

**AGENDA**

**COMMITTEE ON AUDIT**

**Meeting: 1:00 p.m., Wednesday, November 19, 2003**  
**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 September 16, 2003

**Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on the Bureau of State Audits Report on the Common Management System, *Information*

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

**Trustees of The California State University  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**September 16, 2003**

**Members Present**

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

**Members Absent**

Roberta Achtenberg, Vice Chair

**Other Trustees Present**

Murray L. Galinson  
Eric Z. Guerra  
Alice A. Huffman  
Kathleen Kaiser  
M. Alexander Lopez  
Charles B. Reed, Chancellor  
Stanley M. Toy  
Daniel Weinstein  
Milton M. Younger

**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 4:45 p.m.

## **Approval of Minutes**

The minutes of the meeting of July 15, 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 (Financial Integrity and State Manager's Accountability Act)* – One audit has been completed, three audits await a campus response prior to finalization, and fieldwork is taking place at two campuses.

*Auxiliary Organizations* – Report writing is being completed on four campuses/thirteen auxiliaries.

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

*Risk Management and Insurance* – Two audits await a campus response prior to finalization, and report writing is being completed on five campus reviews.

*Disaster/Contingency Planning* – One audit awaits a campus response, and report writing is being completed on six campus reviews.

As per the audit plan, 12 FISMA reviews, 26 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, 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 are being reviewed by KPMG with coordination from the Office of the University Auditor (OUA). Two of these projects have been completed, two projects await a campus response prior to finalization, and report writing is being completed on two projects.

Trustee Mehta inquired about the outstanding recommendations pertaining to FISMA at California State University (CSU), Hayward.

## Audit

Mr. Richard Metz, vice president, administration and business affairs, CSU Hayward, responded that campus responses for the two outstanding recommendations had been recently submitted to the OUA and he anticipated completion within the next month.

Trustee Mehta inquired about the outstanding recommendations pertaining to Auxiliary Organizations at San José State University.

Dr. Joseph N. Crowley, interim president, San José State University, responded that the anticipated completion date for outstanding recommendations is October 2003.

Trustee Pierce asked whether the first round of auxiliary organization reviews had been completed.

Mr. Mandel explained that an internal compliance/internal control review of each auxiliary organization in the CSU is completed on a triennial basis. He stated that the first round of reviews had been completed and the second round is in process.

Trustee Hauck congratulated Mr. Mandel and his staff on achieving the objective of completing an entire round of auxiliary organization reviews. He noted that this is the first time in the history of the CSU system that every auxiliary organization has been audited.

Trustee Mehta agreed with Trustee Hauck that this accomplishment has been very beneficial.

## **Adjournment**

The meeting was adjourned at 4:58 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 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 50 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 two campus reviews, and fieldwork is currently taking place at two 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. Three campuses/eleven auxiliaries await a response prior to finalization, and report writing is being completed on three campuses/twelve 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 10 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. 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 continues at one campus.

### *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 10 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. Three audits have been completed, report writing is being completed on five campus reviews, and fieldwork continues at one campus.

### *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 10 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. 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 continues 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 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.

### *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 5 staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2002/03 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. All six audits have been completed.

### *Training*

The audit plan indicated that approximately 10 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 10/31/2003)

	<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		Contracts and Grants		Financial Aid		Disabil Support and Accom	
						*Recs	**Mo.	*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK					RW			12/12	-	3	5/42	7	7/7	-	8/8	-			9/12	7
CHI				AC				5/5	-	3	55/55	-	7/7	-			0/5	7		
DH	RW									3	30/30	-	5/5	-			1/1	-		
FRE	FW		AI							6	0/107	6	10/10	-					5/5	-
FUL		AI	RW		RW			0/6	3				7/7	-	6/6	-			8/8	-
HAY			FW	RW				20/22	14	4	16/65	5	7/7	-			3/4	12		
HUM				RW				3/4	7	3	52/53	14			6/6	-			13/16	10
LB		RW	RW					10/10	-	3	47/47	-	8/8	-					3/3	-
LA				RW	RW			4/5	12	4	54/54	-	6/7	12	8/8	-	1/6	7		
MA								0/14	7											
MB	FW				RW			16/17	15		0/40	4	9/9	-			0/5	7		
NOR		RW	AC					8/8	-				10/10	-	9/9	-			3/3	-
POM				AC	RW			9/9	-	3	34/34	-	11/11	-			8/8	-		
SAC				RW	FW			6/13	5	5	51/65	10	11/11	-	9/9	-				
SB		AI						21/21	-				7/7	-					9/9	-
SD	AC		RW		AI	3/79	4	1/12	5	4	40/40	-	5/5	-	5/5	-	7/7	-	2/2	-
SF	AC	AI		RW				0/8	2				9/9	-	9/9	-	5/5	-		
SJ			RW	AC				0/9	5	4	82/93	13	11/11	-	10/10	-			3/4	12
SLO				FW	RW			12/12	-				8/8	-	4/4	-				
SM			RW		AC			16/17	13	2	42/42	-	3/3	-			2/2	-		
SON	AC	RW						0/14	3	4	44/44	-	7/7	-					0/0	-
STA	AC		RW					0/9	2	4	50/50	-	9/9	-			4/4	-		
CO	RW									2	16/16	-								
SYS													0/6	4	8/9	17	0/8	4	0/8	4

FW = Field Work In Progress  
RW = Report Writing in Progress  
AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  
AC = Audit Complete

\* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A "0" in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time.

\*\*The number of months recommendations have been outstanding (since the formal campus exit conference).  
• The number of auxiliary organizations reviewed.

**Status Report on Current and Follow-Up Construction Audit Assignments**  
 (as of 10/31/2003)

	Project No.	Project	Contractor	Project Cost	Start Date	Comp. Date	Managed By	Current *	Follow-Up	
									**RECS	***MO.
2002/03	CH-630	Bell Memorial Union	Bender	\$26,422,060	11/1/1996	Jun-01	Campus	AC	5/7	7
	HUM	Infrastructure Improvements	Mallcraft, Inc	\$19,618,000	11/1/1996	Jul-02	Campus	AC	1/5	7
	SON	Remodel Salazar Bldg	West Coast Contract	\$20,153,000	9/1/1999	Jul-02	Campus	AC	3/4	3
	SM	Academic II Bldgs 26, 27, & 37	Swinerton Walberg	\$33,665,000	8/1/1998	Jun-02	Campus	AC	5/8	5
	FUL	Student Housing Expansion	SJ Amoroso	\$22,404,000	1/1/2000	Aug-02	Campus	AC	0/2	1
	DH	Technology Center/Adm. Bldg.	SJ Amoroso	\$30,915,000	8/1/1998	Oct-02	Campus	AC	0/2	1
2001/02	SF	Student Union Renovation	Amoroso	\$10,500,000	12/23/1998	Sep-00	Campus	AC	11/11	-
	SB	Student Housing Phase 1	P.H. Hagopian	\$11,369,000	10/1/1999	Aug-01	Campus	AC	7/7	-
	ST	Educational Services Building	McCarthy	\$24,409,000	6/1/1999	Dec-01	Campus	AC	4/4	-
	SD-452	Science Laboratory Building	Blake	\$29,828,000	7/1/1999	Apr-01	Campus	AC	3/3	-
	SD	Residential Suites	D.E. Barnhard	\$37,884,000	7/1/1996	Sep-01	Campus	AC	3/3	-
	SB	Coachella Off Campus	Swinerton and Walberg	\$11,048,000	1/1/2000	Feb-02	Campus	AC	11/11	-
*FW = Field Work in Progress; RW = Report Writing in Progress; AI = Audit Incomplete (awaiting response); AC = Audit Complete **The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. ***The number of months that recommendations have been outstanding (since the formal exit conference).										

## **COMMITTEE ON AUDIT**

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

#### **Presentation By`**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

#### **Background**

On March 11, 2003, the California State Auditor released its report of the California State University's Common Management System (CMS). This audit had been requested by Senator Richard Alarcon (D-Los Angeles) and Assembly Member Manny Diaz (D-San Jose), both members of the Joint Legislative Audit Committee (JLAC), on behalf of the California Faculty Association (CFA) and the California State Employees Association (CSEA). The final report includes 30 recommendations for the California State University. The University administration has taken very seriously the concerns raised in the auditors' report and has implemented (or is in the process of implementing) all 30 of the audit's recommendations through executive order, policies and procedures and proposed legislation. The JLAC has held two hearings on the results of the audit and held special hearings at two of our campuses. Since the report was issued there have been several instances where the recommendations have been used to request legislative support for statutory directives and budget control language. We are continuing our efforts to provide state policymakers information regarding the CMS project, including the fact that currently 19 campuses are relying on at least some portion of CMS to handle their day-to-day operations as well as the benefits of this one-time investment for students, faculty, staff, system and state.

#### **CMS Project Benefit Analysis**

Prior to the release of the audit, the CSU engaged Cap Gemini, Ernst & Young (CGE&Y) to conduct a cost benefit analysis of the CMS project. Also prior to the release of the audit findings, the CSU had issued a request for proposals to do a more comprehensive benefits analysis of the CMS project. CGE&Y was awarded the work for this second study as well. Cap Gemini Ernst & Young (CGE&Y) conducted the cost benefit analysis to determine the value gained from the CSU approach to implementation of the Common Management System throughout the university system. In the second study, CGE&Y was asked to record how CMS enabled the campuses to realize previously unachievable benefits and to assess the project's

impact on campus business operations. The study was done by conducting evaluations, including in-depth weeklong visits, at several campuses.

The consultant's analysis in the first study concludes that CSU's approach to the project was cost effective both in the collaborative implementation approach and in the operational costs compared to the CSU's old systems. The second study reported that benefits already have been realized at this early point and new benefits should continue to be achieved as implementation matures. CGE&Y also emphasizes that CMS provides a foundation for further opportunities to modify organizational and administrative processes and encourages the campuses to use the technology to work collectively to achieve additional expected benefits.

Attachment A presents a status report on implementation of all 30 recommendations. The CSU remains on target to complete action on all recommendations by the end of the calendar year.

**Attachment A - CMS Audit Recommendations Status Summary**  
**California State University**  
**November 3, 2003**



<b>CHAPTER / RECOMMENDATION</b>	<b>STATUS</b>	<b>DATE</b>
<b>Chapter 1 - CMS BUSINESS CASE (2)</b>		
1A. Adopt policies and procedures that require a <b>feasibility study</b> before IT acquisition.	<b>Complete</b>	Apr '03
1B. Establish quantitative <b>measures of increased business process efficiencies</b> through CMS.	<b>In Process</b>	Dec '03
<b>Chapter 2 – PROJECT COSTS (4)</b>		
2A. To monitor and control project cost:		
◦ 2A1&2. <b>Collect and compile system-wide project cost information</b> , including campus costs.	<b>Complete</b>	Oct '03
2B. <b>Include all costs of the CMS project in annual reports to the Legislature.</b>	<b>In Process</b>	Nov '03
2C. Establish a <b>system-wide funding plan</b> for the CMS project that includes campuses.	<b>In Process</b>	Dec '03
<b>Chapter 3 – BUSINESS OBJECTIVES (10)</b>		
3A. To minimize the costs and time to implement and maintain its CMS software:		
◦ 3A1. Reassess the <b>design of CMS regarding data base instances.</b>	<b>In Process</b>	Dec '03
◦ 3A2. <b>Continue tracking modification costs and apply cost to decisions on modifications.</b>	<b>Complete</b>	Mar '03
◦ 3A3. <b>Define CMS Baseline Scope.</b>	<b>Complete</b>	May '03
◦ 3A4. <b>Examine cost of new campus functionality.</b>	<b>Complete</b>	Sep '03
3B. Evaluate <b>business processes</b> against vendor products <b>before procurement.</b>	<b>Complete</b>	Apr '03
3C. To provide ready access to current, accurate and complete administrative information:		
◦ 3C1. Review design for <b>CMS system-wide reporting.</b>	<b>In Process</b>	Dec '03
3D. To provide project quality and information security:		
◦ 3D1. Establish <b>quality assurance function</b> for CMS.	<b>In Process</b>	Dec '03
◦ 3D2. Consider <b>independent oversight consultant.</b>	<b>In Process</b>	Dec '03
◦ 3D3. Establish <b>sensitive information policy</b> regarding CMS access. (Expanded action by CSU)	<b>Complete</b>	Mar '03
3E. To ensure that it uses recommended practices in its future procurements, the university should:		
◦ 3E1. <b>Share risk with vendors and consultants</b> through procurements.	<b>Complete</b>	Mar '03
<b>Chapter 4 – CMS PROCUREMENT (4)</b>		
4A. To ensure that it uses recommended practices in its future procurements, the university should:		
◦ 4A1. Use <b>procurement processes appropriate to procurement objectives.</b>	<b>Complete</b>	Apr '03
◦ 4A2. Establish practice of using <b>quantitative scoring on procurement decisions.</b>	<b>Complete</b>	Apr '03
◦ 4A3. <b>Enforce sole source policy.</b>	<b>Complete</b>	Apr '03
◦ 4A4. Establish policy to require <b>three offers for procurement under MEAs.</b>	<b>Complete</b>	Apr '03
<b>Chapter 5 – DATA CENTER (2)</b>		
5A. Continue to <b>monitor and manage the data center contract and services.</b>	<b>Complete</b>	Mar '03
5B. Expedite the inclusion of <b>data warehousing</b> in CMS.	<b>In Process</b>	Dec '03
<b>Chapter 6 – CONFLICT OF INTEREST (8)</b>		
6A. (Legislative action recommended) 6A1 – (Ethics training) 6A2. – (Incompatible Activities).	N/A	N/A
6B. To address potential conflicts of interest and prohibited use of nonpublic information:		
◦ 6B1. Conduct periodic <b>conflict-of-interest training.</b>	<b>In Process</b>	Dec '03
◦ 6B2. Establish an <b>incompatible activities policy.</b> (CSU will continue to implement existing law)	<b>Complete</b>	Jun '03
◦ 6B3. Require <b>procurement disclosure statements.</b>	<b>Complete</b>	Apr '03
◦ 6B4. Enhance <b>procurement disclosure statements.</b>	<b>Complete</b>	Apr '03
◦ 6B5. Update <b>conflict-of-interest code.</b>	<b>Complete</b>	Apr '03
◦ 6B6. Require <b>consultants to file Form 700s.</b>	<b>Complete</b>	Apr '03
◦ 6B7. Remind HR personnel of their responsibility to <b>manage Form 700s for seven-years</b>	<b>Complete</b>	Feb '03
◦ 6B8. Remind employees of the <b>prohibition against using non-public information.</b>	<b>Complete</b>	Jun '03