

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 12:45 p.m., Tuesday, May 13, 2008**  
**Glenn S. Dumke Auditorium**

Raymond W. Holdsworth, Chair  
Kenneth Fong, Vice Chair  
Herbert L. Carter  
George G. Gowgani  
Melinda Guzman  
William Hauck  
Glen O. Toney

#### **Consent Items**

Approval of Minutes of Meeting of March 11, 2008

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Progress Report on the Corrective Action Plans for the Audit Findings in the Systemwide Audit in Accordance with Generally Accepted Accounting Principles and the Single Audit Reports for the Year Ended June 30, 2007, *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 11, 2008**

**Members Present**

Raymond W. Holdsworth, Chair  
Kenneth Fong, Vice Chair  
Roberta Achtenberg, Chair of the Board  
Herbert L. Carter  
George G. Gowgani  
William Hauck

Chair Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of January 22, 2008, 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 March 11-12, 2008, Board of Trustees agenda.

Mr. Mandel indicated that the campuses continue to make exceptional progress in the timely completion of the recommendations, and commented that their efforts resulted in the most complete status report ever presented to the Trustees. He reported that since the Agenda Book mail-out, there had been approximately 15 updates to the status report regarding the completion of outstanding recommendations. He specifically noted that all of the recommendations pertaining to FISMA (financial internal control) reviews had been completed. Mr. Mandel stated that the 2008 subject area reviews (Information Security, Police Services, and Student Records and Registration) had begun with the pilot campuses. He added that four FISMA reviews and an Auxiliary Organization review were also in the process of being completed. He further stated that progress was also being made on the completion of recommendations pertaining to the six construction audits performed by KPMG for fiscal year 2006/07, noting that only two recommendations remain outstanding. In addition, he stated that for fiscal year 2007/08, three of the six construction projects had begun, noting that report writing was being completed on two campuses and fieldwork was taking place at one campus.

## Audit

Trustee Carter inquired as to the status of outstanding recommendations pertaining to Auxiliary Organizations at San José State University.

Mr. Mandel responded that San José State University was actually making very good progress in the completion of the recommendations pertaining to Auxiliary Organizations. He explained that four months outstanding is reasonable considering the report contains 32 recommendations spread over five auxiliary organizations and anticipated completion of the remaining recommendations within a reasonable period of time.

Chair Holdsworth congratulated the campus presidents on the outstanding progress that had been made on the status report, specifically noting that this was the first time ever that all FISMA recommendations had been completed. He personally thanked the campus presidents for this remarkable achievement, especially in light of staff turnover and budget issues, and noted his great appreciation for their attention and accountability in this effort.

Chair Holdsworth reminded the Trustees that a Quality Assurance Review (QAR) of the Office of the University Auditor was conducted in March 2006 by three chief audit executives. However, after a review of their report by Chancellor Reed, Mr. Richard P. West (executive vice chancellor/chief financial officer), and Mr. Mandel, it was determined that the information provided was too general and not specific enough for the needs of the University. Therefore, the chief audit executive from Florida State System was asked to perform an examination of the current risks to the system versus the size of the audit staff currently in place. As a result of the examination, a risk-based management system will be utilized during the 2008 subject area reviews in order to better meet the needs of the campuses.

### **Single Audit Report of Federal Funds**

Mr. Chris Ray, managing partner, KPMG, explained that because the California State University (CSU) is a large recipient of federal funds (approximately \$1.3 billion), it is subject to Office of Management and Budget (OMB) Circular A-133. He further explained that the Single Audit Report covers all 23 campuses, but for fiscal year 2006/07, eight specific campuses were selected to perform detailed sampling and testing to determine whether the University was in compliance with federal guidelines. The eight campuses included Channel Islands, Fullerton, Long Beach, Northridge, Pomona, San Francisco, Sonoma, and Stanislaus.

Mr. Ray stated that KPMG issued an unqualified opinion on the audit of federal funds. He reported that the three findings included in the Single Audit Report were specific to certain campuses. He reported that one student at CSU Long Beach received a \$375 grant during the spring 2007 semester; however, the student was not enrolled full time during the spring 2007 semester and thus was not eligible to receive the grant. He further reported that another student at CSU Long Beach received an overaward of \$300 for a Pell Grant due to the incorrect calculation of applicant data regarding income taxes. Mr. Ray explained that federal guidelines are very specific as to what must be disclosed as a finding. Although the two amounts are

relatively small, it is likely there could have been exceptions at other campuses; and if the questioned cost is projected to be possibly more than \$10,000, the finding must be reported. He noted that the third finding pertained to an ongoing investigation at Sonoma State University (SSU) regarding their Head Start Program. He further noted that although the finding had already been identified by the campus, KPMG was required to report the questioned costs and provide specific information on the finding as per federal guidelines. He added that the questioned costs had already been repaid by the campus, and this finding is mostly a reporting instance for the Board's attention. Lastly, Mr. Ray indicated that the Single Audit Report also references two findings that were identified as part of the financial statement audit and were discussed at the January 2008 Board meeting.

Chair Holdsworth acknowledged the ongoing investigation at Sonoma State University, commended the campus for identifying the problem, and explained the importance of having the external auditor review the issue from a financial control perspective.

Mr. Ray mentioned two other points related to the Single Audit Report. He stated that the SAS 112 definitions (the new reporting requirement on evaluating the severity of control deficiencies) were also incorporated within the Single Audit Report. He noted that the only finding that met the definition of having to be recorded as a significant deficiency in internal controls pertained to the investigation at SSU. In addition, he indicated that each year, based on an evaluation, KPMG determines which campus programs have to be audited. He stated that the audit for fiscal year 2006/07 included the review of the research and development cluster, the Head Start Program, and student financial aid (which is audited every year). Out of the \$1.3 billion of federal funds, 97 percent of those expenditures were audited, which provides a lot of coverage with the programs that were selected as part of the audit.

Chancellor Reed commented that Chair Holdsworth had gone beyond his required responsibility in regards to his time and effort and has had several discussions and consultations with the external auditor to ensure the success of the financial statement audit.

Chancellor Reed acknowledged that the finding regarding the investigation at SSU is the most significant issue in the Single Audit Report. He explained that SSU provides monthly status reports to the State Auditor on this investigation and noted that it is an ongoing investigation which is prone to delays due to the discovery of additional information during the review. Chancellor Reed wanted to ensure that the Board was fully aware of this investigation.

Chair Holdsworth acknowledged that given the \$1.3 billion in federal funds and the 97 percent audit coverage by KPMG, it is quite an accomplishment for the University to receive basically negligible findings, with the exception of the one pertaining to the investigation at SSU.

Chair Holdsworth adjourned the meeting.

## **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 2008 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, Information Security, Police Services, Student Records and Registration, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, and Athletics Administration) is currently being conducted on approximately 25 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 2008 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, Information Security, Police Services (formerly known as Public Safety), Student Records and Registration, 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 for four campuses, while fieldwork is currently taking place at two campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 298 staff weeks of activity (35 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/28 auxiliaries. Report writing is being completed for three campus/eleven auxiliaries.

#### *Information Security*

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to a review of the systems in place to protect the confidentiality, integrity, and access/availability of information including systems to limit collection of information, control access to data and assure that individuals with access to data do not utilize the data for unauthorized purposes, encrypt data in storage and transmission, and implement physical and logical security measures for all sources. Report writing is being completed for one campus, while fieldwork is currently taking place at two campuses.

#### *Police Services*

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to a review of compliance with federal and state laws, Trustee and campus policy, and Chancellor's Office directives; staffing and scheduling; participation in disaster planning and the CSU Critical Response Unit; certifications and training; budgeting controls and chargebacks; dispatch operations, field reporting, and case monitoring; internal investigations; evidence and equipment controls; accumulation and reporting of crime statistics; integrity and security of public safety records, files, and information; and parking citations revenue, and fund. Report writing is being completed for two campuses.

#### *Student Records and Registration*

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the audit plan) would be devoted to a review 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. Report writing is being completed for one campus.

#### *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 23 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 25 prior audits (FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, 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. Eight staff weeks have been set aside for this purpose, representing approximately 1 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. Four audits await responses from the campuses/chancellor's office prior to finalization, report writing is currently being completed on one project, and fieldwork is currently taking place on one project.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 4/25/2008)

	<b>2008 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>												
	FISMA	Aux Orgs	Info Security	Police Services	Student Records	Special Investigations		FISMA		Auxiliary Organizations			Contracts and Grants		Occ Health and Safety		Athletics Administration	
						*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		RW						12/12	-	3	22/22	-					8/13	6
CHI	RW									3	6/6	-	3/3	-				
CI		RW						13/13		2	26/26	-						
DH				RW				9/9	-	3	14/14	-	0/10	4				
EB	RW									4	40/40	-	0/10	3	9/9	-		
FRE		RW						7/7	-	6			8/9	8			15/15	-
FUL			RW					9/9	-	4	31/31	-	3/3	-	7/8	3	9/9	-
HUM								14/14	-	4	25/25	-					9/9	-
LB								13/13	-	3	19/19	-	2/2	-			12/14	9
LA	RW									4	9/11	5			0/3	3		
MA								16/16	-	2	14/14	-						
MB								8/8	-	2	17/17	-			5/9	5		
NOR	RW									5	30/30	-			4/4	-	12/12	-
POM			FW					10/10	-	3	23/24	9						
SAC								10/10	-	5	36/36	-	3/5	8			13/13	-
SB				RW				3/3	-	3	17/17	-						
SD					RW			7/7	-	4	11/11	-			0/7	4	14/14	-
SF								11/11	-	4	32/32	-			6/6	-		
SJ								24/24	-	5	29/32	6			0/8	4	20/20	-
SLO	FW									2	13/13	-					0/12	1
SM	FW									3	22/22	-						
SON			FW			4/7	8	6/6	-	4	18/18	-	3/3	-				
STA								11/11	-	4	27/27	-						
CO								4/4	-	2	0/4	4						
SYS																		
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**

**Progress Report on the Corrective Action Plans for the Audit Findings in the Systemwide Audit in Accordance with Generally Accepted Accounting Principles and the Single Audit Reports for the Year Ended June 30, 2007**

**Presentation by**

Colleen Nickles  
Assistant Vice Chancellor  
Financial Services

**Summary**

The Chancellor's Office has been working with campuses to develop guidelines to remedy weaknesses identified from the audits. Various campuses are in the process of implementing corrective steps based on the guidelines.

A more detailed status report on resolving the weaknesses identified by the external auditors will be presented at the meeting. The Internal Auditor will validate that the corrective work adequately addresses the weaknesses.