

AGENDA

COMMITTEE ON AUDIT

Meeting: 3:00 p.m., Tuesday, May 18, 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 March 17, 2004

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
California State University, Fresno
Save Mart Center – Arena Floor
5241 North Maple Avenue
Fresno, CA 93740**

March 17, 2004

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

Robert G. Foster
Eric Z. Guerra
M. Alexander Lopez
Ralph R. Pesqueira
Charles B. Reed, Chancellor

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 10:27 a.m.

Approval of Minutes

The minutes of the meeting of January 27, 2004, 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 – Report writing is being completed on one campus review, and fieldwork is currently taking place at two campuses.

Auxiliary Organizations – Report writing is being completed at two campuses/six auxiliaries.

Admissions – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Human Resources – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

Student Activities – The audit program for this subject is currently being field tested by the audit manager in charge of the project.

As per the audit plan, 12 FISMA reviews, 27 auxiliary organization reviews, and 30 subject area reviews (10 in each subject area) will be completed this year.

Follow-up – Currently tracking approximately 50 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Financial Aid, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster and Contingency Planning) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Construction – For fiscal year 2003/04, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Three of these projects are in the report-writing stage, and one project is in the fieldwork stage.

Mr. Mandel stated that most of the campuses are making significant progress towards completing the outstanding recommendations.

Trustee Kaiser inquired about the five outstanding recommendations pertaining to FISMA at the California Maritime Academy.

Dr. William B. Eisenhardt, president of the California Maritime Academy, responded that the outstanding recommendations would probably be completed by the next Committee meeting.

Trustee Kaiser inquired about the two outstanding recommendations pertaining to Financial Aid at California State University, Monterey Bay.

Dr. Peter P. Smith, president of California State University, Monterey Bay, responded that one of the recommendations had been completed since the distribution of the current matrix and that the other recommendation pertains to the proper wording of a consumer information disclosure and completion is anticipated by this week.

Trustee Kaiser inquired about the two outstanding recommendations pertaining to FISMA at San José State University.

Dr. Joseph N. Crowley, interim president, San José State University, responded that both outstanding recommendations would be completed by the next Committee meeting.

Trustee Mehta inquired about the outstanding recommendations pertaining to Financial Aid and Disability Support and Accommodations, Systemwide.

Dr. David S. Spence, executive vice chancellor and chief academic officer, responded that all of the outstanding recommendations would be completed by April 30, 2004.

Final 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, stated that the final Status Report on the Bureau of State Audits on the Common Management System was submitted to the State Auditor as required by the March 11, 2004, deadline, one year after the release of the audit. He further stated that the University administration has taken very seriously the concerns raised in the State Auditors' report and has taken action on all 30 of the audit recommendations. He indicated that the University has put in place several new policies and procedures as a result of the state audit.

Trustee Kaiser stated that she has received queries from different campuses regarding the practice of financing certain aspects of the CMS implementation and requested an opinion on this approach.

Mr. West explained that in the past, campuses have financed capital items, such as equipment, but, with one exception, that this has not been the practice with CMS. However, he stated that he was aware that some campus proposals might be presented in the near future as part of the financial plan to complete the CMS implementation, particularly for student administration. He further stated that depending on the volume of proposals, financing could potentially be provided by the CSU or through commercial vendors.

Trustee Mehta inquired as to whether any part of the CMS project was currently being financed through external borrowing.

Audit

Mr. West responded that currently there is no outstanding external financing for the CMS project. He explained that originally when the CSU acquired the initial CMS license, it was financed over five years, but has since been repaid. However, he indicated that financing might be required to complete the student administration implementation at the remaining 14 campuses.

Trustee Mehta asked as to whether the CMS implementation plan was on schedule.

Mr. West responded that the CMS implementation plan was on schedule, except where \$13 million of startups were deferred as part of the 2003/04 budget. He explained that for 2004/05, the campuses have been advised to review their implementation schedules to determine whether a one-year deferment is feasible. As a result, final implementation would be completed by the end of 2008, instead of 2007 as was originally planned. He indicated that the majority of the University would be operating on some portion of CMS in the next six to nine months.

Trustee Kaiser asked as to whether it would be in the best interest of the campuses to obtain financing with commercial vendors instead of with the University since it is budget driven.

Mr. West stated that campuses have been requested to submit financing proposals through his office so that the best approach could be determined on a campus-by-campus basis. He explained that commercial vendors offering financing with a modest payback period of three to six years would be considered.

Corrective Action Plan for Findings in the Single Audit Reports

Mr. Dennis Hordyk, assistant vice chancellor, financial services, discussed the corrective action plan for findings in the Single Audit Reports, which is in response to the KPMG audit of federal funds. He indicated that the Single Audit Reports included five recommendations, two related to the financial statement preparation process and three related to the receipt of federal funds. He further indicated that four of the five campuses have indicated completion of their corrective action plans. However, actual certification that the findings have been corrected will come from the university auditor. He stated that California State University, San Marcos is currently in the process of developing a policy regarding the exact criteria required in the monthly reporting of student loan information to the Department of Education, and completion is anticipated by June 30, 2004.

Trustee Mehta asked whether there would be any implication for obtaining student financial aid funds from Washington, D.C., as a result of these findings.

Mr. Hordyk responded that there would be no implication.

The meeting was adjourned at 10:41 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 2004 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Auxiliary Organizations, Admissions/Evaluations, Human Resources, Student Activities, Information Systems, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Financial Aid, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) is currently being conducted on approximately 55 prior campus/auxiliary/investigative reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the Committee meeting.

Status Report on Current and Follow-up Internal Audit Assignments

At the January 2004 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (financial internal controls), Auxiliary Organizations, Admissions/Evaluations, Human Resources, Student Activities, Information Systems, and Construction.

FISMA

The audit plan indicated that approximately 136 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed on four campus reviews, and fieldwork is currently taking place at two campuses.

Auxiliary Organizations

The audit plan indicated that approximately 243 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/27 auxiliaries. Report writing is being completed on three campus/ten auxiliary reviews.

Admissions/Evaluations

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of admissions and evaluations activities through a review of the related control environment; processing of applications for admission; evaluations of student records; application fee and waiver controls; and the protection of confidential admission and evaluation data. Report writing is being completed on one campus review.

Human Resources

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of human resources activities through a review of the related control environment; recruitment and advertising practices; the selection and orientation of new employees; employee compensation and selected benefits programs; and the protection of confidential employee information. Report writing is being completed on one campus review, and fieldwork is currently taking place at one campus.

Student Activities

The audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of ten campuses to evaluate the effectiveness of operating controls and governance processes pertaining to student activities (including intramural and club sports but excluding intercollegiate athletics), student clubs and organizations (including the fraternities and sororities), and student judicial affairs. Report writing is being completed on one campus review, and fieldwork is currently taking place at one campus.

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 55 prior audits (Special Investigations, FISMA, Auxiliary Organizations, Financial Aid, Disability Support and Accommodations, Employee Relations, Risk Management and Insurance, and Disaster/Contingency Planning) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Consultations and Investigations

The audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to campus consultations and special requests. The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the Chancellor. Typically, the special requests are investigative in nature and often are the result of alleged defalcations or conflicts of interest.

Construction

The audit plan indicated that approximately five staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2003/04 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. Two audits await a campus response prior to completion, and four audits are in the report writing stage.

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 5/19/2004)

	2004 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS																
	FISMA	Aux Orgs	ADM	HR	SA	Special Investigations		FISMA		Auxiliary Organizations			Financial Aid		Disabil Support and Accom		Employee Relations		Risk Mgt and Insurance		Disaster/Cont Plng	
						*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK								12/12	-	3	42/42	-			10/12	13					0/5	4
CHI	RW									3	55/55	-	5/5	-					7/7	-		
CI																						
DH								6/12	3	3	30/30	-	1/1	-								
FRE								13/13	-	6	107/107	-			5/5	-	2/5	6				
FUL								6/6	-	4	32/32	-			8/8	-					6/8	4
HAY	RW									4	57/65	11	4/4	-			0/5	3	3/10	6		
HUM								4/4	-	3	53/53	-			16/16	-			6/8	4		
LB								10/10	-	3	47/47				3/3	-	3/3	-				
LA	RW									4	54/54	-	6/6	-					4/7	5		
MA								12/14	13	2	15/21	9										
MB								17/17	-	2	40/40	-	5/5	-								
NOR	RW									5	43/46	3			3/3	-	2/2	-				
POM		RW						9/9	-				8/8	-					6/6	-	1/3	4
SAC				FW				13/13	-	5	65/65	-							7/7	-		
SB								21/21	-	3	20/33	6			9/9	-						
SD		RW						79/79	-	4			7/7	-	2/2	-					4/9	6
SF				RW				7/8	8	4	17/48	5	5/5	-					0/8	2		
SJ			RW					8/9	11	4	93/93	-			4/4	-	2/2	-	8/8	-		
SLO	FW									2	25/29	10							2/11	2	3/9	3
SM	FW	RW											2/2	-			7/9	2			9/9	-
SON					RW			14/14	-	4	44/44	-			0/0	-						
STA								9/9	-	4	50/50	-	4/4	-			0/8	4				
CO								7/10	3	2	16/16	-										
SYS													7/8	10	5/8	10						
FW = Field Work In Progress RW = Report Writing in Progress AI = Audit Incomplete (awaiting formal exit conference and/or campus response) AC = Audit Complete						* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A "0" in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time. Numbers/letters in red are updates since the agenda mailout. **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.																

