

AGENDA

COMMITTEE ON AUDIT

Meeting: **4:00 p.m., Tuesday, November 18, 2008**
Glenn S. Dumke Auditorium

8:00 a.m., Wednesday, November 19, 2008
Glenn S. Dumke Auditorium

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter
Kenneth Fong
Margaret Fortune
George G. Gowgani
William Hauck

4:00 p.m., Tuesday, November 18, 2008
Glenn S. Dumke Auditorium

Consent Items

Approval of Minutes of Meeting of September 17, 2008

Discussion Items

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

***Note*

8:00 a.m., Wednesday, November 19, 2008
Glenn S. Dumke Auditorium

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

***Note: Depending on the length of discussions on Tuesday, November 18, 2008, Audit items may have to be carried over to Wednesday for consideration.*

**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 17, 2008

Members Present

Melinda Guzman, Chair
Jeffrey L. Bleich, Chair of the Board
Margaret Fortune
George G. Gowgani
William Hauck

Chair Guzman called the meeting to order.

Approval of Minutes

The minutes of the meeting of July 15, 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 September 16-17, 2008, Board of Trustees agenda.

Mr. Mandel stated that the campuses continue to make very good progress in the timely completion of the recommendations as evidenced on the status report. He reported that the remaining outstanding recommendations were within an acceptable time frame, with the exception of one campus with two outstanding recommendations at seven months. Mr. Mandel also reported that all six of the 2007/08 construction reviews performed by KPMG had been completed, with no outstanding recommendations beyond four months. He added that all recommendations from the 2006/07 construction reviews had been completed.

Chair Guzman thanked the campus presidents for their continued efforts in ensuring that the outstanding recommendations are completed in a timely manner.

Report on Construction Auditing in the CSU (2007-08)

Mr. Mandel explained that for fiscal year 2007/08, construction auditing was performed for the CSU under a contract with KPMG. He then introduced Mr. Chris Ray, systemwide coordinating partner from KPMG, who presented the item on behalf of Mr. Geno Armstrong, principal responsible for KPMG's construction practice in the United States.

Mr. Ray stated that for fiscal year 2007/08, six construction projects were reviewed by KPMG with coordination from the Office of the University Auditor and included the following:

- California State University, Channel Islands – *Student Housing Phase II*
- California State University, Sacramento – *Hornet Bookstore*
- California State Polytechnic University, Pomona – *Library Addition and Renovation*
- California State University, Los Angeles – *Science Replacement Building, Wing A*
- California State University, Bakersfield – *Math and Computer Science Building*
- California State University, Long Beach – *Library Addition and Renovation*

Mr. Ray stated that KPMG performed the construction reviews to substantiate if the projects were administered in accordance with Trustee policy and general business and industry standards. The eight main areas under review included design costs, construction bid process, construction change orders, construction management services, major equipment/materials review, the close-out process, liquidated damages, and project accounting.

Mr. Ray stated that the overall results of the audit were deemed to be acceptable and the projects were administered in accordance with the State University Administrative Manual (SUAM). He then provided a summary of some of the observations noted during the audit. He reported that on all six projects, work was performed by contractors before the formal contract agreements or addendums were fully executed and noted that this is a recurring finding from prior construction audits. On four of the projects, design services were performed without using either the correct form established by the CSU or obtaining the proper authorizations. On two of the projects, supporting documentation as required by SUAM was limited or missing, partly due to turnover of project teams. In addition, two instances were noted where the contract markup was not consistent with the markup terms (\$14,000 out of a \$282,000 project at CSU Bakersfield and \$33,000 out of a \$2 million project at CSU Channel Islands). Mr. Ray noted that service agreements for two of the projects did not contain any language regarding reimbursable expenses, although reimbursable expenses were charged to the projects. He further noted that approvals for countersignatures were not consistently obtained for certain change order service agreements for two of the projects. Mr. Ray then commented on issues requiring action on the part of capital planning, design and construction (CPDC) in the chancellor's office. Instances were noted where future clarification by CPDC is required, as detailed cost reports were not submitted by the campuses with application for payment as required by Section 8.02 of the Contract General Conditions. He also noted that for one of the projects, the Construction

Manager at Risk Construction Services Agreement could be improved to better describe scoping and administration of allowances.

Trustee Bleich thanked Mr. Ray for KPMG's extraordinary work. He also commended and thanked the presidents and their staffs, noting that it is a real tribute to the quality of leadership on the campuses to receive a report with such minimal issues.

Mr. Ray stated that extensive and comprehensive reviews were conducted at these six campuses and agreed with Trustee Bleich that overall it was a successful audit. He stated his belief that by sharing these issues, it could be beneficial to other campuses with construction projects.

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

Ms. Colleen Nickles, assistant vice chancellor, financial services, provided a status report regarding the five findings pertaining to the 2006/07 annual financial statement audit, the information technology audit, and the A133 audit of federally sponsored programs, which were conducted by KPMG. She reported that the corrective actions required for all of the findings had been completed with the exception of the item regarding information technology user access. Ms. Nickles indicated that she and the acting assistant vice chancellor for information technology sent a memorandum to the campus vice presidents of administration on July 2, 2008, reminding them of the requirements to annually review user access to ensure no one person has overly broad access to systems and that continuing access is necessary. She stated that as a result of the information technology audit conducted by KPMG in fiscal year 2007/08, revised instructions were forwarded to the campuses on August 25, 2008, requesting a more structured review regarding both user and database access to the finance and human resources systems. She further stated that all 23 campuses and the chancellor's office had responded to this information request, and those responses were currently being reviewed by finance, human resources, and information technology personnel in the chancellor's office to determine their adequacy and the corrective actions required. Ms. Nickles added that the structured review would ensure that there is appropriate segregation of duties of high-level systems and database accounts, preventing one person from being able to both enter and approve the same transaction. She noted that this is an issue at some of the campuses due to a lack of staff to ensure full segregation of duties. She indicated that in instances where there is no clear segregation of duties due to lack of staff, regular reviews of system activities may alternatively be required; and it is that review of these system activities that is currently being evaluated. In addition, Ms. Nickles stated that the corrective action plans would be submitted to the Office of the University Auditor for review and approval. She anticipated the completion of outstanding information technology items for both 2006/07 and 2007/08 by the November 2008 Board meeting.

Chair Guzman 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 (FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, 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 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. Five audits have been completed, one audit awaits a campus response prior to finalization, report writing is being completed for two campuses, and fieldwork is currently taking place at three 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. Three campus/eleven auxiliary reports have been completed, and report writing is being completed for three campuses/eleven auxiliaries.

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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. One audit has been completed, two audits await a campus response prior to finalization, report writing is being completed for six campuses, and fieldwork is currently taking place at one campus.

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. Two audits have been completed, two audits await a campus response prior to finalization, report writing is being completed for two campuses, and fieldwork is currently taking place at one campus.

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. Two audit await a campus response prior to finalization, report writing is being completed for four campuses, and fieldwork is currently taking place at three 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 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 30 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 2007/08 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. All six audits have been completed.

Status Report on Current and Follow-Up Internal Audit Assignments
 (as of 10/31/2008)

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

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.

Status Report on Current and Follow-Up Construction Audit Assignments (as of 10/31/2008)

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.