

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 8:05 a.m., Wednesday, May 16, 2007**  
**Glenn S. Dumke Auditorium**

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Herbert L. Carter  
Carol R. Chandler  
George G. Gowgani  
William Hauck  
Glen O. Toney

#### **Consent Items**

Approval of Minutes of Meeting of March 13, 2007

#### **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  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**March 13, 2007**

**Members Present**

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Roberta Achtenberg, Chair of the Board  
Herbert L. Carter  
Carol R. Chandler  
George G. Gowgani  
William Hauck  
Glen O. Toney

Chair Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of January 23, 2007, were approved as submitted.

Chair Holdsworth provided a follow-up to an inquiry from Trustee Carter at the January 2007 Board meeting on whether the size of the Office of the University Auditor (OUA) staff is sufficient to mitigate risk to the system. He stated that this issue is being reviewed and is considered an open action item.

Chair Holdsworth also provided a follow-up on the issue of matching gifts, that is, those gifts which are made by corporations as a match to gifts made by individual donors. He noted that an issue had arisen at California State University (CSU), Fresno over the misdirection of such gifts to athletics, an area which many of the corporate matching programs do not allow. While noting that the CSU, Fresno campus has taken/is taking the steps to redirect the gifts to the appropriate areas, he indicated that the Chancellor has been assured by each campus that procedures are in place to prevent the misdirection of matching gifts.

Chancellor Reed thanked all of the campus presidents for responding so quickly on the status of their matching gift programs. He noted that a handful of institutions found small problems with the uses of the matching gifts, and all had been corrected. He also indicated his satisfaction with the approach that has been taken by CSU, Fresno to follow up and make the necessary corrections with their matching gift program.

Chair Holdsworth indicated that a review of the sources and uses of matching gifts would be conducted in the future by the internal audit staff during both campus and auxiliary organization audits.

### **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 March 13-14, 2007, Board of Trustees agenda.

Mr. Mandel stated that campus reviews had begun for the three subject areas that were approved by the Committee for calendar year 2007: Contracts and Grants, Occupational Health and Safety, and the extension of Athletics Administration. He further stated that FISMA (financial internal control) and auxiliary organization reviews would also be conducted at the campuses.

Mr. Mandel indicated that the campuses continue to make excellent progress in completing the recommendations, and reported that since the Agenda Book mail-out, there had been several updates to the status report. He noted that documentation demonstrating the completion of the remaining outstanding recommendation pertaining to Auxiliary Organizations at the California Maritime Academy had been recently submitted and was currently being reviewed by his staff.

Chair Holdsworth inquired about the outstanding systemwide recommendations pertaining to Continuing Education and Housing and Residential Services.

Mr. Richard P. West, executive vice chancellor and chief financial officer, responded that the outstanding recommendations regarding Housing and Residential Services involve policy change at the system level. He added that CSU housing policies are, to a great extent, expressed in Title V, and the systemwide group reviewing the recommendations had decided to rewrite all of the policies, resulting in the delay in the completion of the recommendations. He indicated that a draft of the policy changes would be presented at the May 2007 Board meeting.

Mr. West indicated that the issues noted in the Continuing Education report pertaining to fund balances/fund use practices are being incorporated into the overall review and design of the Revenue Management Program. Due to the vastness and complexity of this issue, Mr. West anticipated that some of the policies would be implemented by September 2007, with the entire implementation of the Revenue Management Program being completed by December 2007.

### **Update on the Corrective Action Plans**

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented an update on the corrective actions for findings from the external auditors regarding the University and the auxiliaries for fiscal year ended June 30, 2006, for the following areas: Performance improvement observations in KPMG's Management Letter for the University; KPMG's findings

for the University in the Single Audit Report; and findings by the external auditors for the auxiliary organizations.

He reminded the Trustees that KPMG provided an unqualified opinion on the University's consolidated financial statements, with no reportable conditions. He indicated that the external auditor is required to issue a Management Letter to report on performance improvement observations that were noted throughout the system. He stated that five observations were noted, most of which pertained to segregation of duties and management review of transactions. He reported that the corrective action plan for one of these five findings had been completed and validated by the OUA; the remaining four findings were still in progress. Mr. Hordyk also reported that the systemwide Office of Human Resources disagreed with the segregation of duties finding involving payroll certification and employee master plan updates based upon their belief that there are compatible and interrelated tasks in the update process that need to be performed by the same person and that the checks and balances fall in a different part of the process. He indicated his expectation to resolve the remaining four issues with validation by the OUA by the May 2007 Board meeting.

Mr. Hordyk stated that the University's external auditor reported three findings pertaining to federal funds in the Single Audit Report for fiscal year ended June 30, 2006. He further stated that the three campuses involved anticipated completion of their respective corrective action plans by June 30, 2007.

Mr. Hordyk explained that each auxiliary organization is required to have an audit performed of their financial statements and federal funds (if the federal funds reach a certain level of materiality - \$500,000). He further explained that even though the financial information from each auxiliary's audited financial statements was included in the systemwide consolidated financial statements, the actual audit reports with any reportable findings were not completed in time for presentation at the January 2007 Board meeting. He stated that the audit reports had since been completed and indicated that seven campuses had findings with reportable conditions at either its foundation or associated students organizations. He further indicated that six of the campuses have completed their corrective actions, and received validation from the OUA. The remaining campus had several findings at its foundation and had made an organizational change as part of its corrective action plan. In addition, the campus established a contracts, grants and sponsored programs office to ensure compliance with policies and procedures regardless of where the actual project is performed, auxiliary side or University side. He stated that the campus would be submitting the required documents for completion of the corrective action plan for validation by the OUA by June 30, 2007. Mr. Hordyk indicated that progress reports would be provided to the Board at future meetings until all of the findings have been resolved and validated by the Office of the University Auditor.

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## Audit

Chancellor Reed made note of an investigation that had begun at the Sonoma State University campus related to a federal grant and stated that he will keep the Trustees informed as the review proceeds.

## **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 2007 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, Contracts and Grants, Occupational Health and Safety, Athletics Administration, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Continuing Education, Housing and Residential Services, Delegations of Authority, Disaster and Emergency Preparedness, and Athletics Administration) 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 2007 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, Contracts and Grants, Occupational Health and Safety, Athletics Administration, and Construction.

#### *FISMA*

The initial audit plan indicated that approximately 130 staff weeks of activity (15 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed on three campuses, while fieldwork is currently taking place at two campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 286 staff weeks of activity (34 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/29 auxiliaries. Two campuses/six auxiliary reports await a campus response prior to finalization, and report writing is being completed at one campus/four auxiliaries.

*Contracts and Grants*

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to a review of 10 campuses on solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation, and transfer processes; and award administration. Report writing is being completed at one campus.

*Occupational Health and Safety*

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to oversight of the campus injury and illness prevention program (IIPP), job and workplace conditions, employee health examinations and medical monitoring, health and safety training, work-related accidents, and programs for complying with federal and state occupational regulations. Report writing is being completed at one campus.

*Athletics Administration*

The initial audit plan indicated that approximately 79 staff weeks of activity (9 percent of the audit plan) would be devoted to a review of five to seven campuses to ensure proper administration/review of the general control environment for athletics and control activities undertaken to assure implementation of appropriate institutional systems, policies and procedures for financial oversight, and stewardship of athletics. Report writing is being completed at one campus, while fieldwork is currently taking place at two campuses.

*Information Systems*

The initial audit plan indicated that approximately 45 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 26 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, Continuing Education, Housing and Residential Services, Delegations of Authority, Disaster and Emergency Preparedness, and Athletics Administration) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

### *Consultations*

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. Thirty-eight staff weeks have been set aside for this purpose, representing approximately 4 percent of the audit plan.

### *Investigations*

The Office of the University Auditor is periodically called upon to provide investigative reviews which are often the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the State Auditor, and directly from the chancellor's office. Forty-five staff weeks have been set aside for this purpose, representing approximately 5 percent of the audit plan.

### *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 2006/07 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. Five staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan. Report writing is currently being completed on three projects.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 5/14/2007)

	<b>2007 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>																
	FISMA	Aux Orgs	Contracts and Grants	Occ Hlth and Safety	Athletics Admin	FISMA		Auxiliary Organizations			Continuing Education		Housing & Res Svcs		Del of Authority		Dis & Emerg Preparedness		Athletics Administration			
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK						12/12	-	3	22/22	-					6/7	5						
CHI						7/7	-	3	0/6	1	9/9	-										
CI						13/13	-	2	26/26	-								7/7	-			
DH	FW							3	36/36									6/9	6			
EB				RW		16/16	-	4	40/40	-												
FRE			RW			7/7	-	6	47/47	-								3/3	-			
FUL						7/7	-	4	31/31	-	5/5	-									0/9	2
HUM					FW	10/10	-	3	25/25	-								0/7	4			
LB					RW	13/13	-	3	10/19	3	5/5	-	10/10	-	4/4	-						
LA						5/5	-	4	42/42	-	2/2	-			7/7	-						
MA						0/19	1	2	14/14	-	12/12	-										
MB						8/8	-	2	17/17	-					0/10	3						
NOR					FW	8/8	-	5	46/46				9/9	-								
POM		AI				6/10	3	3			7/7	-	11/11	-			2/4	6				
SAC						13/13	-	5	36/36	-											12/13	6
SB	FW							3	17/17	-								4/6	4			
SD	RW	RW						4					10/10	-			6/6	-				
SF	RW							4	26/32	6			7/7	-	4/4	-						
SJ						16/16	-	4	42/42	-					6/6	-					0/20	3
SLO						8/10	7	2	13/13	-			4/4	-								
SM		AI				11/11	-	3			5/5	-			0/7	5						
SON						6/6	-	4	21/21				10/10	-			5/5	-				
STA	RW							4	27/27	-					7/7	-						
CO						4/4	-	2	11/11	-					0/9	5	0/8	3				
SYS											1/6	11	5/8	12								

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.

