

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 9:30 a.m., Wednesday, November 9 , 2005**  
**Glenn S. Dumke Auditorium**

Raymond W. Holdsworth, Chair  
Herbert L. Carter, Vice Chair  
Roberta Achtenberg  
Debra Farar  
Bob Foster  
George G. Gowgani  
William Hauck

#### **Consent Items**

Approval of Minutes of Meeting of September 21, 2005

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Review of the Qualifications Criteria in the Selection of the External Auditor for the California State University, *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 21, 2005**

**Members Present**

Raymond W. Holdsworth, Chair  
Herbert L. Carter, Vice Chair  
Roberta Achtenberg  
Debra S. Farar  
George G. Gowgani  
William Hauck

Trustee Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of July 20, 2005, were approved as submitted.

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

Mr. Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the July 19-20, 2005, Board of Trustees agenda.

Mr. Mandel reminded the Trustees that due to vacant positions and recruitment challenges, one of the three subject area assignments (Student Records and Registration) had been deleted from the 2005 audit plan. At the May meeting of the Committee on Audit, it was suggested that retired, semi-retired, or local auditors specific to a campus area be considered on a temporary basis. Mr. Mandel stated that this option was considered and researched, but was rejected after realizing the difficulties in locating, recruiting, training, and managing these individuals. He explained the difficulty in training auditors to conduct internal reviews, which are specifically dictated by the state and require a specific understanding over a period of time. Mr. Mandel noted that the recruitment strategy has subsequently changed in that the Office of the University Auditor is actively pursuing candidates, which has resulted in the hiring of three new auditors, two of which have relocated from the East Coast.

## Audit

Mr. Mandel reported that the campuses continue to make great strides in completing the outstanding recommendations in a reasonable period of time. He noted that only two campuses, California Maritime Academy and California State University, Monterey Bay have outstanding recommendations at nine months but anticipated completion prior to the next committee meeting.

Trustee Holdsworth inquired as to whether recruitment would be on track next year in order to complete the 2006 audit plan.

Mr. Mandel responded that he had every reason to believe that recruitment issues would be resolved.

**Status Report on the Corrective Action Plans for the Audit Findings in the Single Audit Reports (A133) for the Year Ended June 30, 2004**

Mr. Dennis Hordyk, assistant vice chancellor, financial services, discussed the status of the corrective action plans for the three findings in the systemwide Single Audit Reports for fiscal year ending June 30, 2004, which is in response to the KPMG audit of federal funds. He indicated that one finding pertained to the financial statement preparation process at San Francisco State University and the other two findings related to federal awards at California State Polytechnic University, Pomona and California State University, San Marcos. He stated that the university auditor has reviewed the corrective action plans from the campuses and agrees the plans are complete and in full compliance.

## **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 2005 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, Continuing Education, Housing/Residential Services, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Admissions, Human Resources, and Student Activities) is currently being conducted on approximately 30 prior campus/auxiliary 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 2005 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, Continuing Education, Housing/Residential Services, Student Records and Registration, Information Systems, and Construction. At the May 2005 meeting of the Committee on Audit, Student Records and Registration was deleted from the audit plan due to difficulties in recruiting the necessary staff.

#### *FISMA*

The initial audit plan indicated that approximately 132 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, one audit awaits a campus response prior to finalization, and fieldwork is taking place at three campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 241 staff weeks of activity (29 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/27 auxiliaries. One campus/two auxiliary reports have been completed, two campus/nine auxiliary

reports are awaiting a campus response prior to finalization, report writing is currently being completed for two campuses/nine auxiliaries, and fieldwork is currently taking place at one campus/two auxiliaries.

#### *Continuing Education*

The initial 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 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. One report is awaiting a campus response prior to finalization, report writing is being completed on four campus reviews, and fieldwork is taking place at one campus.

#### *Housing/Residential Services*

The initial 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 on-campus residence halls and the programming of activities for residential students; support of activities afforded students in locating suitable housing; review of Dormitory Revenue Fund Operations and residence hall costs; processes for establishing housing fees; and maintenance of residence halls. One report has been completed, one report is awaiting a campus response prior to finalization, and report writing is being completed on four campus reviews.

#### *Student Records/Registration*

The initial 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 ensure proper administration 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. Vacant positions, together with recruitment challenges, have necessitated the deletion of this subject from the audit plan.

#### *Information Systems*

The initial 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 28 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 approximately 30 prior audits (FISMA, Auxiliary Organizations, Admissions, Human Resources, and Student Activities) 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 76 staff weeks of activity (9 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. In addition, whistleblower investigations will now be performed on an ongoing basis, both by referral from the State Auditor, and directly from the chancellor's office.

#### *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 2004/05 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 have been completed, and four audits await a response prior to completion.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 10/24/2005)

	<b>2005 ASSIGNMENTS</b>				<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>										
	FISMA	Aux Orgs	Cont Educ	Housing/ Res Svcs	FISMA		Auxiliary Organizations			Admissions		Human Resources		Student Activities	
					*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		AI			13/13	-	3							9/9	-
CHI			AI		6/6	-	3	32/32	-			6/7	9		
CI		AC			23/23	-	2	20/26	4						
DH	AC				0/5	2	3	36/36	-	6/6	-	5/5	-		
EB		RW			17/17	-	4								
FRE	FW	AI					6							3/6	9
FUL			RW		5/7	4	4	32/32	-	4/4	-			5/5	-
HUM					5/10	7	3	0/25	5						
LB				AC	7/7	-	3	27/27	-			5/5	-	5/5	-
LA			RW		7/7	-	4	42/42	-						
MA			RW		4/7	6	2	21/21	-	6/6	-				
MB		FW			25/25	-	2					9/9	-		
NOR				RW	11/11	-	5	46/46	-	2/2	-				
POM			RW	RW	4/11	6	3	24/24	-						
SAC		RW			13/13	-	5					7/7	-		
SB	FW						3	33/33	-	3/3	-	5/5	-		
SD	AC			RW	0/9	6	4	21/21	-	6/6	-			3/9	6
SF	AC				0/6	2	4	48/48	-			3/3	-	8/8	-
SJ					0/16	3	4	38/42	8	5/5	-				
SLO				AI	14/14	-	2	29/29	-						
SM			FW		12/12	-	3	34/34	-						
SON	AC			RW	0/6	2	4	21/21	-					7/7	-
STA	AI						4	0/27	6					11/11	-
CO	FW						2	10/11	6			2/2	-		
SYS										4/5	5	11/11	-	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.										



## **COMMITTEE ON AUDIT**

### **Review of the Qualifications Criteria in the Selection of the External Auditor for the California State University**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

The Chancellor's Office issued a request for proposals (RFP) in April 2005 to solicit bids from qualified independent public accounting firms for the purposes of establishing a CSU master service contract for audit services. The contract would cover three years and include an option for three one-year renewals. The audit services, as set forth in the Scope of Work, include systemwide financial statements, revenue bond audits, campus financial statement audits, federal OMB Circular A-133 audit of federal funds, audit of special entities, and certain other tasks.

In spite of efforts to encourage submissions from as many CPA firms as possible, KPMG was the only firm to submit a bid. The lack of bidders appears to be attributable to several factors, including the audit market structure and condition, and the complexity of the CSU audit. The lack of viable competition has been a continuing problem over the years, and even occurred in the previous RFP process in 2001.

At the July 2005 meeting of the Board of Trustees, the Chancellor withdrew the agenda item requesting the Board's approval to contract with KPMG to be the University's external auditor for the next audit period. The Chancellor will extend the existing contract with KPMG for an additional year in order to allow time to encourage other firms to compete for the contract in a subsequent RFP.

This information item is intended to make Board members aware of the qualification criteria that firms must meet in order to bid on the contract. These criteria are based on the scope of audit work and required tasks that are necessary to meet statutory reporting requirements. The following is provided for your information regarding the history and criteria of the selection process.

## **Background**

Prior to July 1, 1993:

CSU did not issue audited financial statements independently. The University's financial statements were subject only to audit procedures performed in conjunction with the state's financial statements audit.

For fiscal years 1993-94 through 1995-96:

Five campuses were audited initially in 1993-94 and subsequently ten campuses were audited. However, the audit did not include the CSU system as a whole. Coopers & Lybrand was the auditor during this period.

For fiscal years 1996-97 to present:

As a result of the enactment of Chapter 934, Statutes of 1996 (AB 2613), the audit conducted for the University each year must include the financial statements of the system as a whole, as well as at least ten individual campus stand-alone financial statements. Every campus must issue audited stand-alone financial statements at least once every two years.

- Following a competitive bid process, KPMG was selected over Coopers & Lybrand based on lower cost to conduct the audits for fiscal years 1996-97 through 1999-2000.
- For fiscal years 2000-01 through 2004-05 (including two one-year optional extensions exercised by the CSU), KPMG was selected again through a new RFP process. KPMG was the only national CPA firm that submitted a proposal. The two small firms that also submitted proposals did not meet the RFP requirements and were eliminated from consideration.

## **Technical Experience of Firm**

The new RFP would use the following requirements for a firm to be considered and would define "firm" as either a single firm, or a group of firms, if a general contractor/subcontractor relationship exists.

As a minimum, the firm shall have the following experiences:

- a. Firm must be a certified public accounting firm and must be licensed to practice in California. If the firm proposes to subcontract with another accounting firm, a statement with respect to the certified accounting status and license to practice in California of the subcontractor firm must be included.
- b. Firm shall have conducted an audit for the purpose of expressing an opinion on financial statements in the past five years for a multi-campus higher education institution of at least 5 independent operating units, divisions or campuses, including

- at least one campus with a budget base of at least \$50 million and an overall system budget base of at least \$500 million. The bidder shall provide a brief description of the firm's experience relative to this requirement including the identification of the specific client(s), which satisfy this requirement.
- c. Firm shall have prior experience conducting audits and issuing financial statements for public universities.
  - d. Firm shall either disclose any instances or provide an affirmative statement that the firm has not been the subject of any adverse action or finding by a federal agency Inspector General, or other federal office, concerning A-133 audits or any disciplinary action by a state board of accountancy or the AICPA regarding compliance with, or performance under OMB Circulars A-133.
  - e. Firm shall have conducted an A-133 audit within the past five years involving a multi-campus, higher education institution with a consolidated budget base of at least \$250 million and consolidated federal Title IV financial aid awards of at least \$30 million. The bidder shall provide a brief description of the firm's experience relative to this requirement including the identification of the specific client(s), which satisfy this requirement.
  - f. The firm shall have had prior experience within the past five years conducting audits of the full range of federal Title IV student financial aid programs for public universities using the Audit Guide for federal Title IV funds issued by the Department of Education.

### **Next Steps**

In January 2006, the consolidated financial statements for 2004-05 will be presented to the Board. Immediately following, a new bid process will be initiated for selection of an audit firm for the fiscal years ending June 30, 2007, 2008, 2009, 2010, and 2011 using the criteria outlined above.