

AGENDA

COMMITTEE ON AUDIT

Meeting: 1:15 p.m., Tuesday, September 21, 2010
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of May 11, 2010

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. University and Auxiliary Organization Funds, *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**

May 11, 2010

Members Present

Raymond W. Holdsworth, Vice Chair
Herbert L. Carter, Chair of the Board
Carol R. Chandler
Kenneth Fong
Margaret Fortune
George G. Gowgani
Henry Mendoza

Trustee Holdsworth called the meeting to order.

Approval of Minutes

The minutes of the meeting of March 16, 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 May 11-12, 2010 Board of Trustees agenda.

Mr. Mandel noted that updates to the status report would now be displayed in green color, (instead of red) to indicate progress towards or completion of outstanding recommendations since the distribution of the agenda. He reported that many of the campuses are continuing to make very good progress in the closing of outstanding recommendations. 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 four of these audit areas were currently in process. He also reported that five of the 12 audits of construction projects scheduled for 2010 were currently in process.

Trustee Holdsworth expressed his concern regarding the three campuses with outstanding recommendations above nine months and inquired as to their status.

Mr. Mandel responded that the outstanding recommendations regarding Student Records and Registration at California State University, Fresno pertains to records imaging and is currently in process. He noted that the delay in completion is due to budget constraints.

Audit

Trustee Holdsworth asked whether there is a completion date for the outstanding recommendation at CSU Fresno.

Dr. John D. Welty, president, CSU Fresno, responded that June 30, 2010, is the goal for completion of the recommendation pertaining to records imaging.

Mr. Mandel further responded that the outstanding recommendations regarding auxiliary organizations at CSU Fullerton and California State Polytechnic University, San Luis Obispo pertain to the proper placement of state funds. He added that discussions with the campuses have been ongoing for several months regarding this particular finding.

Trustee Holdsworth asked whether there is a completion date for the outstanding recommendations pertaining to state funds at the Fullerton and San Luis Obispo campuses.

Dr. Benjamin F. Quillian, executive vice chancellor/chief financial officer, commented that the issue on state funds came to his attention a couple of months ago. He stated that due to a lack of clarity in some of the policies relating to the placement of monies in auxiliaries, Chancellor Reed had asked him to develop additional policy for the campuses. He anticipated implementation of the policy by June 30, 2010.

Trustee Holdsworth requested that Dr. Quillian provide an update on this issue at the July 2010 Board meeting.

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 A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the fiscal year ended June 30, 2009.

Mr. Ashkar reported on the outstanding findings related to federal financial aid programs. He noted that corrective actions at the remaining campuses have been completed, reviewed by financial services internal control staff, and verified by Office of the University Auditor (OUA) staff. He explained that some of these findings pertained to policies and procedures for proper internal control, communication of Pell grant disbursement schedules to parents, and the reporting of student status changes in accordance with federal financial aid requirements.

Regarding the findings in the auxiliary organization audit reports, Mr. Ashkar reported that corrective action plans for all five auxiliary organizations with material weaknesses in internal control have been completed, reviewed by the financial services internal control staff, and verified by OUA staff.

Mr. Ashkar thanked the campus presidents and their staffs for the extra effort in the completion of the corrective action plans, especially in light of furloughs, lack of resources, etc.

Trustee Holdsworth asked Mr. Ashkar if he is confident in going forward based on the current policies and procedures pertaining to these issues.

Mr. Ashkar responded affirmatively and stated that some of the changes that have occurred at the campuses have resulted in improved processes and procedures but that the monitoring of compliance with these policies, procedures, and controls will be an ongoing process.

Trustee Holdsworth congratulated the presidents and Chancellor Reed for all of their efforts, especially in light of the immensity of the system compared to other universities in the state and nationwide.

Trustee 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 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, and Off-Campus Activities) is currently being conducted on approximately 50 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/32 auxiliaries. One campus/four auxiliaries have been completed, and report writing is being completed at four campuses/15 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 have been completed, while one audit awaits a campus response prior to finalization.

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. Five audits await a campus response prior to finalization, while report writing is being completed at one campus.

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 four campuses, and fieldwork is currently taking place 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. One audit awaits a campus response prior to finalization, and report writing is being completed at five 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. Report writing is being completed at two campuses, and fieldwork is currently taking place at one campus.

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. Report writing is currently taking place at four campuses.

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. Report writing is currently taking place at two campuses.

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. Two

audits have been completed, three audits await campus responses prior to finalization, report writing is being completed for three projects, and fieldwork is currently taking place for one project.

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, 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-three 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 CSU 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 40 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 9/3/2010)

	2010 ASSIGNMENTS									FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS												
	Aux Orgs	Main & Satellite Cash	Post Award	IT Dis Recov	Fin Aid	Inter Colleg Athl	HIPAA Security	Bus Cont	Fund Raising	Special Investigations	FISMA		Auxiliary Organizations			Information Security		Emergency Preparedness		Off Campus Activities		
										*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK				RW								0/8	5	3	19/19	-					5/5	-
CHI												8/8	-	3	0/20	4	28/28	-	10/10	-		
CI							RW					3/5	5	3	10/10	-	0/15	8				
DH												7/7	-	3	8/22	5	19/19	-				
EB				RW			RW					25/25	-	4	30/30	-	6/12	8	2/8	7		
FRE			AI				RW					0/6	5	6	25/25	-	22/22	-				
FUL					AI							5/5	-	4	31/32	14	16/16	-	2/2	-	8/8	-
HUM			RW		RW							11/11	-	4	15/15	-			8/8	-	3/6	7
LB						RW						3/3	-	3	34/34	-	19/21	10				
LA						RW	RW					3/3	-	4	11/11	-	0/7	5			6/6	-
MA				FW								6/6	-	2	15/15	-			6/6	-		
MB				RW								6/9	6	2	15/15	-	22/22	-				
NOR		AC			RW							16/16	-	5	26/27	11	16/16	-			0/6	6
POM	RW			RW								6/6	-	3			16/16	-	7/7	-	2/5	8
SAC		AC										4/4	-	6	28/28	-	0/23	9			1/9	6
SB		AC			RW					0/3	3	6/7	12	3	28/30	11						
SD	AC		AI		RW			RW				2/2	-	4			14/14	-			6/6	-
SF		AC	AI									6/6	-	5	17/30	7	19/19	-	3/3	-		
SJ	AI		AI					RW				9/9	-	5			25/25	-	7/7	-	5/6	6
SLO												12/12	-	4	23/24	20	0/27	5				
SM	RW	AC				FW				4/4	-	3/3	-	3			7/7	-	2/2	-		
SON					RW							4/4	-	4	5/12	6	20/20	-				
STA	RW	AC										4/4	-	4			27/27	-	6/6	-		
CO			AI									0/5	6	2	4/4	-	0/19	7				
SYS		AI																	5/6	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

University and Auxiliary Organization Funds

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Summary

At the May 2010 meeting of the audit committee, University Auditor Larry Mandel presented a status report on the 2010 audit plan and follow-up on past assignments. The committee questioned the length of time some campuses were taking to complete the corrective actions related to the audits of auxiliary organizations. Mr. Mandel and Executive Vice Chancellor and Chief Financial Officer Benjamin Quillian explained that the delays involved resolving findings related to funds being inappropriately held in auxiliary accounts. Chancellor Reed has asked Dr. Quillian to develop policy to provide additional guidance to the campuses and their auxiliaries. Executive Order 1052 was issued September 7, 2010, providing such guidance.

In consultation with the chair of the audit committee, the university auditor, campus presidents and chief financial officers, a new executive order has been issued. The new executive order builds on existing CSU policy and provides clearer direction to the campuses regarding: a) the required accounting and reporting of university and auxiliary organization funds; and b) the necessary reimbursement of the university for costs incurred related to auxiliary operations and activities.

The executive order requires that all university funds being held by an auxiliary are to be remitted to the university within 90 days after receipt of said funds, unless an extension of time has been expressly authorized and justified by the university president or his designee. The order also requires that the auxiliary organization's financial statements specifically identify the balance of university funds being held (if any), including footnotes that provide sufficient detail to identify material revenue sources. Moreover, each campus is required to establish a well-documented cost allocation plan that supports and evidences a documented value exchange or recovery of funds due from other funds and entities such as auxiliary organizations. The executive order includes a table that lists the most common sources of university receipts and indicates the proper accounts/entity where receipts normally should be recorded and deposited.

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Additionally, Chancellor Reed has appointed a task force, which includes several campus presidents, to examine further the relationship between auxiliary organizations and the university and address other policy issues.