

AGENDA

COMMITTEE ON AUDIT

Meeting: **10:30 a.m., Tuesday, November 16, 1999**
Glenn S. Dumke Conference Center

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

Consent Item

Approval of Minutes of Meeting of September 14, 1999

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Year 2000 Update, *Information*

**MINUTES OF MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California
September 14, 1999**

Members Present

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

Other Trustees Present

William Hauck, Chairman of the Board
William D. Campbell
Martha C. Fallgatter
Bob Foster
Ralph R. Pesqueira
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

Chair Wang called the meeting to order at 1:07 p.m.

Approval of Minutes

The minutes of the July 7, 1999, meeting were approved as submitted.

AufiStatus Report on Current and Follow-up Internal Audit Assignments

Larry Mandel, university auditor, presented the item and stated that 29 of the 44 audit assignments for calendar year 1999 are in various phases: fieldwork is being performed on six campuses; report writing is in progress for eleven recently completed reviews; campus responses are being submitted for eight completed audits; and four audits are complete in all phases. He added that, due to special investigations, it was necessary to reduce the number of audits by one for the current year. However, all other scheduled audits will be completed on schedule.

Auxiliary Reviews – the first round will be initiated in the first week of October. This is an ongoing audit, and biannual reviews will be performed on each campus. Mr. Mandel indicated that the Northridge campus (which has five auxiliaries) and the Fullerton campus (which has three auxiliaries) have been notified that these reviews will commence. He added that one additional campus would be subject to review this audit cycle.

Follow-up Reviews – this is an ongoing process, and 41 previously completed audits are being tracked. Mr. Mandel noted that the majority of the campuses are up-to-date in completing FISMA-related recommendations. For the Occupational Health follow-ups, one recommendation remains for each of the eight campuses reviewed. Mr. Mandel pointed out that this recommendation is related to a systemwide policy that is being developed by the Chancellor's Office and, until this policy is developed, the campuses will not be able to implement associated procedures. He added that the academic senate is currently reviewing the proposed policy and he invited Dr. Gene Dinielli, academic senate, to comment as to when its review would be completed.

Dr. Dinielli described the traditional arrangement in the senate by explaining that the executive committee assigns the policy review process to a standing committee. The standing committee then determines the action to be taken and communicates this information to the senate. Dr. Dinielli went on to state that this process should be completed by November 12, and he asked the board if it would be necessary to accelerate the process.

Chair Wang indicated that, provided the issue could be brought to closure by the November board meeting, this would be acceptable.

Mr. Mandel affirmed that, after the academic senate submits its response and a system policy related to on- and off-campus student health and safety training issues is in place, the campuses will be able to address the issue and bring it to closure.

Mr. Mandel stated that the campuses continue to satisfactorily address recommendations related to the Risk Management and Continuing Education audits. With regard to the Seismic Safety audits, Mr. Mandel indicated that recommendations remain open for five campuses. He added that, although some of the recommendations have been open for an extended period of time,

the campuses continue to work on the open items and are attempting to close all items by the end of the year.

Chair Wang expressed concern regarding the Seismic Safety audits and the fact that some recommendations have been open for nearly two years. He emphasized that one of the goals of the Audit Committee is to close all recommendations that have been outstanding for extended periods of time, and he asked the campuses to make a concerted effort in achieving this goal. He noted several open recommendations at the San Jose and Los Angeles campuses.

Robert Caret, president of the San Jose campus, conveyed his belief that the campus provided appropriate documentation to close two of the five outstanding recommendations. He explained that, for recommendation number one, the campus was asked to seismically brace the books in Walquist Library. This building will be imploded as part of the construction of the new library, and all books have been removed from this building. He added that, because the books are no longer in the library, recommendation one is no longer relevant.

Trustee Otomo-Corgel indicated that the record should state that, as noted by President Caret, the number of outstanding recommendations is inaccurate.

Chair Wang stated that Mr. Mandel would verify this information and, provided President Caret's assertions are correct, the record will be changed to reflect any discrepancies.

Mr. Mandel agreed that the information would be reconfirmed.

Chair Wang stated that the act of satisfactorily addressing recommendations serves to benefit the campuses, and he expressed his appreciation for the campuses' efforts in closing recommendations. He added that he is cognizant of the fact that there are concerns related to both systemwide and campus issues, and he would like to see a uniform system whereby issues can be quickly addressed.

Year 2000 Update

Trustee Wang asked Richard West, executive vice chancellor and chief financial officer, to present the Year 2000 information item.

Mr. West began by noting that this was the third of four reports to the board this year on the Y2K issue and that the fourth report, providing a general status update and information on contingency planning efforts, would be presented at the November meeting.

Mr. West reminded the board that Y2K preparedness was being monitored in eight categories: application software, mainframe systems, servers, desktops, physical plant embedded systems, telecommunication systems, academic equipment and other equipment. Mr. West showed a slide demonstrating the progress campuses had made in the area of application software/mainframe systems since the last report. He noted that many campuses are scheduled to complete

Audit

the upgrade of selected enterprise systems in the current quarter and that this progress would be reflected in the next quarterly report from the campuses.

The Chancellor's Office is also monitoring preparations on embedded systems—micro-processor-based physical plant systems such as fire alarm systems, heating and cooling systems, and security systems. These systems may not be computer-controlled, but may have some embedded chips that perform date calculations. Mr. West displayed the findings of a pilot project of embedded systems that was conducted on the Long Beach campus. This project helped campuses understand the magnitude of the problem they might face in connection with their own embedded systems. On the Long Beach campus, for example, some 1,661 kinds of items, comprising 127 unique products, were investigated in the project. Of this inventory, 58 of those unique products did not have microchips that performed a date calculation (and, therefore, were not a Y2K concern), 27 were found to be Y2K compliant, 24 were non-compliant and 18 still required further research at the close of the project. Mr. West showed a slide documenting the progress campuses have made in addressing embedded systems in the period from the first to the second quarters. The slide showed that six campuses reported being between 90 percent and 100 percent ready, four reported being between 80 percent and 90 percent ready, and ten reported being from 70 percent to 80 percent ready.

To demonstrate progress campuses have made in their overall Y2K readiness programs (i.e., the combined progress across all eight monitored categories), Mr. West displayed a graph showing that five campuses are between 90 percent and 100 percent complete and ready; ten campuses are between 80 percent and 90 percent complete; and the remainder are in the range of 70 percent to 80 percent complete. As reflected in these graphs, Mr. West noted that he is comfortable with the progress campuses have made to date toward becoming Y2K ready.

Mr. West then described the results of independent Y2K review performed by the information technology manager within the Office of the University Auditor. These assessments of campus Y2K programs and program documentation concluded that the campus self-assessments were accurate, documentation is adequate, awareness of the Y2K issue is high, and that contingency planning is under way. The auditor's review concluded that while not all risks will be eliminated, the risks are being adequately mitigated.

Mr. West noted that five or six campuses will be operating on January 3rd and that these are the first ones where operational problems may arise. If there are problems, the southern campuses would be expected to have fewer concerns with heating and ventilation systems; however, northern campuses might experience some uncomfortable conditions if their heating plants are not operational. In either case, it was noted that campus personnel would have January 1st and 2nd to evaluate and address problems that might arise. At the present time, campuses are being asked to refine their contingency plans.

Mr. West expressed a relative level of comfort regarding the system's Y2K preparations. It was also noted that the chancellor would inform the board of any unanticipated problems of significance that occur before the next regularly scheduled report.

In response to a question from Trustee Otomo-Corgel regarding the cost of Y2K preparations, Mr. West noted that campuses were being asked to update their cumulative expenses on a quarterly basis; however, he did not have that figure. He also noted that based on the experience with the Long Beach embedded systems project, the Chancellor's Office had made a special allocation of fifty thousand dollars per campus to address specific Y2K issues.

Trustee Wang expressed an interest in having additional detail regarding the status of progress on individual campuses, and Mr. West offered to provide the board with more detailed summaries. [Campus-specific progress charts were sent to the board on September 20, 1999.]

Trustee Fallgatter asked about the extent of testing that has been conducted at the campus level. Mr. West noted that there have been varying degrees of system testing on individual campuses and within the Chancellor's Office, and some of those tests, particularly those dealing with mainframe applications in use on a number of campuses, have added to the feeling that risks are being adequately mitigated. However, it was noted that because systemwide exposure is not believed to be great, the system has not attempted to simulate a full-scale Year 2000 test and that decisions regarding testing have been left to the campuses. Mr. West again noted campus staff would also have time to correct problems between January 1, 2000, and the date when students return to classes. Mr. West also noted that the system does not run its own payroll.

Trustee Wang noted that September 9, 1999 (9-9-99), another critical date emphasized by the media, passed without incident. He also expressed his feeling that the mainframe systems should not present a problem, but that some of the smaller, older systems and some embedded systems could possibly present minor problems. Mr. West also noted that network communications problems could arise.

With no other questions or comments relating to Y2K preparedness, Mr. West took the opportunity to inform the board that the system's agreement with KPMG Peat Marwick, to serve as our external auditor, has been extended for one year. This contract will cover the fiscal year ending June 30, 1999, and the audit results will be reported to the board in January. Mr. West noted that, typically, this contract is competitively bid; however, in response to the departure of the director of accounting, a contract extension was the most prudent action to take. Mr. West indicated that next year's contract would be competitively bid.

Adjournment

The meeting adjourned at 1:29 p.m.

BRIEF

Information Item

Agenda Item 1
November 15-17, 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-two prior campus reviews. Attachment A, summarizing the reviews in tabular form, will be distributed at the committee meeting.

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Agenda Item 1

November 15-17, 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. Three audits have been completed, report writing continues for one campus review, and fieldwork is continuing at three 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. One audit has been completed, one audit is awaiting a campus response prior to finalization, report writing continues for seven campus reviews, and fieldwork is continuing at two campuses.

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. Three audits have been completed, one audit is awaiting campus response prior to finalization, report writing continues for four reviews, and fieldwork is continuing at two campuses.

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. Five audits have been completed, two are awaiting a campus response prior to finalization, and report writing continues for four reviews.

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. Fieldwork is being performed at eight auxiliaries located on two campuses.

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-two 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 risk assessment is now in its second phase with results being presented as part of the 2000 audit plan at the January meeting of the Committee on Audit.

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Agenda Item 1

November 15-17, 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. The first three reports have been finalized while the final three are awaiting system response.

BRIEF

Information Item

Agenda Item 2
November 15-17, 1999

COMMITTEE ON AUDIT

Year 2000 Update

Presentation By

Richard P. West, Executive Vice Chancellor
and Chief Financial Officer

Summary

This information item will provide an update of systemwide activities to achieve Year 2000 readiness. The status of activities on the campuses and in the Chancellor's Office will be presented along with an overview of contingency planning on campuses.