

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:**     **10:00 a.m., Wednesday, May 17, 2006**  
Glenn S. Dumke Auditorium

Raymond W. Holdsworth, Chair  
Herbert L. Carter, Vice Chair  
Roberta Achtenberg  
Debra S. Farar  
George G. Gowgani  
William Hauck

#### Consent Items

Approval of Minutes of Meeting of March 15, 2006

#### Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Progress Report on the Corrective Action Plans for the Audit Findings in the Single Audit Reports for the Year Ended June 30, 2005, *Information*

**MINUTES OF THE MEETING OF THE  
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 15, 2006**

**Members Present**

Raymond W. Holdsworth, Chair  
Herbert L. Carter, Vice Chair  
Roberta Achtenberg  
Debra S. Farar  
Murray L. Galinson, Chair of the Board  
George G. Gowgani  
William Hauck  
Charles B. Reed, Chancellor

Chair Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of February 1, 2006, were approved as submitted.

**Status Report on Current and Follow-up Internal Audit Assignments**

Trustee Holdsworth, on behalf of Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the March 14-15, 2006, Board of Trustees agenda.

Trustee Holdsworth noted that three campuses, Humboldt State University (HSU), California Maritime Academy (CMA), and San José State University (SJSU), had outstanding recommendations beyond nine months. He indicated that as per discussions with Dr. William B. Eisenhardt, president, CMA, the two outstanding recommendations pertaining to FISMA (financial internal control) would be resolved by the next committee meeting. He further indicated that as per discussions with Mr. Don Kassing, president, SJSU, the two recommendations pertaining to Auxiliary Organizations that have been outstanding for 12 months would also be resolved by the next committee meeting. Trustee Holdsworth stressed the importance of timely progress on the completion of outstanding recommendations and stated that, in the future, none should be reported beyond nine months. He then asked Dr. Rollin C. Richmond, president, HSU, to address the campuses outstanding recommendations pertaining to FISMA.

President Richmond responded that the outstanding recommendations issue was being taken very seriously and is currently the highest priority for the campus accounting department and relatively new internal auditor to address.

### **Single Audit Reports on Federal Funds**

Mr. Hordyk introduced Mr. Mark Thomas, managing partner, KPMG, who discussed the Single Audit Reports for the year ended June 30, 2005.

Mr. Thomas stated that the Single Audit Reports, also called the Office of Management and Budget (OMB) Circular A-133, is a requirement by the federal government because the California State University (CSU) is a large recipient of federal funds. He further stated that primarily the major sources of federal funds for the CSU are in the areas of student financial aid, almost \$1.2 billion for fiscal year 2004/05, and research and development. He noted an important distinction in the reporting of federal funds for the CSU. He explained that all but one of the campuses manage their research and development grants through their foundations, and each of the foundations has its own external accounting firm that is required to report on OMB Circular A-133. The exception is San Francisco State University (SFSU), which manages its own research and development grants through the University and therefore is included in the CSU Single Audit Reports. Lastly, he indicated that there are two categories of findings in the Single Audit Report: one pertains to research and development grants for SFSU only, and the other pertains to student financial aid at all 23 campuses.

Mr. Thomas discussed the significance of the five findings in the Single Audit Report, and the effect those findings had on the final report, as follows:

Finding 05-01 pertains to the internal control weaknesses surrounding the financial statement preparation process, specifically at 14 of the 23 campuses, and was discussed in detail at the previous Committee on Audit meeting.

Finding 05-02 pertains specifically with research and development at SFSU only and reports on the lack of compliance with federal effort reporting requirements for payroll costs. This is a repeat finding from several years ago; although SFSU had implemented the finding, the person who was assigned to this task resigned from the organization and subsequently no other employee was directed to perform this function, resulting in the process not being completed. Since effort reporting is a significant requirement of research and development grants, the finding was classified as a material weakness in internal controls and its cause to qualification in the CSU compliance report.

Finding 05-03 pertains specifically with research and development at SFSU only and reports on the lack of compliance with subrecipient monitoring requirements regarding subrecipient audits. The same employee responsible for effort reporting was also assigned to perform

subrecipient monitoring. Therefore, when this person resigned from the organization, subrecipient monitoring was no longer performed. As a result, this finding was also classified as a material weakness in internal controls.

Findings 05-04 and 05-05 pertain to student financial aid, specifically on the campuses of San Bernardino and Humboldt. Both findings pertain to the reconciliation process that is required to be performed over the William Ford Director Loan Program. Since these two findings were classified in the routine category, they were not identified as reportable conditions and did not affect the opinion on the University financial statements.

Mr. Thomas noted one other major distinction between student financial aid and research and development. He stated that federal funds for student financial aid totaled approximately \$1.175 billion, while federal funds for research and development totaled approximately \$20 million. He explained that even though both student financial aid and research and development are included in the Single Audit Report, it is important to note that they are both separate areas and therefore have no effect on each other.

Mr. Thomas stated that due to the findings related to effort reporting for payroll costs, the financial statement preparation process, and subrecipient monitoring, KPMG had issued a qualified statement on the University's overall compliance of federal fund requirements. He further stated his belief that in addition to the corrective action required by the KPMG external auditors, the federal government would also require corrective action on these issues at SFSU. He noted that campus management had submitted an action plan and stated his belief that it is in line with what ultimately would be required by the federal government.

Mr. West emphasized that the qualified statement provided by KPMG was referring to the sponsored research programs for the University, not the federal aid programs.

Trustee Holdsworth then asked Dr. Robert A. Corrigan, president, SFSU, to address the Board on the corrective action plan regarding the significant compliance issues for research and development, especially since this is a repeat finding.

President Corrigan apologized to the Board and acknowledged the seriousness and significance of the issues. He further acknowledged that this issue is a campus problem, not a systemwide problem, and assured the Board that this would not be a repeat finding in the future. President Corrigan stated that he was conducting weekly meetings on this issue and a corrective action plan was currently in process. He indicated that a group of consultants was hired in November 2005. The consultants are currently preparing the effort reports and are training both the new compliance officer and the new operating officer with the anticipation that the process will be completed in the spring of 2006. President Corrigan thanked Mr. Thomas for the professional and polite manner in which this issue was presented to the Board.

## Audit

Trustee Galinson requested that President Corrigan report to the Board periodically on the status of the completion of the corrective action plan.

President Corrigan responded that he would be pleased to inform the Board regarding progress made on these issues. He indicated that an update would be provided at the May Board meeting, specifically regarding the completion of effort reporting through December and progress being made on effort reporting for spring 2006.

Trustee Holdsworth stated his belief that issues of this importance, especially repeat findings with reportable conditions, should have the involvement and oversight of the chancellor's office to ensure that proper corrective actions are completed in a timely manner.

Chancellor Reed stated that he has been involved in discussions with Mr. Richard West, Mr. Dennis Hordyk, and President Corrigan along with his vice president for administration and finance and vice president for academic affairs regarding these issues. He further stated that discussions included the anticipated date of completion of the effort, which is expected in May 2006, and required staffing resources to prevent the reoccurrence of these issues in the future. He reported that an action plan is currently in process in anticipation of federal government requirements regarding these issues. He further stated that a progress report would be provided to the Board at the May meeting.

Trustee Holdsworth strongly advised the presidents to focus a lot of attention on these critical issues regarding the financial statement preparation process and federal funds. He stressed the importance of the active role the presidents must take on the reporting structure and processes of major functions at the campuses because it really exposes the entire University system when there are material weaknesses in reportable conditions.

Chancellor Reed indicated that at last month's Executive Council meeting with campus presidents, this issue was the top item on the agenda for discussion. He further indicated that campus management understands the importance of hiring experienced staff with GAAP accounting knowledge and having backup employees so that at least two employees on every campus have knowledge of accounting and finance functions.

Trustee Holdsworth asked Mr. Thomas whether the University is on the right track as far as corrective action for all of the outstanding issues.

Mr. Thomas responded that it is his belief that the federal government will require a 100 percent reconstruction of the problem, and will require the University's external auditor to attest to the reconstruction. He affirmed that the University in essence is performing the reconstruction that would be required by the federal government.

Mr. Hordyk explained the University's process regarding the campus' completion of the findings. He stated that a progress report would be presented to the Board in May and

September 2006 on the finding regarding the untimely financial statement preparation process. He added that the campuses would provide progress reports towards the completion of the findings to either Ms. Mary Robinson, associate director of financial aid, student academic support, or to him until the issues have been satisfactorily resolved and verified by the Office of the University Auditor. He further added that updates would be provided to the Board as to the completeness of each of the findings.

Trustee Holdsworth indicated that, as a result of questions from the last Board meeting, a handout was distributed detailing the exact distribution of fiscal year 2004/05 federal funds by campus.

Trustee Guzman Moore asked if the distribution of federal funds also included amounts that were allocated to the auxiliary organizations for research and development.

Trustee Holdsworth responded affirmatively and explained that the reverse side of the handout indicated approximately \$289 million in federal funds that had been allocated to auxiliary organizations, of which approximately \$240 million was for sponsored research.

Mr. Hordyk offered further explanation of the handout regarding the distribution of federal funds. He noted that the CSU received over \$1.5 billion in federal funds for fiscal year 2004/05, of which approximately \$701 million is received by the university system including funds for financial aid, TRIO or service programs, and sponsored programs. Approximately \$830 million of federal funds are loans distributed directly to the students. He indicated that the handout also reports the distribution of the approximately \$701 million in federal funds between the University and auxiliary organizations. He noted that San Diego is the largest recipient of federal funds, totaling approximately \$105 million

Trustee Guzman Moore inquired whether there had been any recommendations for change with regard to the handling of monies for research and development.

Mr. West responded that it has been an ongoing topic of discussion with campuses about the best way to handle contracts and grants. He stated that it is historical practice to handle contracts and grants through the auxiliary organizations because it simplifies indirect cost reporting.

## **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 2006 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, Delegations of Authority, Disaster and Emergency Preparedness, Athletics Administration, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Continuing Education, Housing and Residential Services) is currently being conducted on approximately 35 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 2006 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, Delegations of Authority, Disaster and Emergency Preparedness, Athletics Administration, and Construction.

#### *FISMA*

The initial audit plan indicated that approximately 144 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed on one campus, while fieldwork is taking place at five campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 257 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/29 auxiliaries. Report writing is currently taking place at three campuses/eleven auxiliaries.

*Delegations of Authority*

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of the processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Report writing is being completed at one campus, while fieldwork is currently taking place at two campuses.

*Disaster and Emergency Preparedness*

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of and/or compliance with bond resolutions, 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 testing; and relationships with state and federal emergency management agencies. Report writing is being completed at one campus, while fieldwork is currently taking place at one campus.

*Athletics Administration*

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of ten campuses to ensure proper administration/review of the general control environment for athletics and control activities undertaken to assure implementation of appropriate institutional systems, policies and procedures for financial oversight and stewardship of athletics. Report writing is being completed at one campus.

*Information Systems*

The initial audit plan indicated that approximately 43 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 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 35 prior audits (FISMA, Auxiliary Organizations,



Continuing Education, and Housing and Residential Services) 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. Thirty-four staff weeks have been set aside for this purpose, representing approximately 4 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. Thirty-six staff weeks have been set aside for this purpose, representing approximately 4 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 2005/06 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. Two audits await a response prior to completion, two audits are in the report writing stage, and fieldwork is currently taking place on two reviews.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 5/15/2006)

	<b>2006 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>								
	FISMA	Aux Orgs	Deleg of Authority	Disaster and Emerg Prep	Athletics Admin	FISMA		Auxiliary Organizations			Continuing Education		Housing & Residential Svcs	
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK						13/13	-	3	22/22	-				
CHI	FW							3	32/32	-	8/9	7		
CI						23/23	-	2	26/26	-				
DH						5/5	-	3	36/36	-				
EB	FW							4	65/65	-				
FRE						8/8	-	6	22/47	6				
FUL		RW				7/7	-	4			3/5	5		
HUM						10/10	-	3	25/25	-				
LB			FW			7/7	-	3	27/27	-	1/5	3	10/10	-
LA	FW							4	42/42	-	1/2	3		
MA						5/7	12	2	21/21	-	0/12	3		
MB						25/25	-	2	40/40	-				
NOR	RW							5	46/46	-			8/9	3
POM						11/11	-	3	24/24	-	0/7	3	8/11	5
SAC					RW	13/13	-	5	15/36	4				
SB		RW				0/9	2	3						
SD				RW		7/7	-	4	21/21	-			10/10	-
SF		RW				6/6	-	4					4/7	3
SJ			RW			15/16	9	4	42/42	-				
SLO	FW							2	29/29	-			3/4	5
SM	FW							3	34/34	-	2/5	2		
SON				FW		6/6	-	4	21/21	-			10/10	-
STA			FW			14/16	7	4	27/27	-				
CO						0/4	1	2	11/11	-				
SYS														
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. <b>Numbers/letters in red are updates since the agenda mailout.</b> **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.								



**COMMITTEE ON AUDIT**

**Progress Report on the Corrective Action Plans for the Audit Findings in the Single Audit Reports for the Year Ended June 30, 2005**

**Presentation by**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

**Summary**

With respect to 05-01 Financial Statement Preparation Process Reportable Condition, the Chancellor's Office has worked with campuses to develop guidelines to remedy weaknesses identified from the audit through improvements in staffing, classification, compensation, and training. Various campuses are in the process of implementing corrective steps based on the guidelines.

Corrective actions for the following audit findings are also in progress:

- 05-02 San Francisco State University Research and Development Cluster Grants Effort Reporting for Payroll Costs
- 05-03 San Francisco State University Research and Development Grants Sub-recipient Monitoring
- 05-04 California State University, San Bernardino Direct Loan Program Reconciliation

Corrective action for 05-05 Humboldt State University Direct Loan Program Reconciliations has been completed.

A further status report on resolving the weaknesses identified by the external auditors will be presented in September 2006. The Internal Auditor will validate that the corrective work adequately addresses the weaknesses.