

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 2:15 p.m., Tuesday, November 17, 2009**  
**Glenn S. Dumke Auditorium**

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

#### **Consent Items**

Approval of Minutes of Meeting of September 22, 2009

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Development of a Systemwide Compliance Function, *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 22, 2009**

**Members Present**

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

Chair Guzman called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of May 12, 2009, 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 22-23, 2009, Board of Trustees agenda.

Mr. Mandel stated that the left-hand side of the Status Report shows the status of 2009 audit assignments that were approved by the Board at the January meeting, and indicated that all of the assignments should be completed by the end of the year. He explained that in order to accommodate the year-end closing process at the campuses during the summer months, half of the FISMA (financial internal control) assignments were completed during the first part of the year, with the second half being completed during the last part of the year. Mr. Mandel stated that the red numbers on the Status Report indicate progress towards the completion of outstanding recommendations since the distribution of the Agenda, and noted that most of the recommendations had been completed. He reminded the Trustees that as part of the 2009 audit

plan, construction audits are now being performed in-house by Office of the University Auditor (OUA) staff, instead of by KPMG who had conducted these audits previously. He reported that several construction audit assignments were currently in progress and anticipated the completion of a total of 12 assignments for calendar year 2009 (which is approximately double the number of assignments completed by KPMG in the past).

**Progress Report on the Corrective Action Plans for the Findings Relating to the Financial Statements of the Auxiliary Organizations for the Year Ended June 30, 2008**

Mr. George V. Ashkar, interim assistant vice chancellor/controller, financial services, presented the status of the corrective action plans related to the financial statements of the auxiliary organizations for fiscal year 2007/08. He reminded the Trustees that at the March 2009 Board meeting, a progress report was presented on the audit findings of the university and its related 89 auxiliary organizations. He further reminded the Trustees that the corrective actions for the audit findings for the university were reported as complete at the May Board meeting. Mr. Ashkar indicated that among the auxiliary organizations findings, three auxiliary organizations (CSU Monterey Bay Foundation, CSU San Marcos Foundation, and CSU East Bay Foundation) had findings that were considered to be material weaknesses. He reported that with the concurrence of the OUA, corrective actions for these three auxiliaries are complete and are described in detail in the Agenda. Mr. Ashkar stated that chancellor's office staff will continue to monitor and evaluate the auxiliary organizations financial reports on an annual basis.

Chair Guzman complimented the presidents for their efforts in completing the outstanding items for the past/current audit assignments, as well as for the items pertaining to the auxiliary organizations. She reminded the Trustees that each of the auxiliary organizations has their own independent external auditors and emphasized the importance of the reporting of this information to the chancellor's office and the Board.

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 2009 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, Emergency Preparedness, Off-Campus Activities, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Information Security, Police Services, and Student Records) 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 2009 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, Emergency Preparedness, Off-Campus Activities, and Construction.

#### *FISMA*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Two audits have been completed, four audits await a campus response prior to finalization, report writing is being completed for one audit, and fieldwork is currently taking place at two campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 318 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/30 auxiliaries. One campus/four auxiliaries have been completed, three campuses/eleven auxiliary reports await a campus response prior to finalization, report writing is being completed for two

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campuses/nine auxiliaries, and fieldwork is currently taking place at two campuses/six auxiliaries.

#### *Information Security*

The initial audit plan indicated that approximately 124 staff weeks of activity (12 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. Four audits await a campus response prior to finalization, report writing is being completed for five campuses, and fieldwork is currently taking place at one campus.

#### *Emergency Preparedness*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the plan) would be devoted to a review of compliance with the National Incident Management System, Trustee policy, and systemwide directives; contingency and disaster recovery planning; backup communications; building safety and emergency egress including provisions for individuals with disabilities; the extent of plan training and testing; and relationships with state and federal emergency management agencies. Two audits have been completed, four audits await a campus response prior to finalization, and report writing is being completed for four campuses.

#### *Off-Campus Activities*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the audit plan) would be devoted to a review of systems and procedures for controlling and monitoring off-campus activities, which include service learning, study abroad programs, internships, field trips, and club sports. Three audits await a campus response prior to finalization, report writing is being completed for five campuses, and fieldwork is currently taking place at one campus.

#### *Construction*

The initial audit plan indicated that approximately 88 staff weeks of activity (9 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. Three audits have been completed, two audits await a campus response prior to finalization, report writing is being completed for four projects, and fieldwork is currently taking place for one project.

#### *Information Systems*

The initial audit plan indicated that approximately 45 staff weeks of activity (4 percent of the plan) would be devoted to technology support in the area of financial internal controls for both campus (FISMA) and auxiliary audits, in addition to subject area audits. Reviews 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, Contracts and Grants, Information Security, Police Services 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. Twenty-five staff weeks have been set aside for this purpose, representing approximately 3 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 4 percent of the audit plan.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 11/16/2009)

	<b>2009 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>										
	FISMA	Aux Orgs	Info Security	Emerg Prep	Off Campus Activity	FISMA		Auxiliary Organizations			Information Security		Police Services		Student Records	
						*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK					RW	12/12	-	3	19/19	-			7/7	-		
CHI		FW			RW	8/8	-	3			28/28	-				
CI					RW	9/9	-	3	10/10	-			6/6	-		
DH	AC	FW				0/7	3	3			19/19	-	7/7	-		
EB					AI	25/25	-	4	28/30	12						
FRE	FW				AI			6	25/25	-					4/6	9
FUL		AC			RW	1/5	4	4	9/32	4	16/16	-				
HUM					AC	11/11	-	4	15/15	-						
LB		AI			AI	13/13	-	3					9/9	-	3/3	-
LA					AI	3/3	-	4	11/11	-					6/6	-
MA					AI	0/6	4	2	14/15	6						
MB	FW				RW			2	12/15	6					9/9	-
NOR		AI			RW	16/16	-	5			16/16	-				
POM					AC	6/6	-	3	24/24	-	16/16	-				
SAC					RW	4/4	-	6	28/28	-						
SB	AI	AI						3					8/8	-	8/8	-
SD	AC				AI	2/2	-	4	11/11	-	14/14	-			8/8	-
SF	AC	RW			AC	1/6	3	5					4/4	-		
SJ					AC	5/9	5	5	32/32	-	23/25	8	5/5	-		
SLO					RW	12/12	-	4	22/24	10						
SM					AI	3/3	-	3	22/22	-					8/8	-
SON	AI	RW						4			20/20	-			5/5	-
STA	AC				RW	0/4	2	4	17/17	-	27/27	-	5/5	-		
CO	RW				RW			2	4/4	-						
SYS													2/7	7	0/11	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**

### **Development of a Systemwide Compliance Function**

#### **Presentation By**

Larry Mandel  
University Auditor

#### **Summary**

This item is being presented for information as a precursor to a resolution which will come before the Committee on Audit at the January 2010 meeting. The resolution will be presented as part of the 2010 audit plan and will address the development of a systemwide compliance function which will be housed within the Office of the University Auditor.

#### **Need for, and Features of, a Compliance Function**

This is the first time since its inception thirty-five years ago that resources allocated to audit have been reduced. In an effort to do more with less, we will be recommending a reallocation of resources aimed at reducing the potential number of audit issues. The reallocated resources will be used to develop a compliance function.

A compliance function is a preventive control providing tools to the campus community that will enable them to know high-risk areas and take the necessary steps to reduce potential negative outcomes. An audit function is a detective control providing assurance that high risks are being mitigated to an acceptable level and that the institution is operating efficiently and effectively.

An effective compliance function:

- Proactively identifies, evaluates, and prioritizes risks that are critical to the CSU.
- Eliminates gaps in compliance silos (EH&S, Human Resources, IT, etc.).
- Assures that critical risks are properly managed by the appropriate individuals.
- Builds compliance and risk awareness into daily activities.
- Coordinates and/or integrates compliance functions across units and programs.
- Potentially reduces and prevents fines and penalties.
- Promotes consistent quality and effectiveness and avoids administrative redundancy and conflict.

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- Provides ongoing positive assurance to management regarding the status of critical institutional risks.

Within its boundaries, a compliance function may include:

- Coordination of the CSU's compliance assurance activities.
- Annual compliance risk assessments and a central compliance contact for campus leaders.
- Assistance in the development of policies, procedures, and controls to reduce compliance risks.
- Evaluation of emerging compliance trends and implementation of best practices.
- Development of innovative and effective ways to mitigate compliance risk.
- Specialized training and promotion of compliance awareness and employee ethics.
- Oversight and monitoring of compliance activities, including conflicts of interest reporting.
- A confidential reporting system for employees to report issues of potential non-compliance.
- Reporting of compliance activities and significant compliance issues to executive management.

We will bring to the January 2010 meeting more information on the proposed compliance function.