

**AGENDA**

**COMMITTEE ON AUDIT**

**Meeting: 3:00 p.m., Wednesday, July 7, 1999**  
**Glenn S. Dumke Conference Center**

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

**Consent Item**

Approval of Minutes of Meeting of May 12, 1999

**Discussion Item**

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

**MINUTES OF 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  
May 12, 1999**

**Members Present**

Stanley T. Wang, Chair  
Ali C. Razi, Vice Chair  
William D. Campbell  
Harold Goldwhite  
Eric C. Mitchell  
Joan Otomo-Corgel  
Ralph R. Pesqueira  
Frederick W. Pierce IV

**Other Trustees Present**

William Hauck, Chairman of the Board  
Cruz Bustamante, Lt. Governor of California  
Martha C. Fallgatter  
Bob Foster  
Laurence K. Gould, Jr.  
Dee Dee Myers  
Charles B. Reed, Chancellor  
Michael D. Stennis  
Anthony M. Vitti

**Chancellor's Office Staff**

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

**Presidential Liaisons**

Manuel A. Esteban, President, California State University, Chico, present  
Alexander Gonzalez, President, California State University, San Marcos, present

Chair Wang called the meeting to order at 8:28 a.m.

### **Approval of Minutes**

The minutes of the March 17, 1999, meeting were approved as submitted.

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

Larry Mandel, university auditor, presented the item and stated that, of the current 1999 audits, fieldwork is being performed on seven campuses and report writing is in progress for nine recently completed reviews. Mr. Mandel referred to the matrix and noted the following:

*FISMA Audits* – report writing is currently being conducted on four of the eleven campuses to be reviewed this year.

*Student Records and Registration* – fieldwork is continuing at two campuses, while report writing continues at one.

*Operation and Maintenance of Plant* – fieldwork is continuing at two campuses, while report writing continues at one.

*Continuing Education* – fieldwork is currently being conducted at three campuses, while report writing continues at one.

*Auxiliaries* – preliminary review and audit program development is currently taking place. The Office of the University Auditor conducted an Auxiliary Review Workshop in April to apprise CSU auxiliary organizations of the review process. This included such topics as compliance with the Education Code and Title 5, in addition to assessment and management of internal control systems. Mr. Mandel pointed out that during the workshop, numerous representatives from the auxiliaries asked that these reviews be delayed until after the annual financial statement audits are completed. This will eliminate the issue of having two auxiliary audits being performed simultaneously. In order to ensure that there is sufficient staffing to perform these reviews, a recruitment will be conducted at the beginning of the fiscal year. The reviews will commence in early October.

*Follow-up Reviews* – 48 follow-ups are currently being monitored. Mr. Mandel noted the progress that has been made in all of the areas. For Occupational Health follow-ups, a policy related to on- and off-campus student health training issues is being developed and is expected to be in place by late June. Until this policy is established, the recommendation related to student health and safety training will remain open for each campus reviewed. Mr. Mandel noted that progress has been made in clearing open recommendations for Seismic Safety audits, and he and his staff are continuing to work with the campuses to clear open items. Risk Management exit conferences were completed between August 1998 and March

1999, and campuses are addressing the open recommendations. With respect to the 1998 audits of Continuing Education, the campuses are just beginning to supply documentation evidencing completion of the recommendations. One campus, CSU Long Beach, has satisfactorily addressed all of the recommendations in this area.

Trustee Otomo-Corgel expressed her concern regarding the cost of performing innumerable follow-ups and she pointed out that the Los Angeles, San Jose, and Humboldt campuses continue to require follow-up reviews for Seismic Safety audits completed in 1997. She went on to state her concern about the safety implications and the lack of sufficient “teeth” in requiring campuses to satisfactorily address and close audit recommendations within a reasonable timeframe. To resolve this issue, Trustee Otomo-Corgel proposed that the board formulate a policy to strengthen the authority behind the dates.

Chair Wang thanked Trustee Otomo-Corgel for her recommendation and agreed that a policy, wherein campuses would be required to satisfactorily address open recommendations by a specific timeframe, should be developed. He indicated that he was cognizant of the fact that the campuses continue to attempt to comply with and close recommendations, and he alluded to the March trustees’ meeting whereby he offered Mr. Mandel’s assistance in providing consultative services for those campuses in need of assistance.

#### **Revision of Policies and Procedures for the Office of the University Auditor**

Within the last three years, discussions have taken place and decisions have been made during Audit Committee meetings concerning changes in the duties and responsibilities of the Office of the University Auditor. In addition, state mandated requirements for distribution of audit reports have been clarified. Mr. Mandel indicated that, although these changes have been implemented, they have not been incorporated into the Policies and Procedures for the Office of the University Auditor.

The first item relates to audit reviews required by the state and Board of Trustees including financial internal control reviews, auxiliary organization reviews, and construction reviews. These audits are mandated and included in the annual audit plan, along with those audit areas deemed to be most at risk as determined by the tri-annual risk assessment.

Mr. Mandel explained that the second item, legislative delegations, relates to the purchasing function, motor vehicle inspection process, lease of state university property, and real and personal property transactions. Each of these items is mandated to be reviewed at least once every five years.

The third item, audit reporting, has been strengthened. Mr. Mandel stated that, per Education Code section 89761, his office is now required to distribute audit reports to various state agencies and legislative committees, as well as to each campus, each campus library, and each trustee. Prior to this time, reports were distributed only to the trustees and those who made special requests.

Mr. Mandel pointed out that item III.A.3 on page 5 of the agenda should be deleted, as the evaluation of employee performance within the audit staff is handled the same as for any employee within the Chancellor's Office.

The fourth item addresses audit follow-ups. Mr. Mandel explained that item III.B of the Policies and Procedures relates to the obligation of campuses to submit written reports to the Office of the University Auditor regarding the progress made in implementing a plan of corrective action. This information must now be submitted no more than six months after the close of the audit.

Audit program accountability was the fifth area of change. Mr. Mandel noted that status reports showing progress on current year assignments are now presented and discussed at each meeting of the Committee on Audit.

The last item relates to the administrative reporting relationship of the Office of the University Auditor. The 1995 Task Force Report on Auditing indicated the need to have an administrative reporting relationship between the university auditor and the chancellor. This relationship has been formalized and will now be included in Section V of the Policies and Procedures.

Trustee Otomo-Corgel stated that, although the action was not completed in a timely manner, she was pleased that the 1995 Task Force recommendations had finally been implemented. She reminded the board that the Office of the University Auditor is an independent entity responsible for evaluating the Chancellor's Office as well as the campuses. She also noted that, although it is important to have a positive relationship between the Office of the University Auditor and the Chancellor's Office, the responsibility of the university auditor is first to the Board of Trustees and then to the chancellor.

Trustee Wang called for a vote on the resolution. The motion to approve the revision of the Policies and Procedures for the Office of the University Auditor was approved.

### **Year 2000 Update**

Richard P. West, executive vice chancellor and chief financial officer, presented the item and stated that he will periodically brief the board on the status of the progress made in implementing the systemwide Y2K program.

Mr. West noted that each campus president has designated an officer responsible for identifying, assessing and addressing all areas of risk, which range from various physical plant systems, to embedded systems, to mainframe software application systems. He added that specific reporting requirements are associated with these areas, and we are attempting to achieve compliance in preparation for the year 2000. We will devote additional time to the more serious risks associated with Y2K issues. This will necessitate spending less time on areas that will have only minimal impact on campus operations. Mr. West referred to the quarterly reports whereby campus officers will provide sign-offs and, in late May, the information technology audit manager will provide independent verification. He went on to state that his primary focus is on health and safety issues, which are considered "mission critical." Because the majority of campuses will commence operations and classes in mid-to-late January of the year 2000, this will provide for additional time to remedy any emergency that may arise after January 1, 2000, and allow us to ensure that we have the capability to register and admit students.

#### *Reports to the Board*

Mr. West referred to the overview he presented to the board at the January meeting. He emphasized that the highest risk is in the area of student and financial systems, and he affirmed that he will submit a progress report to the board in September, which will focus on physical plant embedded systems. He went on to state that a pilot program was performed at the Long Beach campus, whereby an outside consultant assisted in the identification of embedded computer chips in systems such as fire safety alarms, elevator systems, plant control systems, and HVAC systems. These systems may be date sensitive and could create operations-related problems. Mr. West affirmed that, in November, the overall campus reporting will have concluded and, based on the information gathered during the campus evaluations, the CSU should be prepared to respond to any contingencies that arise in January 2000.

#### *Assessment Categories*

Mr. West explained that the planning and implementation framework of the Y2K program includes application software, mainframe systems, servers and networks, desktop systems, physical plant, embedded systems, telecommunications systems, academic equipment, and other equipment and services. He indicated that, for purposes of this presentation, he would be focusing on application software and mainframe systems.

#### *Campus Assessment of Y2K Compliance Progress*

On the first chart depicted, Mr. West explained that the x-axis denotes the completion rate for assessment of application software and hardware. These completion rates range from 70 to 100 percent. The y-axis denotes the number of

campuses in each category. The chart indicates that, of the 23 campuses, two campuses are 70 percent complete, three campuses are 80 percent complete, nine campuses are 90 percent complete, and nine campuses are 100 percent complete. In sum, as of the end of the first quarter of the calendar year, 18 campuses are at least 90 percent complete in the areas of student and financial systems. Mr. West explained that the CSU has three to four major student information systems, each of which has a version that is year 2000 compliant. Of the two campuses that are only 70 percent compliant, the new version will be implemented this year. This will increase the systemwide compliance rate.

*Progress Comparison – Overall Compliance/Readiness*

Mr. West explained that the overall program chart is a graphic representation of the progress made between the third quarter of 1998 and first quarter of 1999, and the information is based on each campus' self-assessment of Y2K compliance. Again, the x-axis denotes percent complete and the y-axis denotes the number of campuses in each category. Mr. West pointed out that seven campuses are 90 percent complete and four are 100 percent complete, and he assured the board that the internal auditor will verify the validity of the self assessments. The goal is to have 100 percent compliance or, if we are willing to take specific risks, have a contingency plan in place.

Mr. West articulated that significant progress has been made since November 1998 in the area of Y2K readiness. We have received assistance from the consultants, and the chancellor provided each campus with funds of approximately \$50,000 (or approximately \$1 million systemwide) to support campuses in identifying problems associated with Y2K issues and ensure systemwide Y2K compliance. The majority of student information and financial reporting systems will be in place by this fall and all systems will be in compliance by November. Mr. West affirmed that, based on analytical studies, input from the consultant, and the internal verification strategy which entails focusing on these responsibilities, we are on track for achieving Y2K compliance. He added that he will return to the board in September to provide additional information, and there should be no undue complications with the Y2K issue.

Lieutenant Governor Cruz Bustamante inquired as to whether there is a standard format for the assessments, and he asked Mr. West to address the verification process.

Mr. West explained that campuses have been asked to report on specific areas, within which a standard format has been identified and developed. As for the verification process, the internal auditor will examine the plans, review them for completeness, and discuss the findings with management.

Lieutenant Governor Bustamante asked about the existence of an on-site review and process, and he inquired as to what portion of the assessment addresses campus health and safety issues.

Mr. West responded by stating that, at the campus level, an on-site review process is in place and an officer is responsible for ensuring that all issues are addressed. He added that student safety and health issues are viewed as two of the highest and most important priorities.

Trustee Goldwhite thanked Mr. West for his presentation and agreed that classes do not commence until mid-January or later for many of the CSU campuses. However, he expressed concern about those campuses that will commence operations on January 3, 2000, and asked if these campuses will be given any special help and/or attention to ensure that they are on target and prepared for Y2K and other contingencies that may arise. He went on to state that one of his primary concerns is related to student financial aid.

Mr. West stated that we are working to ensure that the student systems are compliant, and our goal is to quickly remedy any problems that may arise. He added that, for those campuses that commence operations on Monday, January 3, we will be prepared to handle contingencies.

Chair Wang indicated he was pleased with the fact that we are prepared for Y2K issues, and he queried Mr. West as to when we will be ready for testing.

Mr. West indicated that the last phase of testing will commence in August for the remaining software systems. The internal auditors are currently reviewing these systems, including student and financial services. With regard to embedded systems, the Long Beach model is being used to review the inventory, test equipment and either replace it or indicate that the risk is so limited that a problem is not expected to be encountered.

### **Adjournment**

The meeting adjourned at 8:55 a.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
July 7-8, 1999

### **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Larry Mandel  
University Auditor

#### **Summary**

This item includes both a status report on the 1999 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education and Auxiliaries. In addition, follow-up on past assignments (FISMA, Occupational Health, Seismic Safety, Risk Management and Continuing Education) is currently being conducted on forty-four prior campus reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

## ITEM

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Agenda Item 1

July 7-8, 1999

### COMMITTEE ON AUDIT

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

At the January 1999 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (Financial Internal Controls), Student Records and Registration, Operations and Maintenance of Plant, Continuing Education, Auxiliaries, Information Systems Auditing, and Construction Auditing.

##### *FISMA*

The audit plan indicated that approximately 119 staff weeks of activity (20 percent of the plan) would be devoted to auditing financial internal controls on eleven campuses. At present, report writing continues for four campuses.

##### *Student Records and Registration*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of eleven campuses on 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. Fieldwork is continuing at two campuses, while report writing continues at four.

##### *Operations and Maintenance of Plant*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the plan) would be devoted to a review of building engineering, custodial services, groundskeeping, facility repairs and renovations, deferred maintenance, utility distribution, and work order scheduling and control systems. Fieldwork is continuing at two campuses, while report writing continues at three.

##### *Continuing Education*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to a review of eleven campuses on continuing education programs and Continuing Education Revenue Fund operations. Fieldwork is continuing at three campuses, while report writing continues at six.

*Auxiliaries*

The audit plan indicated that approximately 99 staff weeks of activity (17 percent of the audit plan) would be devoted to internal compliance/internal control reviews of auxiliary organizations. Preliminary review and audit program development is currently taking place, with campus reviews now scheduled to begin October 1. With a start date approximately six weeks later than originally anticipated, the number of auxiliaries to be audited this calendar year will be reduced by five.

*Information Systems*

The audit plan indicated that approximately forty staff weeks of activity (7 percent of the plan) would be devoted to review of systemwide projects such as Year 2000, Disaster Recovery, Collaborative Management Systems (CMS), Systemwide Internal Partnership (SIP), and Electronic Commerce. In addition, training and support will be provided in the area of financial internal controls (FISMA) for both campus and auxiliary audits. Review and training are ongoing.

*Follow-ups*

The audit plan indicated that approximately eighteen staff weeks of activity (3 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking forty-four prior audits (FISMA, Occupational Health, Seismic Safety, Risk Management, and Continuing Education) to determine the responsiveness of the corrective action taken for each recommendation and whether additional action is required.

*Consultations and Investigations*

The audit plan indicated that approximately thirteen staff weeks of activity (2 percent of the plan) would be devoted to campus consultations and special requests. The Office of the University Auditor consults with the campuses and the Chancellor's Office on an ongoing basis.

*Risk Assessment*

The Office of the University Auditor performs triennial risk assessments. The last risk assessment was performed in 1996. Five staff weeks have been set aside for this purpose in 1999, representing slightly less than 1 percent of the audit plan. The assessment will take place during the fourth quarter of the calendar year.

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Audit

Agenda Item 1

July 7-8, 1999

*Construction*

For the 1998/99 fiscal year, six construction projects are being reviewed by KPMG Peat Marwick with coordination from the Office of the University Auditor. Areas under review include change orders, project management services, billings, contractor compliance, liquidated damages, close out documents, project administration process compliance, and cost verification of major equipment and construction components. A draft report has been received for each of the first three projects; fieldwork has begun on the remaining three.