 p.m., Tuesday, January 27, 2004**  
**Glenn S. Dumke Auditorium**

Shailesh J. Mehta, Chair  
Roberta Achtenberg, Vice Chair  
Debra Farar  
William Hauck  
Frederick W. Pierce, IV

#### **Consent Items**

Approval of Minutes of Meeting of November 19, 2003

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2004, *Action*
3. Report on Construction Auditing in the California State University–2002/2003, *Information*
4. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
5. Single Audit Report of Federal Funds, *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 19, 2003**

**Members Present**

Shailesh J. Mehta, Chair  
Roberta Achtenberg, Vice Chair  
Debra S. Farar, Chair of the Board  
William Hauck  
Frederick W. Pierce, IV

**Other Trustees Present**

Murray L. Galinson  
Eric Z. Guerra  
Kathleen Kaiser  
M. Alexander Lopez  
Ralph R. Pesqueira  
Charles B. Reed, Chancellor  
Kyriakos Tsakopoulos

**Chancellor's Office Staff**

David S. Spence, Executive Vice Chancellor and Chief Academic Officer  
Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Christine Helwick, General Counsel  
Larry Mandel, University Auditor  
Jackie McClain, Vice Chancellor, Human Resources

Chair Mehta called the meeting to order at 10:42 a.m.

**Approval of Minutes**

The minutes of the meeting of September 16, 2003, were approved as submitted.

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

Mr. Larry Mandel, university auditor, presented the item by reporting the status of the following audit assignments and follow-up reviews:

*FISMA* – Four audits have been completed, report writing is being completed on two campus reviews, and fieldwork is taking place at two campuses.

*Auxiliary Organizations* – Three campus/eleven auxiliary reviews await a response prior to finalization, and report writing is being completed on three campus/twelve auxiliary reviews.

*Employee Relations* – One audit has been completed, one audit awaits a campus response prior to finalization, report writing is being completed on five campus reviews, and fieldwork is taking place at two campuses.

*Risk Management and Insurance* – Three audits have been completed, report writing is being completed on five campus reviews, and fieldwork is taking place at one campus.

*Disaster/Contingency Planning* – One audit has been completed, one audit awaits a campus response prior to finalization, report writing is being completed on six campus reviews, and fieldwork is taking place at one campus.

*Follow-up* – Currently tracking approximately 50 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Financial Aid, and Disability Support and Accommodations) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*Construction* – For fiscal year 2002/03, six construction projects have been completed by KPMG with coordination from the Office of the University Auditor. Follow-up reviews are currently in process for these projects.

Mr. Mandel stated that most of the campuses are at or below the 12-month period for completing outstanding recommendations. He commented that the campuses have done an exceptional job in completing the recommendations and are to be commended for their efforts.

Trustee Kaiser inquired about the outstanding recommendations pertaining to Special Investigations at San Diego State University.

Mr. Mandel explained that the process for responding to audit reports includes corrective action plans and time estimates for completion from the campuses. He stated that San Diego State University was on track to complete the recommendations in their estimated timeframe.

Trustee Pierce inquired about the one outstanding recommendation pertaining to Systemwide Contracts and Grants.

Mr. Mandel explained that the outstanding recommendation pertaining to Contracts and Grants involves the complete revision of an executive order that was originally issued approximately 30 years ago. He stated that, after exhaustive review by several CSU constituencies, a new executive order is anticipated by January 2004.

### **Status Report on the Bureau of State Audits Report on the Common Management System**

Mr. Richard P. West, executive vice chancellor and chief financial officer, presented the item. He explained that the Bureau of State Audits Report on the Common Management System (CMS) included 30 recommendations for the California State University (CSU). He reported that 20 of the 30 recommendations have been implemented, and the remaining 10 recommendations will be completed by the end of December 2003.

Mr. West indicated that at the request of the Trustees, the CSU had engaged Cap Gemini Ernst & Young (CGEY) to conduct a cost-benefits analysis of the CMS project. CGEY performed a review of campuses that had completed implementation in most, if not all, of the three segments of the CMS system: human resources, finance, and student administration. He explained that the seven campuses selected for intensive on-site evaluation were the initial campuses that had implemented the student administration segment. Three additional campuses were also selected based on recognition as a center of excellence by peers in specific functional areas. He further explained that the intent of the in-depth evaluation was to analyze in detail each functional area, understand the campus service improvements and benefits, and identify information technology benefits of moving to the new CMS environment and outsourced data center. CGEY's evaluation revealed that the CMS project has achieved service level improvements and provides the foundation for CSU campuses to achieve higher service and operational capabilities that would otherwise not be achievable under the pre-CMS platform.

Mr. West stated that CGEY also conducted a cost analysis of alternative administrative systems approaches versus the CMS approach and concluded that CSU's all-campus approach was cost effective. For implementation, the analysis revealed that CMS was approximately 65 percent less expensive than other approaches considered. For operations, the analysis demonstrated that for the same level of functionality, the new systems avoid up to \$30 million in annual costs compared to the old systems' decentralized approach.

Mr. West indicated that CGEY's evaluation also concluded that the benefits currently derived from CMS include four categories: cost reduction, productivity gains, risk mitigation, and resource reallocation. He further indicated that CMS is a technology-based foundation that provides CSU with the opportunity to achieve significant service improvements and streamlined business processes.

## Audit

Regarding system implementation, Mr. West reported that currently 19 campuses are live on human resources, 15 on finance, and 7 on student administration. He further reported that by the end of December 2003, 21 campuses would be live on human resources, 15 on finance, and 8 on student administration. By July/August 2004, it is anticipated that 21 campuses would be live on both human resources and finance, and 9 on student administration.

Mr. West noted that the state controller is in the process of replacing the state's payroll system. Therefore, due to schedule constraints required for this project, and as part of the systemwide budget evaluation, CSU is considering the deferment of some of the implementation costs of the campuses that have not yet implemented the student administration system. In addition, consideration is being given to moving forward the schedule for fall 2005 for the three campuses that have not yet initiated implementation of the human resources and finance components.

Mr. West presented CGEY's diagram depicting the four major stages of benefits derived from a typical CMS-like implementation. He stated that the diagram is consistent with CSU's philosophy of dealing with technology. He explained that CSU is currently in the first and second stages of implementation, which involve installing the system, beginning operation, and evaluating incremental improvements. The third stage involves extending the capabilities of the system, recognizing the depth of the software, and adopting our business practices to the software. He further explained that Stage 4 involves creating new capabilities based on our evaluation of new ways of providing services, web-based strategies, commonality of services, etc., and is primarily driven by the vice presidents, both on the business side and on the student services and academic side.

In summary, Mr. West noted that CGEY concluded that based on the alternatives, CMS resulted in the best implementation approach, providing immediate benefits and service improvements. In addition, the CMS approach demonstrated that operational savings were achieved, compared to the long-term cost of maintaining the old systems. Also, CGEY determined that CMS provides significant additional workload capacity without a comparable increase in operational costs.

Trustee Galinson inquired as to the reason for the delay in the implementation of the student administration system.

Mr. West explained that the student administration system is approximately 60 percent of the total effort, is the most complex of the systems, and requires a significant amount of process analysis during implementation.

Trustee Galinson expressed his concern regarding the "Change the Game" stage of the CMS life cycle and inquired as to whether the CMS systems would need to be replaced by more modern and current technology by that time.

Mr. West responded that CSU's philosophy for the CMS project is one of continuous improvement and maintenance, which can be achieved by constantly upgrading the software provided by the vendor. He explained that campuses are asked to review their business practices and to be as consistent with the base software as possible in order to take advantage of those vendor-based changes. He also noted that, eventually, old systems need to be replaced, including this one, but that such a replacement effort is a significant number of years in the future.

Chancellor Reed stated that he has had discussions recently with the former governor's chief information technology director and his assistant, as well as the state controller, regarding the CMS project. He further stated that those discussions included tremendous compliments to the CSU for launching the largest implementation project in higher education in America.

Trustee Mehta commended Richard West and his staff on their sincerity in the undertaking of the CMS audit and the honest, sincere, and vigorous manner in which they have responded to the state auditor's recommendations. In light of the budget crisis, he stated his belief that the CMS implementation will prove to be a benefit to the CSU system.

The Committee heard comments from George Kurtz regarding the Teacher Preparation Program.

### **Adjournment**

The meeting was adjourned at 11:16 a.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 2003 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, Employee Relations, Risk Management and Insurance, Disaster/Contingency Planning, Information Systems, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Financial Aid, and Disability Support and Accommodations) is currently being conducted on approximately 45 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 2003 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, Employee Relations, Risk Management and Insurance, Disaster/Contingency Planning, 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, report writing is being completed on four campus reviews, and fieldwork is currently taking place at three campuses.

#### *Auxiliary Organizations*

The audit plan indicated that approximately 234 staff weeks of activity (30 percent of the plan) would be devoted to auditing internal compliance/internal control at 7 campuses/26 auxiliaries. One campus/four auxiliary reviews have been completed, two campuses/seven auxiliaries await

a response prior to finalization, and report writing is being completed on 5 campuses/ 18 auxiliaries.

#### *Employee Relations*

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 on activities involved in negotiating and administering collective bargaining agreements with represented employees, administering the management personnel plan for nonrepresented employees, and the systems for addressing staff grievances and complaints. Three audits have been completed, and report writing is being completed on six campus reviews.

#### *Risk Management and Insurance*

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 on risk and liability assessments, self insurance, selection of insurance coverage and carriers, risk mitigation and prevention programs, claims review and processing, and operations of the California State University Risk Management Authority. Four audits have been completed, two audits await a response prior to finalization, and report writing is being completed on three campus reviews.

#### *Disaster/Contingency Planning*

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 on compliance with bond resolutions, Trustee policy and systemwide directives, contingency and disaster recovery planning, backup 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. Two audits have been completed, one audit awaits a campus response prior to finalization, and report writing is being completed on six campus reviews.

#### *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 45 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Development, Contracts and Grants, Financial Aid, and Disability Support and Accommodations) 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. Two audits are in the report writing stage, while fieldwork is currently being completed for one audit.

### *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 1/9/2004)

	<b>2003 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>												
	FISMA	Aux Orgs	Emp Rel	Risk Mgt Insur	Disas/ Contin Plng	Special Investigations		FISMA		Auxiliary Organizations			Development		Financial Aid		Disabil Support and Accommm	
						*Recs	**Mo.	*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	FW				AI					3	37/42	9	7/7	-			10/12	9
CHI		RW		AC				5/5	-				7/7	-	0/5	9		
DH	RW	RW											5/5	-	1/1	-		
FRE	FW		AC							6	20/107	8	10/10	-			5/5	-
FUL		AI	RW		RW			4/6	5				7/7	-			8/8	-
HAY			RW	AI				22/22	-	4	32/65	7	7/7	-	4/4	-		
HUM				RW				3/4	9	3	53/53	-					13/16	12
LB	FW	RW	AC										8/8	-			3/3	-
LA				AC	RW			5/5	-	4	54/54	-	6/7	14	4/6	9		
MA								4/14	9	2	0/21	5						
MB	FW				RW			17/17	-	2	12/40	6	9/9	-	0/5	9		
NOR		RW	AC					8/8	-				10/10	-			3/3	-
POM				AC	RW			9/9	-	3	34/34	-	11/11	-	8/8	-		
SAC				AC	RW			7/13	7	5	56/65	12	11/11	-				
SB	RW	AI											7/7	-			9/9	-
SD	AC		RW		AC	11/79	6	9/12	7	4	40/40	-	5/5	-	7/7	-	2/2	-
SF	AC	AI		RW				0/8	4				9/9	-	5/5	-		
SJ			RW	AC				0/9	7	4	93/93	-	11/11	-			4/4	-
SLO				RW	RW			12/12	-	2	7/29	6	8/8	-				
SM			RW		AC			16/17	15	2	42/42	-	3/3	-	2/2	-		
SON	AC	RW						1/14	5				7/7	-			0/0	-
STA	AC		RW					0/9	4	4	50/50	-	9/9	-	4/4	-		
CO	RW									2	16/16	-						
SYS													6/6	-	0/8	6	0/8	6
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.  **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.												



## COMMITTEE ON AUDIT

### **Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2004**

#### **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 2004.

#### **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 2002/03 or 2003/04 (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 2004. 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 ten campus audits will take place during calendar year 2004. 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 ten campus audits will take place during calendar year 2004. 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 ten campus audits will take place during calendar year 2004. 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 27 auxiliary reviews will take place during calendar year 2004. This represents 243 staff weeks of audit effort, which is approximately 31 percent of the audit plan.

#### INFORMATION SYSTEMS

Information Systems areas of review will include 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 organization audits. Forty-three staff weeks are planned during calendar year 2003. 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. Thirty staff weeks have been set aside for this purpose, representing approximately 4 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 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. Five staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

## TRAINING

Training in control self-assessment will continue to be available in 2004. 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. Ten staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

Audit  
Agenda Item 2  
January 27-28, 2004  
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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 2004 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 2002 RISK ASSESSMENT**

PROSPECTIVE AUDIT TOPICS (TOP 50% OF RISK)

	TOPIC	TIME SINCE LAST AUDIT BY THE OUA
1	Employee Relations/Collective Bargaining	2003
2	Financial Aid	2002
3	Contracts and Grants	2001
4	Procurement	FISMA*
5	Payroll Services	FISMA*
6	Financial Reporting	Never Audited
7	Admissions and Evaluations	More Than 10 Yrs
8	Development/Fund-Raising	2002
9	Continuing Education/Extended Learning	1998-99
10	Disaster/Contingency Plng/Emergency Prep	2003
11	Environmental Management	Never Audited
12	Treasury Functions	FISMA*
13	Cashiering and Ticket Sales	FISMA*
14	Risk Management and Insurance	2003
15	Human Relations/Personnel Services	Never Audited
16	Intercollegiate Athletics	Never Audited
17	Accounts Receivable	FISMA*
18	Public Safety	2000
19	Accounts Payable	FISMA*
20	Hazardous Materials Management	2000
21	Student Records and Registration	1999
22	Student Activities/Organizations	More Than 10 Yrs
23	Occupational Health and Safety	1997
24	Housing/Residential Services	More Than 10 Yrs
25	Disability Support and Accommodations	2002
26	Parking	More Than 10 Yrs
27	Trust Funds	FISMA*
28	Child Care Centers	Aux Orgs
29	Student Health Centers	2000

\*FISMA = Financial Integrity and State Manager's Accountability Act of 1983 which requires financial internal control reviews of all campuses once every two years. Items 4, 5, 12, 13, 17, 19, and 27 are covered within the FISMA audit cycle.

Items 2, 3, 8, 18, 20, 25, and 29 were recent audit subjects. Item 28 is covered during auxiliary organization reviews.

**OFFICE OF THE UNIVERSITY AUDITOR  
SELECTION OF AUDIT TOPICS FOR 2004**

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 2004. The list below reflects the topics developed by the 2002 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 Organization Reviews.

- |   |                                      |
|---|--------------------------------------|
| 6. Financial Reporting                    | 21. Student Records and Registration |
| 7. Admissions and Evaluations             | 22. Student Activities/Organizations |
| 9. Continuing Education/Extended Learning | 23. Occupational Health and Safety   |
| 11. Environmental Management              | 24. Housing/Residential Services     |
| 15. Human Relations/Personnel Services    | 26. Parking                          |
| 16. Intercollegiate Athletics             |                                      |

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.

## **6. 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.

## **7. Admissions and Evaluations**

Admissions and evaluations includes outreach activities to prospective students, processing of applications for admission, and evaluations of student records.

Potential impacts include:

- admission of ineligible students;
- inequity in admission decisions;
- incorrect residency determinations;
- inadequate evaluations;
- misuse/distribution of confidential admission and evaluation data;
- lack of control over application fees.

Proposed audit procedures would include review of federal and state laws, Trustee policy and Chancellor's Office directives on admissions and evaluations, testing of residency determinations, and review of controls and systems to assure appropriate use of regular and supplementary admission criteria and effective use of resources.

## **9. Continuing Education/Extended Learning**

Continuing education/extended learning includes special sessions, extension programs, and other self-supporting instructional programs and operation of the Continuing Education Revenue Fund (CERF) and related trust accounts.

Potential impacts include:

- loss of budgetary control;
- inappropriate subsidies;
- inaccurate reporting; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of: the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of continuing education activity and maintenance of CERF contingency reserves.

## **11. Environmental Management**

Environmental management includes activities of the CSU in complying with federal and state environmental regulations.

Potential impacts include:

- degradation of the environment;
- excessive costs;
- increased exposure to enforcement actions by regulatory agencies; and
- inability to meet program needs.

Proposed audit scope would include review of compliance with federal and state environmental laws and regulations.

### **15. Human Relations/Personnel Services**

Human relations/personnel services include the CSU activities in recruiting, hiring, and retaining employees.

Potential impacts include:

- unnecessary costs;
- unequal employment opportunities;
- inappropriate disclosure of confidential employee data;
- inadequate benefit programs;
- excessive employee turnover; and
- inability to hire and retain best employees.

Proposed audit scope would include review of: compliance with employment laws and regulations; position classification/compensation; advertising for prospective employees; employee training; and programs for employee benefit administration.

### **16. 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.

## **21. Student Records and Registration**

Student records and registration includes database integrity, security and confidentiality, and the enrollment process.

Potential impacts include:

- adverse publicity;
- excessive costs;
- erroneous records;
- release of inappropriate information; and
- low customer service.

Proposed audit scope would include review of: database recordkeeping and registration systems, procedures for creating and changing records, and security measures protecting against unauthorized or inadvertent modification, removal, or destruction of records.

## **22. Student Activities/Organizations**

Student activities/organizations include the CSU activities relating to social and co-curricular programs, recreational sports, clubs, and organizations, and student judicial review.

Potential impacts include:

- inappropriate activities;
- personal injury;
- litigation

Proposed audit scope would include review of systems and procedures for controlling and monitoring student activities and organizations.

### **23. Occupational Health and Safety**

Occupational health includes required employee health examinations, evaluation of job and workplace conditions, safety training, and programs for complying with federal and state occupational regulations.

Potential impacts include:

- personal injury; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of the controls which relate to employee safety and mitigation of imperiling job-related conditions or potential hazards in the workplace.

### **24. Housing/Residential Services**

Housing/residential services includes the support activities afforded students in locating suitable housing, operation of the on-campus residence halls, and programming of activities for residential students.

Potential impacts include:

- noncompliance with bond requirements;
- unaffordable, unattractive and unsafe residence halls;
- low occupancy and loss of revenue; and
- excessive costs and property damage.

Proposed audit scope would include review of Dormitory Revenue Fund operations, residence hall costs, processes for establishing housing fees, maintenance of residence halls, and activity programs.

### **26. Parking**

Parking includes activities of the CSU in providing parking facilities including establishing parking fees, issuance of parking permits, making parking arrangements for guests and visitors, operating parking facilities, collecting parking funds, and enforcing parking regulations.

Potential impacts include:

- inadequate parking accessibility and spaces;
- excessive costs;
- constituent complaints and service problems; and
- loss of parking revenue.

Proposed audit scope would include review of: compliance with rules and regulations; parking fees and the permit process; and enforcement activities.

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

**YearFunction**

2003 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Auxiliary Organizations  
Employee Relations  
Risk Management and Insurance  
Disaster/Contingency Planning  
Construction

2002 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Auxiliary Organizations  
Development  
Financial Aid  
Disability Support and Accommodations  
Construction

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

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

1999 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Auxiliary Organizations  
Continuing Education/Extended Education  
Operation and Maintenance of Plant  
Student Records and Registration  
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

**COMMITTEE ON AUDIT**

**Report on Construction Auditing in the California State University—2002/2003**

**Presentation By**

Larry Mandel  
University Auditor

Mark Thomas  
Systemwide Coordinating Partner, KPMG

**Summary**

For the 2002/03 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 construction bid process, change orders, project management services, contractor compliance, 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.

**COMMITTEE ON AUDIT**

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

**Presentation By:**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

**Summary**

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

**COMMITTEE ON AUDIT**

**Single Audit Report of Federal Funds**

**Presentation By:**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

**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. 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.