

AGENDA

COMMITTEE ON AUDIT

Meeting: 11:15 a.m., Tuesday, May 10, 2011
Glenn S. Dumke Auditorium

Henry Mendoza, Chair
Nicole M. Anderson
Carol R. Chandler
Margaret Fortune
Melinda Guzman
William Hauck

Consent Items

Approval of Minutes of Meeting of March 22, 2011

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on 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, 2010, *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 22, 2011

Members Present

Henry Mendoza, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter, Chair of the Board
Nicole M. Anderson
Margaret Fortune
George G. Gowgani
Melinda Guzman
William Hauck
Charles B. Reed, Chancellor

Trustee Mendoza called the meeting to order.

Approval of Minutes

The minutes of the meeting of January 25, 2011, 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 21-22, 2011, Board of Trustees agenda.

Mr. Mandel reminded everyone that updates to the status report are displayed in green numerals and indicate progress toward 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. He explained that some of the long-outstanding recommendations noted on the status report are a result of agreements with the campuses regarding completion dates and therefore are still within the approved timeline. Mr. Mandel noted that some of the 2011 audit assignments (as shown on the left-hand side of the status report) are in progress and anticipated completion of all assignments by the end of the year. In addition, he indicated that the 2011 construction audit assignments were also currently in progress and that the campuses are completing the recommendations in a timely manner.

Trustee Mendoza thanked the campus presidents and their staffs for their diligence and continued efforts in completing the recommendations in a timely manner.

Status Report on 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, 2010

Dr. Benjamin F. Quillian, executive vice chancellor/chief financial officer, provided a status on the corrective action plans for the five findings noted in the A-133 Single Audit Reports. He reminded the trustees that findings 10-01 through 10-04 related to internal control over the administration of the federal student financial aid programs and finding 10-05 related to compliance with labor standards provisions of the Davis-Bacon Act. He added that there were also three auxiliary organizations with material weaknesses in internal control over financial reporting processes. Dr. Quillian stated that all campuses have prepared corrective action plans that are currently being implemented. He indicated that the CSU Chancellor's Office, in conjunction with the Office of the University Auditor, will review those plans to ensure appropriate corrective action is taken on the reported findings, and he anticipated completion by the May 2011 Board of Trustees meeting.

Trustee Holdsworth informed the trustees that his term as a member of the Board of Trustees was ending soon. As a member of the Committee on Audit for over eight years, he thanked the presidents for their efforts in ensuring the vast improvement in completing outstanding recommendations in a timely manner. He also thanked Chancellor Reed and Mr. Mandel for their efforts over the years, especially in an environment of transparency and accountability.

Trustee Achtenberg thanked Trustee Holdsworth for his years of service and acknowledged the system's enormous debt of gratitude for his contributions, diligence, and commitment to the Board of Trustees, especially in terms of audit and compliance.

The meeting adjourned.

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 2011 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of Auxiliary Organizations, Delegations of Authority, high-risk areas (IT Disaster Recovery, Cashiering, Americans with Disabilities Act (ADA), Sensitive Data Security/Protection, Academic Personnel, and Financial Aid) and Construction. In addition, follow-up on past assignments (Auxiliary Organizations, Information Security, Off-Campus Activities, Cashiering, Post Award, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA, Business Continuity and Fund Raising) is currently being conducted on approximately 55 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 2011 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 (IT Disaster Recovery, Cashiering, ADA, Sensitive Data Security/Protection, Academic Personnel, and Financial Aid) 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/30 auxiliaries. One campus/one auxiliary has been completed, report writing is being completed at two campuses/12 auxiliaries, and fieldwork is being conducted at two campuses/six auxiliaries.

Delegations of Authority

The initial audit plan indicated that approximately 89 staff weeks of activity (9.1 percent of the plan) would be devoted to a review of 10 campuses to ensure proper management of the processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Four reports await a campus response prior to finalization, and report writing is being completed at five campuses.

High-Risk Areas

Information Technology Disaster Recovery

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing 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. One report awaits a campus response prior to finalization, report writing is being completed at one campus, and fieldwork is being conducted at one campus.

Cashiering

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing cash receipt controls; accountability for cash; safeguarding of cash; and accurate recordkeeping. Six campuses will be reviewed. Report writing is being completed at one campus, and fieldwork is being conducted at two campuses.

ADA

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing compliance with federal, state and local rules and regulations that relate to the ADA. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

Sensitive Data Security/Protection

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing policies and procedures for handling confidential information, communication and employee training; tracking and monitoring access to sensitive

data; and retention practices of key records. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

Academic Personnel

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 percent of the plan) would be devoted to reviewing recruitment and hiring practices for compliance with employment laws and regulations; evaluation of employees as required per collective bargaining agreements; administration of the family medical leave and other employee programs; and protection of sensitive and confidential information. Six campuses will be reviewed.

Financial Aid

The initial audit plan indicated that approximately 43 staff weeks of activity (4.4 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.

Construction

The initial audit plan indicated that approximately 52 staff weeks of activity (5.3 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 closeout process and liquidated damages; and overall project accounting and reporting. Seven projects will be reviewed. One project awaits a campus response prior to finalization, report writing is being completed for one project, and fieldwork is being conducted 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 CSU 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. Fifty-seven staff weeks have been set aside for this purpose, representing approximately 5.8 percent of the audit plan.

Follow-ups

The audit plan indicated that approximately 11 staff weeks of activity (1.1 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 55 prior audits (Auxiliary Organizations, Information Security, Off-Campus Activities, Cashiering, Post Award, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA, Business Continuity and Financial Aid) 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 4/21/2011)

	2011 ASSIGNMENTS								FOLLOW-UP PAST/CURRENT ASSIGNMENTS								
	Aux Orgs	Deleg of Auth	IT Dis Recov	Cashiering	ADA	Sen Data Security/ Protection	Financial Aid	Academic Personnel	Auxiliary Organizations			Information Security		Off Campus Activities		Cashiering	
									●No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	FW								3					5/5	-		
CHI		RW							3	16/20	12	28/28	-				
CI	FW		RW						3			15/15	-				
DH				FW					3	22/22	-	19/19	-				
EB									4	30/30	-	12/12	-				
FRE	RW								6			22/22	-				
FUL		RW							4	31/32	#	16/16	-	8/8	-		
HUM				FW					4	15/15	-			6/6	-		
LB		AI							3	34/34	-	21/21	-				
LA			AI						4	0/13	3	7/7	-	6/6	-		
MA									2	15/15	-						
MB		AI							2	15/15	-	22/22	-				
NOR		RW							5	27/27	-	16/16	-	6/6	-	1/1	-
POM		AI							3	11/12	#	16/16	-	5/5	-		
SAC	RW		FW						6			23/23	-	9/9	-	3/3	-
SB		RW			FW				3	30/30	-					2/2	-
SD		RW				FW			4	21/24	10	14/14	-	6/6	-		
SF									5	29/30	#	19/19	-			1/1	-
SJ									5	29/47	7	25/25	-	6/6	-		
SLO		AI		RW					4	23/24	#	27/27	-				
SM									3	10/13	7	7/7	-			5/5	-
SON									4	12/12	-	20/20	-				
STA									4	0/18	4	27/27	-			3/8	11
CO	AC								2	0/0	-	19/19	-				
SYS												4/9	9	5/11	11	0/1	10

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.
** The number of months recommendations have been outstanding (since the formal campus exit conference)
● The number of auxiliary organizations reviewed.
Represents recommendations that are being held in abeyance pending the issuance of new systemwide policies.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 4/21/2011)

	FOLLOW-UP PAST/CURRENT ASSIGNMENTS													
	Post Award		IT Disaster Recovery		Financial Aid		Intercollegiate Athletics		HIPPA		Business Continuity		Fund Raising	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK			0/4	5							0/3	4		
CHI														
CI								1/1	-	0/2	5			
DH								0/0	-					
EB			2/4	7			0/4	5	0/1	7				
FRE	3/3	-						1/2	6					
FUL					10/11	7							0/13	2
HUM	0/7	6			2/3	7							0/6	1
LB							5/5	-						
LA							1/2	5	2/2	-	1/1	-		
MA			0/5	6										
MB			4/4	-										
NOR			1/1	-	3/4	6	0/2	2						
POM			7/7	-										
SAC														
SB					5/5	-								
SD	4/4	-			3/6	6					0/2	6		
SF	3/3	-												
SJ	2/2	-									1/2	6		
SLO														
SM							2/3	5						
SON					5/5	-								
STA														
CO	1/3	9											0/4	3
SYS	0/1	4												

FW : Field Work In Progress
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* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.
** The number of months recommendations have been outstanding (since the formal campus exit conference).
• The number of auxiliary organizations reviewed.
Represents recommendations that are being held in abeyance pending the issuance of new systemwide policies.

COMMITTEE ON AUDIT

**Status Report on 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, 2010**

Presentation by

George Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

Audit findings 2010-01 through 2010-04 were related to internal control over the administration of the Federal student financial aid programs (including Pell Grants and Federal loans) at various campuses. Audit finding 2010-05 was related to compliance with labor standards provisions of the Davis-Bacon Act in the administration of a federal grant for construction provided through the College Cost Reduction and Access Act at a campus. The documentation from the campuses was reviewed by the Office of the University Auditor for completeness and then approved by chancellor's office staff. Corrective action was completed for all audit findings before the end of March, based on the documentary evidence showing that revised policies and procedures to address the audit findings had been implemented and followed at the affected campuses.

There were three auxiliary organizations with material weaknesses in internal control over financial reporting processes. The documentation from the auxiliaries was reviewed by the Office of the University Auditor for completeness and then approved by chancellor's office staff. Corrective action was completed for all audit findings before the end of March, based on the documentary evidence showing that revised policies and procedures to address the audit findings had been implemented and followed at the affected auxiliaries.