

AGENDA
COMMITTEE ON AUDIT

Meeting: **2:00 p.m., Tuesday, May 11, 2010**
Glenn S. Dumke Auditorium

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Carol R. Chandler
Kenneth Fong
Margaret Fortune
George G. Gowgani
William Hauck
Henry Mendoza

Consent Items

Approval of Minutes of Meeting of March 16, 2010

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Update on the Status of Corrective Action for the Findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the Fiscal Year Ended June 30, 2009, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Auditorium
401 Golden Shore
Long Beach, California**

March 16, 2010

Members Present

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter, Chair of the Board
Carol R. Chandler
Margaret Fortune
George G. Gowgani
William Hauck
Henry Mendoza

Chair Guzman called the meeting to order.

Approval of Minutes

The minutes of the meeting of January 26, 2010, 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 16-17, 2010, Board of Trustees agenda.

Mr. Mandel reported that, since the distribution of the agenda, there have been several updates to the Status Report indicating progress toward or completion of outstanding recommendations. He stated that the campuses are continuing to make very good progress in the closing of outstanding recommendations. He noted that Office of the University Auditor (OUA) staff is currently working with those campuses with long-outstanding recommendations in order to assist with continued progress toward a timely completion. Mr. Mandel reminded the Trustees that in addition to auxiliary organization and construction reviews, the 2010 audit plan includes reviews of eight high-risk areas (as determined by a risk assessment), and noted that some of these audits are currently in process. He stated that the audits would be performed at those campuses where a greater degree of risk was perceived for each of these areas—probably five or six campuses per high-risk area. Mr. Mandel also reminded the Trustees that construction audits will continue for the second year to be performed in-house by OUA staff and will include approximately 12 of the most costly construction projects in the system.

Update on the Status of Corrective Action for the Findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the Fiscal Year Ended June 30, 2009

Mr. George V. Ashkar, assistant vice chancellor/controller, provided an update on the status of corrective action for the findings in the California State University (CSU) A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the fiscal year ended June 30, 2009.

Mr. Ashkar reported on the four findings included in the A-133 Single Audit Reports. He stated that the finding related to information technology segregation of duties conflicts and system access was completed by January 2010. He further stated that monitoring of compliance with the policies, procedures, and controls for this item will be an ongoing process performed both quarterly and annually. In addition, he indicated that a review of the correction action for this issue had been completed by financial services internal control staff and verified by OUA staff. Mr. Ashkar then reported on the three findings related to federal financial aid programs. He noted that corrective action at two of the five campuses is complete and has been reviewed by financial services internal control staff and verified by OUA staff. However, three campuses are in the process of completing corrective action plans, with anticipated completion dates by the May 2010 board meeting. Regarding the findings in the auxiliary organization audit reports, Mr. Ashkar reported that of the five auxiliary organizations with material weaknesses in internal control over the financial reporting process, corrective action is complete at two of the auxiliaries and has been reviewed by the financial services internal control staff and verified by OUA staff. He added that the goal for the completion of the corrective action plans by the remaining three auxiliaries is May 2010.

Chancellor Reed reminded the Trustees that they had asked him to meet with the California State Auditor in an attempt to reach a mutual agreement regarding the implementation of findings reported in two state audits relating to executive compensation and hiring practices. Chancellor Reed reported that he had recently met with the state auditor in Sacramento. He stated that it was a very satisfactory meeting, and he would continue to meet with her on a periodic basis.

Trustee Mendoza inquired as to the conclusion of the discussion pertaining to the state auditor's opinion regarding the insufficient completion of recommendations in these two audits.

Chancellor Reed stated that the state auditor acknowledged that she was unaware that the CSU was constrained in being able to accomplish some of the recommendations due to current collective bargaining agreements. She also was not aware of some of the changes that the CSU had made on the annual reporting of employee relocation costs and compensation adjustments at the vice presidential level. He concluded by stating that, it was a worthwhile discussion.

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 2010 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of Auxiliary Organizations, high-risk areas (Main and Satellite Cashiering, Post Award process, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA Security, Business Continuity, and Fund-Raising) and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Information Security, Emergency Preparedness, Off-Campus Activities, and Student Records) is currently being conducted on approximately 40 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 2010 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: Auxiliary Organizations, high-risk areas (Main and Satellite Cashiering, Post Award process, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA Security, Business Continuity, and Fund-Raising) and Construction.

Auxiliary Organizations

The initial audit plan indicated that approximately 314 staff weeks of activity (31.9 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/thirty-two auxiliaries. Report writing is being completed at one campus/four auxiliaries, while fieldwork is being conducted at one campus/five auxiliaries.

High-Risk Areas

Main and Satellite Cashiering

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing cash receipt controls; accountability for cash; safeguarding of cash; and accurate recordkeeping. Six campuses will be reviewed. Five audits await a campus response prior to finalization, while report writing is being completed at one campus.

Post Award

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing contract/grant budgeting and financial planning, cost accounting and allocation, cost matching and transfer processes, effort reporting, fiscal reporting, sub-recipient monitoring, and management and security of information systems. Six campuses will be reviewed. Report writing is being completed at two campuses, while fieldwork is currently taking place at three campuses.

Information Technology Disaster Recovery

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing the planned data processing recovery functions following a catastrophic event; disaster recovery plans; testing and exercising of plans; plan maintenance, communications, and training; data recovery; and necessary retention of key records. Six campuses will be reviewed. Report writing is being completed at one campus.

Financial Aid

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing funding arrangements; compliance with federal and state laws, Trustee policy, and systemwide directives; reliability, confidentiality, and integrity of information; effectiveness, efficiency, and economy of operations; and attainment of established objectives and goals. Six campuses will be reviewed. Report writing is being completed at three campuses.

Intercollegiate Athletics

The initial audit plan indicated that approximately 43 staff weeks of activity (4.3 percent of the plan) would be devoted to auditing athletic governance and organization; admission procedures for student-athletes; student-athlete eligibility certifications; academic support systems for

student-athletes and reporting of academic performance; recruiting of student-athletes; administration of athletic financial aid; conduct of camps and clinics; compensation and benefits for athletic coaches and staff; procurement/use of athletic apparel and equipment; team travel; athletic event ticketing; institutional control over representatives of the university's athletic interests; and student-athlete extra benefits. Six campuses will be reviewed.

Health Insurance Portability and Accountability Act (HIPAA)

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing procedures for handling confidential information; communications; training; and necessary retention of key records. Six campuses will be reviewed

Business Continuity

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing essential functions or operations following a catastrophic event; business impact analysis and risk assessment; business continuity and disaster recovery plans; testing and exercising of plans; plan maintenance, communications, and training; and necessary retention of key records. Six campuses will be reviewed.

Fund-Raising and Gift Processing

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing controls over the analysis of development needs; identification of prospective donors and donor relations; solicitation and acknowledgment of donations; valuation of non-monetary donations; recording gifts and posting to accounting records; securing donor information; expending donated funds; and preparation of reports on development activity. Six campuses will be reviewed.

Construction

The initial audit plan indicated that approximately 92 staff weeks of activity (9.3 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the close-out process and liquidated damages; and overall project accounting and reporting. Report writing is being completed for three projects, and fieldwork is currently taking place for two projects.

Compliance Function

The initial audit plan indicated that approximately 86 staff weeks of activity (8.7 percent of the plan) would be devoted to an initial inventory of compliance activities and owners, and a determination of major areas of compliance risk.

Information Systems

The initial audit plan indicated that approximately 45 staff weeks of activity (4.6 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training are ongoing.

Investigations

The Office of the University Auditor is periodically called upon to provide investigative reviews that 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. 43 staff weeks have been set aside for this purpose, representing approximately 4.3 percent of the audit plan.

Special Projects

The Office of the University Auditor is periodically called upon to provide non-investigative support to the chancellor's office/campuses. Twenty-seven staff weeks have been set aside for this purpose, representing approximately 2.7 percent of the audit plan.

Follow-ups

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately forty prior audits (Special Investigations, FISMA, Auxiliary Organizations, Information Security, Emergency Preparedness, Off-Campus Activities, and Student Records) 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. Seventeen staff weeks have been set aside for this purpose, representing approximately 1.7 percent of the audit plan.

Committees

Staff of the Office of the University Auditor is periodically called upon to sit on systemwide committees to offer an audit perspective. Seven staff weeks have been set aside for this purpose, representing approximately 0.7 percent of the audit plan.

Annual Risk Assessment

The Office of the University Auditor annually conducts a risk assessment to determine the areas of highest risk to the system. Four staff weeks have been set aside for this purpose, representing approximately 0.4 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 6/4/2010)

	2010 ASSIGNMENTS									FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS											
	Aux Orgs	Main & Satellite	Post Award	IT Dis Cash	Fin Aid	Inter Colleg	HIPAA Athl	Bus Security	Fund Cont	Special Raising	FISMA Investigations	*Recs *Recs	**Mo. **Mo.	Auxiliary Organizations	*No. *Recs	Information Security	*Recs *Recs	Emergency Preparedness	Off Campus Activities	Student Records	
BAK											14/14	-	3	19/19	-				0/5	4	
CHI											8/8	-	3	6/6	-	28/28	-	10/10	-		
CI											9/9	-	3	10/10	-	0/15	4				
DH											7/7	-	3	14/14	-	19/19	-				
EB											25/25	-	4	30/30	-	2/12	4	0/8	3		
FRE		FW									14/14	-	6	25/25	-	10/22	7			5/6 15	
FUL			RW								5/5	-	4	31/32	10	16/16	-	2/2	-	7/8 7	
HUM			RW								11/11	-	4	15/15	-			8/8	-	0/6 3	
LB											1/3	2	3	27/34	6	11/21	6			3/3 -	
LA											3/3	-	4	11/11	-				6/6	-	6/6 -
MA											6/6	-	2	15/15	-			6/6	-		
MB											0/9	2	2	15/15	-	0/22	3			9/9 -	
NOR	AI										16/16	-	5	20/27	7	16/16	-				
POM		RW									6/6	-	3	24/24	-	16/16	-	7/7	-	2/5 4	
SAC	AI										4/4	-	6	28/28	-	0/23	5			0/9 2	
SB	RW										6/7	8	3	25/30	7					8/8 -	
SD	RW	RW									2/2	-	4			14/14	-		5/6	7 8/8 -	
SF	AI	FW									6/6	-	5	32/32	-	8/19	8	3/3 -			
SJ	FW		FW								9/9	-	5			25/25	-	7/7	-		
SLO											12/12	-	4	23/24	16						
SM	AI										0/4	2	3/3	-	3	22/22	-	0/7	1	2/2 -	8/8 -
SON			RW								3/4	7	4	18/18	-	20/20	-			5/5 -	
STA	AI										4/4	-	4	17/17	-	27/27	-	6/6	-		
CO		RW									2/2	-	2	4/4	-						
SYS																			11/11	-	

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 green 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.

Status Report on Current and Follow-Up Construction Audit Assignments (as of 6/4/2010)

COMMITTEE ON AUDIT

Update on the Status of Corrective Action for the Findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the Fiscal Year Ended June 30, 2009

Presentation by

George Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

1. Corrective action for findings in the CSU A-133 Single Audit Reports

Corrective action for 2009-01 IT Segregation of Duties Conflicts and System Access was previously reported as complete in March. Monitoring of compliance with the procedures is an ongoing process by nature.

Corrective action for the three audit findings related to Federal Financial Aid Programs (2009-02 Pell Payment Data Reporting, 2009-03 Special Tests and Provisions on Disbursements regarding Federal Family Education Loans, and 2009-04 Special Test and Provisions on Student Status Changes regarding Federal Family Education Loans and William Ford Direct Loans) was previously complete at two of the campuses in March and is now complete at all five campuses that had one or more of these audit findings.

2. Corrective action for findings in the campus auxiliary organization audit reports

Of the five auxiliary organizations with material weaknesses in internal control over financial reporting process, corrective action was previously complete at two of the auxiliaries in March and is now complete at all five auxiliaries.