

AGENDA

COMMITTEE ON AUDIT

Meeting: 11:00 a.m., Tuesday, January 23, 2007
Glenn S. Dumke Auditorium

Raymond W. Holdsworth, Chair
Debra S. Farar, Vice Chair
Herbert L. Carter
Carol R. Chandler
George G. Gowgani
William Hauck
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of November 14, 2006

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

Discussion Items

2. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2007, *Action*
3. Report on Construction Auditing in the California State University 2005-2006, *Information*
4. Quality Assurance Review of the Office of the University Auditor, *Information*
5. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
6. Single Audit Report of Federal 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**

November 14, 2006

Members Present

Raymond W. Holdsworth, Chair
Debra S. Farar, Vice Chair
Roberta Achtenberg, Chair of the Board
Herbert L. Carter
Carol R. Chandler
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 September 20, 2006, 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 November 14-15, 2006, Board of Trustees agenda.

Mr. Mandel congratulated the campuses on making exemplary progress in completing the recommendations and reported that overall the number of months outstanding had decreased considerably.

Mr. Mandel then reported on the progress of the 2006 audit plan. He reminded the Trustees that the initial audit plan was amended to decrease the number of Athletics Administration reviews from ten to five and indicated that perhaps consideration would be given to performing additional reviews of this audit subject next calendar year.

Audit

Chair Holdsworth commented on the outstanding recommendations pertaining to Continuing Education at both the California Maritime Academy and California State Polytechnic University, Pomona. He reported that as per the campus presidents, the recommendations were in the process of being completed. Overall, he commended the presidents and thanked them for their attention to and efforts in the timely completion of the outstanding recommendations.

Chair Holdsworth also thanked Mr. Mandel and his staff for their continued efforts in conducting the internal audits at the campuses. He indicated that it would be beneficial to the university to evaluate different methodologies for determining which internal audits are conducted in the future, with a focus on best practices. He solicited suggestions from Mr. Mark Thomas, managing partner, KPMG; Mr. Richard P. West, executive vice chancellor/chief financial officer; and campus presidents on ways to improve the risk assessment process to ensure that the appropriate areas are being reviewed.

Trustee Carter asked Mr. Mandel whether the new Revenue Management Program would impact audit responsibilities.

Mr. Mandel responded that the Revenue Management Program would have a significant impact on financial internal control (FISMA) audits. He stated that the Department of Finance, through its Office of State Audits and Evaluations (OSAE), is responsible for establishing a plan of reporting and general framework to guide the California State University (CSU) in performing evaluations on its internal accounting and administrative control. He further stated that the OSAE encourages modifications to this audit guide/program as circumstances warrant; therefore, changes would be made to ensure the proper review regarding the Revenue Management Program. In addition, Mr. Mandel indicated that he and his staff had participated in meetings hosted by financial services regarding the development of guidelines, best practices, and rules and regulations for the implementation of the Revenue Management Program.

Status Report on the Year-End Audited Financial Closing Process

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented the item. He recalled the five findings related to the Single Audit Report for the year ended June 30, 2005. He indicated that four of the findings pertained to federal funds and noted that all had been completed with validation from the university auditor. He further indicated that one of the findings was the result of 14 campuses' inability to complete accurate financial reporting packages on a timely basis. He added that the resolution of this finding would only be determined through the closing of the campus books and the preparation of the CSU consolidated financial statements for fiscal year 2005/06. He then provided a progress report on this year's financial statement preparation process, stating that two critical deadlines had been met by all the campuses and campus data is currently being consolidated into the systemwide financial reports. Mr. Hordyk commended the campus staff for their tremendous efforts in meeting these deadlines throughout this difficult process. He also stated his belief that the change in financial reporting

resulting from the Revenue Management Program should ensure a more reasonable process in the future.

Chair Holdsworth asked Mr. Thomas if he would like to provide any comments regarding the current preparation process for the consolidated financial statements.

Mr. Thomas responded that he wholly agreed with Mr. Hordyk's comments regarding the timeliness of the preparation of the financial information. He stated that this year's financial preparation process had produced remarkable results, with an accelerated filing timeline. He added that the process of finalizing the consolidated financial statements was proceeding very smoothly.

Chancellor Reed commented that he was very proud of the tremendous achievement by the CSU accounting staff in meeting and/or exceeding every required deadline.

Chair Holdsworth commended and thanked the campus presidents for the attention given to this year's financial statement preparation process, especially in light of the large amount of recruitment and training that was required to accomplish a timely and accurate completion. He requested that the chancellor's staff and KPMG review the requirements of Sarbanes-Oxley and communicate any needed changes to ensure compliance for future financial audits. He also asked KPMG for guidance regarding best practices for the auxiliary organizations in order to ensure a high-quality financial statement audit and consistent criteria across the board.

Information Security in the California State University

Mr. West introduced Mr. David J. Ernst, assistant vice chancellor, information technology services, who presented an overview on information security planning in the CSU. Mr. West acknowledged that information security, specifically breaches in access to information systems and treatment of personal information, is a very important public policy issue and is taken very seriously at the CSU.

Mr. Ernst presented an overall view of the universe of information security. He stated that the "Security At A Glance" pyramid that was distributed at the meeting illustrates that there is a need to balance security of information, availability of information, and business continuity. He further stated that although the pyramid was developed more from a business perspective than from a university perspective, it shows that the CSU information security program currently being developed will be based on tried and true practices that are in use in the business world and ones that the CSU can adopt in the higher education world. He noted that the pillars of the pyramid upon which the information security program really rests are Processes and Operational Practices, Technology Specifications, and People and Organization. He strongly emphasized People and Organization because within the last two years, specific tracking incidents across the CSU (campuses and chancellor's office) have shown that a vast majority were people oriented. These incidents have included cases of carelessness on the part of individuals leaving their

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personal computer in the trunk of a car, leaving the computer on, not having proper password protection, etc. He acknowledged that attention also needs to be focused on information technology, but indicated that much of the challenge lies in the ability to train people to be careful about the information within their possession. Mr. Ernst reported that within the last two years, tracking had detected three or four instances of successful attempts to hack into the CSU system. However, in each case, no identity had been stolen and no data was destroyed or altered.

Mr. Ernst then presented an overview of ongoing activities and accomplishments regarding the Systemwide Security Plan. He indicated that approximately two years ago, a consultant was hired to assist with determining the status of information security at the CSU. Based on the consultant's report, two of the three key recommendations have been implemented: the appointment of a systemwide information security officer and the appointment of an information security officer at each campus. The third recommendation – the development of a systemwide security plan and policies – is in the process of being implemented. To this end, a Request for Proposal for security consultants was issued for assistance in developing a systemwide security framework based on internationally recognized security standards. The contract was awarded to the security consulting arm of Unisys Corporation; and representatives are currently visiting nine pre-selected campuses and the chancellor's office, which will provide Unisys with an understanding of the operational and environmental controls governing information security. Unisys began its evaluation with the review of an information security control self-assessment that was prepared and administered by the office of the university auditor at the campus level. In January 2007, Unisys will issue each of the participating campuses and the chancellor's office a report providing an analysis and comparison of its security program controls. This information will then be utilized for the development of a detailed information security plan for the entire system and each of the campuses over the course of the 2007 calendar year, and will be the basis upon which the university auditor and others can evaluate where the campuses stand after a year's effort of developing and implementing changes in information security.

Mr. Ernst also indicated that a significant amount of time has been dedicated to the Common Management Systems (CMS) PeopleSoft (supporting much of the university's core data and information) to ensure the highest level of security. He stated that in 2003, a detailed review was conducted by Cap Gemini Ernst & Young on CMS, resulting in a number of findings, most of which have been resolved. He further stated that Ms. Janice Lim, systemwide information security officer, would be conducting a more detailed security assessment of the application side of the CMS project over the course of next year to ensure the utmost security over this system.

Chancellor Reed indicated that there are many attempts to break through our firewalls, many from Asia and India. He stated that because the CSU is a banking system due to our campuses having financial aid responsibilities, there is a lot of information that people would like to obtain. He further stated his confidence in Unisys, which operates a secure data center housing all of the CSU's administrative/CMS data, because of its experience in installing security systems and firewalls in Europe in record time when the currency was changed to the Euro.

Chair Holdsworth asked the campus presidents and KPMG to share any future observations and/or insights as we go forward in improving information technology security within the system, specifically with CMS.

Trustee Holdsworth adjourned the committee.

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, and Housing and Residential Services) is currently being conducted on approximately 25 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. Six audits have been completed, one audit awaits a campus response prior to finalization, report writing is being completed on two campuses, and fieldwork is currently taking place at three 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. Two campus/seven auxiliary reports have been completed, three campus/twelve auxiliary reports await a campus response prior to finalization, and report writing is currently taking place at three campuses/ten 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. Three audits have been completed, four audits await a campus response prior to finalization, and report writing is being completed 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. Five audits have been completed, and report writing is being completed at four campuses.

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. An increase in the amount of time required for fieldwork has reduced the number of campus reviews to five. One audit has been completed, and report writing is being completed at four campuses.

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 25 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. All of the audits are complete.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 1/5/2007)

	2006 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS										
	FISMA	Aux Orgs	Deleg of Authority	Disaster and Emerg Prep	Athletics Admin	Special Investigations		FISMA		Auxiliary Organizations			Continuing Education		Housing & Residential Svcs	
						*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK			AI					12/12	-	3	22/22	-				
CHI	AC	RW						4/7	4	3			9/9	-		
CI				RW				11/13	6	2	26/26	-				
DH		RW		AC				5/5	-	3						
EB	AC							7/16	4	4	36/40	8				
FRE				AC	RW			7/7	-	6	47/47	-				
FUL	FW	AC			RW	31/55	3			4	14/31	3	5/5	-		
HUM	RW			RW						3	25/25	-				
LB		AI	AC					13/13	-	3			5/5	-	10/10	-
LA	AC		RW					3/5	4	4	42/42	-	2/2	-		
MA	RW									2	7/14	8	10/12	11		
MB			RW					7/8	6	2	17/17	-				
NOR	AC	AI						8/8	-	5					9/9	-
POM	AI			AC						3	24/24	-	7/7	-	11/11	-
SAC	FW				AC					5	36/36	-				
SB		AC		RW				9/9	-	3	0/17	4				
SD				AC	RW			7/7	-	4	21/21	-			10/10	-
SF		AI	AI					6/6	-	4					7/7	-
SJ	FW		AC		RW					4	42/42	-				
SLO	AC							0/10	3	2	10/13	7			4/4	-
SM	AC		AI					0/11	2	3	34/34	-	5/5	-		
SON		RW		AC				6/6	-	4					10/10	-
STA			AC					16/16	-	4	27/27	-				
CO			AI	RW				4/4	-	2	11/11	-				
SYS													0/6	7	5/8	8
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.										

Status Report on Current and Follow-Up Construction Audit Assignments
(as of 1/5/2007)

	Project	Project	Contractor	Construction	Start	Comp.	Managed	Current	Campus Follow-Up		CPDC Follow-Up	
	No.			Cost	Date	Date	By	*	**RECS	***MO.	**RECS	***MO.
2006/07	EB-51	Pioneer Hts Std Hsg Ph II	C Overaa & Co.	\$25,020,000	3/7/2005	Jul-06	Campus					
	SD-652	Social Science/Pkg Str 8	douglas e. barnhart	\$23,749,618	6/1/2004	Oct-06	Campus					
	SO-410	Renovate Darwin Hall	Rudolph & Sletten	\$22,471,000	2/14/2005	Jul-06	Campus					
	SB-304	SCI Bldg Annex Ph II	Kemp Bros Constr	\$19,695,000	7/7/2003	Jan-06	Campus					
	EB-236	Valley Bus & Tech Bldg	Flintco, Inc.	\$18,870,000	3/15/2005	Jul-06	Campus					
	SD-123/43	Student Health Services	Highland Partnership	\$17,700,000	6/21/2004	Aug-06	Campus					
2005/06	SJ-703	Campus Village Apartments	Clark Construction	\$161,431,000	12/9/2002	Aug-05	Campus	AC	0/10.5	4	1.5/1.5	-
	MB-777	No. Quad Student Housing	Webcor Builders	\$36,405,503	1/27/2003	Sep-04	Campus	AC	5.5/5.5	-	1.5/1.5	-
	FU-695	Auditorium/Fine Arts Ph II	Hensel Phelps	\$35,978,000	11/1/2003	Jan-06	Campus	AC	4/4	-	1/1	-
	PO-31	University Village, Ph III	Multiple Primes	\$22,605,000	11/1/2003	Sep-05	Campus	AC	0/3	4	1/1	-
	SM-631	Academic Hall Bldg 13 (Bus)	CE Wylie Construction	\$20,500,000	5/22/2004	Dec-05	Campus	AC	0/4.5	4	0.5/0.5	-
	FR-231	Sci II Replacement Building	LC Nelson & Sons	\$16,822,000	8/4/2003	May-05	Campus	AC	11/12	8	-	-
*FW = Field Work in Progress; RW = Report Writing in Progress; AI = Audit Incomplete (awaiting response); AC = Audit Complete												
**The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.												
***The number of months that recommendations have been outstanding (since the formal exit conference).												

COMMITTEE ON AUDIT

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2007

Presentation By

Larry Mandel
University Auditor

Summary

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor. The following is an audit plan for calendar year 2007.

FINANCIAL INTEGRITY AND STATE MANAGER'S ACCOUNTABILITY ACT OF 1983

In 1983, the California legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act requires that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the agency fully complies with requirements, the head of each agency is required to prepare and submit a report on the adequacy of the systems of internal accounting and administrative control following the end of each odd-numbered fiscal year.

These audits will review compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which require annualized data, either the 2005/06 or 2006/07 (as appropriate) fiscal year will be the primary period reviewed. In certain instances, we are concerned with representations of the most current data. In those cases, the test period will normally be the two months prior to our arrival on campus. Specifically, we will review and test the following areas:

Cash Receipts	Payroll/Personnel
Receivables	Fixed Assets
Purchasing	Fiscal Information Technology
Revolving Fund	Investments
Cash Disbursements	Trust Funds

Twelve FISMA audits are planned for calendar year 2007. This represents 130 staff weeks of audit effort, which amounts to approximately 15 percent of the audit plan.

SUBJECT 1

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that seven campus audits will take place during calendar year 2007. This represents 79 staff weeks of audit effort, which is approximately 9 percent of the audit plan.

SUBJECT 2

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2007. This represents 97 staff weeks of audit effort, which is approximately 11 percent of the audit plan.

SUBJECT 3

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2007. This represents 97 staff weeks of audit effort, which is approximately 11 percent of the audit plan.

AUDITS OF AUXILIARY ORGANIZATIONS

In order to provide assurance to the Board that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor administers an audit program covering internal compliance/internal controls. It is estimated that 29 auxiliary reviews will take place during calendar year 2007. This represents 286 staff weeks of audit effort, which is approximately 34 percent of the audit plan. The total number of auxiliary organizations has risen from 77 to 89 over the years since we began our reviews in 1999. In order to provide the same coverage as in previous years, an additional position will be required for these reviews.

INFORMATION SYSTEMS

Technology support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary organization audits, in addition to subject area reviews. Forty-five staff weeks are planned during calendar year 2007. This represents approximately 5 percent of the audit plan.

FOLLOW-UPS

The purpose of this category is to follow-up on prior audit recommendations. The Office of the University Auditor reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances, it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Twenty-six staff weeks have been set aside for this purpose, representing approximately 3 percent of the audit plan.

CONSULTATION

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-eight 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. Forty-five staff weeks have been set aside for this purpose, representing approximately 5 percent of the audit plan.

CONSTRUCTION

In addition to the above, construction auditing will be a continuing focus of the Office of the University Auditor. For the 2006/07 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.

Audit
Agenda Item 2
January 23-24, 2007
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The following resolutions are recommended for approval:

RESOLVED, By the Committee on Audit of the Board of Trustees of The California State University, that the 2007 internal audit plan, including FISMA, Information Systems, Auxiliary Organizations, Construction, Consultations, Investigations, _____, _____ and _____ (to be determined by the committee) be approved.

RESOLVED, By the Committee on Audit of the Board of Trustees of The California State University, that one additional position be authorized for use in the audits of auxiliary organizations.

**OFFICE OF THE UNIVERSITY AUDITOR
 RESULTS OF 2005 RISK ASSESSMENT**

PROSPECTIVE AUDIT TOPICS (TOP 50% OF RISK)

	TOPIC	LAST TIME AUDITED BY THE OUA
1	Information Security	Never Audited
2	Disaster and Emergency Preparedness	2006
3	Athletics Administration	2006
4	Occupational Health and Safety	1997
5	Contracts and Grants	2001
6	Hazardous Materials Management	2000
7	Development/Fund-Raising	2002
8	Public Safety	2000
9	Student Records and Registration	1999
10	Student Health Centers	2000
11	Environmental Management	Never Audited
12	Disability Support and Accommodations	2002
13	Capital Outlay Planning/Programming	Never Audited
14	Risk Management and Insurance	2003
15	Continuing Education/Extended Learning	2005
16	Student Activities/Organizations	2004
17	Human Relations/Personnel Services	2004
18	Ancillary Activities	1987
19	Housing/Residential Services	2005
20	Child Care Centers	Aux Orgs
21	Trust Funds	FISMA*
22	Cashiering and Ticket Sales	FISMA*
23	Financial Management/Reporting	Never Audited
24	Procurement	FISMA*
25	Financial Aid	2002
26	Travel/Hospitality	Never Audited
27	Accounts Receivable	FISMA*
28	Payroll Services	FISMA*
29	Accounts Payable	FISMA*
30	Treasury Functions	FISMA*

*FISMA = Financial Integrity and State Manager's Accountability Act of 1983 which requires financial internal control reviews of all campuses once every two years. Items 21, 22, 24, 27, 28, 29, and 30 are covered within the FISMA audit cycle. Item 20 is covered during auxiliary organization reviews.

**OFFICE OF THE UNIVERSITY AUDITOR
SELECTION OF AUDIT TOPICS FOR 2007**

The purpose of this attachment is to present additional information to assist the Committee on Audit in deciding the audit assignments for the Office of the University Auditor for 2007. The list below reflects the topics developed by the 2005 risk assessment process exclusive of priorities that are addressed by recent assignments and/or mandatory audits, e.g., Financial Integrity and State Manager's Accountability Act (FISMA), Delegations of Authority (Purchasing/Contracting, Leasing, Motor Vehicles - Education Code Section 89045(d)), and Auxiliary Organization Reviews.

- | | |
|---|---|
| 1. Information Security | 13. Capital Outlay Planning/Programming |
| 3. Athletics Administration | 14. Risk Management and Insurance |
| 4. Occupational Health and Safety | 15. Continuing Educ/Extended Learning |
| 5. Contracts and Grants | 16. Student Activities/Organizations |
| 6. Hazardous Materials Management | 17. Human Relations/Personnel Services |
| 7. Development/Fund-Raising | 18. Ancillary Activities |
| 8. Public Safety | 19. Housing/Residential Services |
| 9. Student Records and Registration | 23. Financial Management/Reporting |
| 10. Student Health Centers | 25. Financial Aid |
| 11. Environmental Management | 26. Travel/Hospitality |
| 12. Disability Support and Accommodations | |

The following information is not necessarily complete. A complete survey of risks, controls, and associated audit procedures can only be compiled through the audit process. Accordingly, the descriptions should be read with the understanding that they are preliminary and presented for discussion purposes, and may change after audit survey/work commences.

1. Information Security

Information security includes the activities/measures undertaken 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.

Potential impacts include:

- inappropriate disclosures of protected information;
- identity theft;
- adverse publicity;
- excessive costs;
- inability to achieve institutional objectives and goals; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include a review of the systems and managerial/technical measures for on-going evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access, securing information; detecting security breaches; and security incident reporting and response.

3. Athletics Administration

Athletics administration includes the institutional policies, systems and procedures for managing athletic programs and addressing issues beyond compliance requirements of regulatory groups such as the National Collegiate Athletic Association (NCAA) and National Association of Intercollegiate Athletics (NAIA).

Potential impacts include:

- inability to achieve institutional objectives and goals;
- damage to the CSU reputation;
- fines and penalties; and
- theft or inefficient use of property/resources.

Proposed audit scope would include 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.

4. Occupational Health and Safety

Occupational health includes oversight of the campus injury and illness prevention program (IIPP), job and workplace conditions, employee health examinations and medical monitoring, health and safety training, work-related accidents, and programs for complying with federal and state occupational regulations.

Potential impacts include:

- injury of staff, faculty, and students;
- non-detection of work-related illnesses;
- regulatory fines and sanctions;
- litigation; and
- excessive workers' compensation costs.

Proposed audit scope would include review of the development, implementation and communication of the campus IIPP; compliance with federal and state health and safety regulations; evaluation and inspection of job and workplace conditions; procedures for required employee health examinations and medical monitoring; provision of health and safety training; investigation, recording, and reporting of work-related accidents; and programs to mitigate perilous working conditions or potential hazards in the workplace.

5. Contracts and Grants

Contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- commitments/proposals not in the best interest of the CSU;
- conflicts of interest by principal investigators;
- inadequate/excessive recovery of costs or contribution of matching requirements;
- misuse of funds;
- non-compliance with pertinent grantor/sponsor regulations;
- audit disallowances, regulatory fines and sanctions;
- misconduct in research such as fabrication, falsification, plagiarism or abuse of human subjects; and
- failure to provide deliverables.

Proposed audit scope would include review of solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation, and transfer processes; and award administration. The latter would include proposal development (faculty assistance, funding information, pre-award resource material), proposal preparation and review of compliance issues (human and laboratory animal use,

certifications, other regulatory requirements), award negotiation and acceptance (negotiation, award and project initiation), closeout and audit (final reporting, audit issues, project conclusion), and post-award administration (management systems, agency liaison, accounting, fiscal and reporting issues).

6. Hazardous Materials Management

Hazardous materials management includes the systems and procedures for controlling the purchase, generation, storage, treatment, use and disposal of hazardous materials (HAZMAT) and wastes and responding to hazardous spills, and compliance with regulatory permit and reporting requirements.

Potential impacts include:

- injury of staff, faculty, and students;
- environmental damage;
- adverse publicity;
- excessive costs and legal liabilities;
- facilities that present inordinate health risks;
- regulatory fines and sanctions; and
- inability to identify HAZMAT and respond to emergency situations.

Proposed audit scope would include review of compliance with federal and state regulations; development and implementation of HAZMAT communication and training programs and an emergency plan; HAZMAT identification and warnings and accessibility of material safety data sheets; HAZMAT purchasing, receiving, and storage; workplace safety inspections; and the hazardous waste identification and disposal program.

7. Development/Fund-Raising

Development includes institutional or university advancement and fund-raising.

Potential impacts include:

- inadequate non-state funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of non-monetary gifts;
- non-compliance with Internal Revenue Service regulations;
- use of funds that conflict with donor intentions/potential violations of trust arrangements; and
- inaccurate reporting of donations and development activity.

Proposed audit scope would include campus development offices, foundations and other organizational constituencies involved in development; cash contributions and donations of property and services; and controls over the analysis of development needs; identification of prospective donors; solicitation and acknowledgment of donations; valuation of non-monetary donations; recording gifts and posting to accounting records; expending donated funds; and preparation of reports on development activity.

8. Public Safety

Public safety includes police activities and law enforcement, parking program administration and enforcement, and crime reporting.

Potential impacts include:

- lack of, out-of-date, or undistributed policies and procedures;
- undeveloped or unused measures for self-evaluation and improvement;
- poor or undefined relationships with external agencies;
- inefficient use of physical assets or human resources;
- non-compliance with state-mandated standards and training requirements;
- unauthorized use of law enforcement data;
- inadequate crime reporting;
- lack of control or poor maintenance over sensitive or special equipment;
- excessive costs;
- lost parking fine revenue;
- inadequate control or supervision over activities having safety or liability considerations; and
- poor adjudication of internal investigations or personnel complaints.

Proposed audit scope would include review of compliance with federal and state laws, Trustee and campus policy, and Chancellor's Office directives; staffing and scheduling; participation in disaster planning and the CSU Critical Response Unit; certifications and training; budgeting controls and chargebacks; dispatch operations, field reporting, and case monitoring; internal investigations; evidence and equipment controls; accumulation and reporting of crime statistics; integrity and security of public safety records, files, and information; and parking citations revenue, and funds.

9. Student Records and Registration

Student records and registration includes database integrity, security and confidentiality, and the enrollment process.

Potential impacts include:

- adverse publicity;
- excessive costs;
- erroneous records;
- release of inappropriate information; and
- low customer service.

Proposed audit scope would include review of database recordkeeping and registration systems procedures for creating and changing records, and security measures protecting against unauthorized or inadvertent modification, removal, or destruction of records.

10. Student Health Centers

Student health centers includes the provision of basic and augmented health services through campus student health facilities, and pharmacy operations.

Potential impacts include:

- substandard medical care;
- inconsistent accessibility;
- erroneous dispensing or theft of pharmaceuticals;
- inadequate health education and staff training;
- excessive costs and fees;
- legal liabilities;
- operational ineffectiveness and inefficiency; and
- unauthorized disclosure of personal information.

Proposed audit scope would include review of compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; establishment of a student health advisory committee; accreditation status; staffing, credentialing and re-credentialing procedures; monitoring of the quality and effectiveness of patient care; safety and sanitation procedures, including staff training; budgeting procedures; fee authorization, cash receipt/disbursement controls and trust fund management; pharmacy operations, security and inventory controls; and the integrity and security of medical records.

11. Environmental Management

Environmental management includes activities of the CSU in complying with federal and state regulations for environmental protection and enhancement such as the California Environmental Quality Act (CEQA).

Potential impacts include:

- degradation of the environment;
- excessive costs and project delays;
- increased exposure to enforcement actions by regulatory agencies; and
- inability to meet program needs.

Proposed audit scope would include review of systems and procedures for preparation and approval of environmental reports/compliance documents; economical and efficient use of resources; and effectiveness of planned environmental mitigation measures.

12. Disability Support and Accommodations

Disabled student services includes the provision of physical access and systemwide program accessibility, including academic programs and services, student services, auxiliary programs and services, and information resources and technologies, to all students, faculty, and visitors.

Potential impacts include:

- adverse publicity;
- inadequate accommodations and services for disabled;
- inconsistent accessibility;
- excessive costs;
- inappropriate use of funds;
- legal liabilities;
- regulatory fines and sanctions; and
- unauthorized disclosure of personal information.

Proposed audit scope would include review of compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; establishment of systemwide and campus disability advisory committees; verification of disabilities, including declining services; provision of reasonable access and accommodations; monitoring the quality and effectiveness of accommodations and services; student complaints and grievances; management of program funds and chargebacks; use of and inventory controls over adaptive aids and equipment; and the integrity and security of disabled student records.

13. Capital Outlay Planning/Programming

Capital outlay planning and programming includes development and maintenance of physical master plans, identification and prioritization of facility needs, scoping and staging capital outlay projects, formulating the capital improvement program, and supporting capital outlay projects throughout approval and funding authorization.

Potential impacts include:

- inadequate facilities;
- excessive costs and project delays;
- increased exposure to enforcement actions by regulatory agencies; and
- inability to meet program needs and achieve institutional objectives and goals.

Proposed audit scope would include review of compliance with federal and state laws and regulations and Trustee policies and procedures, economical and efficient use of resources; and the accomplishment of objectives and goals.

14. Risk Management and Insurance

Risk management and insurance includes risk evaluation and asset protection, mitigation of liabilities and claims, and administration of related programs such as workers' compensation.

Potential impacts include:

- unnecessary risk exposures;
- excessive claims and costs; and
- fraudulent losses.

Proposed audit scope would include review of risk and liability assessments; self insurance; selection of insurance coverage and carriers; risk mitigation and loss prevention programs; claims review and processing; and operations of the California State University Risk Management Authority.

15. Continuing Education/Extended Learning

Continuing education/extended learning includes special sessions, extension programs, and other self-supporting instructional programs and operation of the Continuing Education Revenue Fund (CERF) and related trust accounts.

Potential impacts include:

- loss of budgetary control;
- inappropriate subsidies;
- inaccurate reporting; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review of the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses;

faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of continuing education activity and maintenance of CERF contingency reserves.

16. Student Activities/Organizations

Student activities/organizations include the CSU activities relating to social and co-curricular programs, recreational sports, clubs, and organizations, and student judicial review.

Potential impacts include:

- inappropriate activities;
- personal injury;
- litigation.

Proposed audit scope would include review of systems and procedures for controlling and monitoring student activities and organizations.

17. Human Relations/Personnel Services

Human relations/personnel services include the CSU activities in recruiting, hiring, and retaining employees.

Potential impacts include:

- unnecessary costs;
- unequal employment opportunities;
- inappropriate disclosure of confidential employee data;
- inadequate benefit programs;
- excessive employee turnover; and
- inability to hire and retain best employees.

Proposed audit scope would include review of compliance with employment laws and regulations; position classification/compensation; advertising for prospective employees; employee training; and programs for employee benefit administration.

18. Ancillary Activities

As part of academic support, ancillary activities includes the CSU functions in establishing and operating various facilities and specialized programs such as off-campus centers, institutes, marine science laboratories, college farms, museums, galleries, and observatories.

Potential impacts include:

- commitments not in the best interest of the CSU;
- excessive costs/misuse of funds; and
- inability to meet program needs and achieve institutional objectives and goals.

Proposed audit scope would include review of compliance with federal and state laws and regulations and Trustee policies and procedures, economical and efficient use of resources; and the accomplishment of objectives and goals.

19. Housing/Residential Services

Housing/residential services includes the support activities afforded students in locating suitable housing, operation of the on-campus residence halls, and programming of activities for residential students.

Potential impacts include:

- non-compliance with bond requirements;
- unaffordable, unattractive and unsafe residence halls;
- low occupancy and loss of revenue; and
- excessive costs and property damage.

Proposed audit scope would include review of Dormitory Revenue Fund operations, residence hall costs, processes for establishing housing fees, maintenance of residence halls, and activity programs.

23. Financial Management/Reporting

Financial reporting includes all forms of financial reports and the systems and procedures in use to provide constituent groups with accurate, timely, and useful financial information.

Potential impacts include:

- excessive costs incurred in reporting of financial information;
- inaccurate and/or untimely financial reports;
- unauthorized access to financial data;
- reporting of financial data that does not meet user needs; and
- publication of misleading financial statements.

Proposed audit scope would include review of existing financial reporting procedures and processes for compliance with state law, Trustee policy and Chancellor's Office directives; establishment and maintenance of a financial reporting system commensurate with user needs; efficiency and effectiveness of operations; and attainment of objectives and goals.

25. Financial Aid

Granting financial aid includes identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Potential impacts include:

- inappropriate financial aid packaging due to student aid from various sources not controlled and coordinated;
- financial aid not provided to the neediest students;
- over-awarding beyond need and funding availability;
- awarding aid to ineligible students;
- financially needy students not being apprised of available financial aid resources;
- excessive costs;
- students not receiving timely award/denial notices, or awards to ineligible students;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit scope would include review of funding arrangements; compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; reliability,

confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

26. Travel/Hospitality

Travel/hospitality includes all travel activities; the provision of meals/refreshments at meetings, conferences, and events; expenses for official guests of the university; and activities that promote the university to the public or benefit employee morale, including the provision of gifts, awards, and promotional materials.

Potential impacts include:

- excessive costs;
- inappropriate activities;
- unsubstantiated expenses;
- misuse of funding sources;
- adverse publicity;
- non-compliance with Internal Revenue Service regulations; and
- use of funds inconsistent with the CSU mission.

Proposed audit scope would include review of compliance with federal and state laws, Trustee and campus policy, and Chancellor's Office directives; authorization for and acquisition of travel/hospitality services and materials; payment and reimbursement of travel/hospitality expenses; and economical and efficient use of resources.

**OFFICE OF THE UNIVERSITY AUDITOR
FUNCTIONS AUDITED DURING PAST TEN YEARS**

YearFunction

- 2006 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Athletics Administration
Delegations of Authority
Disaster and Emergency Preparedness
Construction
- 2005 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Continuing Education
Housing/Residential Services
Construction
- 2004 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Admissions
Human Relations
Student Activities
Construction
- 2003 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Employee Relations
Risk Management and Insurance
Disaster/Contingency Planning
Construction
- 2002 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Development
Financial Aid
Disability Support and Accommodations
Construction

2001 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Delegations of Authority (Procurement, Motor Vehicles, Agreements, and Leases)
Development
Contracts and Grants
Construction

2000 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Hazardous Materials Management
Public Safety
Student Health Centers
Construction

1999 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Continuing Education/Extended Education
Operation and Maintenance of Plant
Student Records and Registration
Construction

1998 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Risk Management and Insurance
Continuing Education/Extended Education
Construction

1997 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Occupational Health
Seismic Safety and Disaster Readiness
Construction

COMMITTEE ON AUDIT

Report on Construction Auditing in the California State University 2005-2006

Presentation By

Larry Mandel
University Auditor

Mark Thomas
Systemwide Coordinating Partner, KPMG

Summary

For the 2005/06 fiscal year, construction auditing was performed for the CSU under a contract with KPMG. The contract called for six construction projects to be reviewed with coordination from the Office of the University Auditor. Areas under review included construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. Representatives from KPMG, the external audit firm hired by the California State University to conduct the audit, will make a presentation and respond to questions. A copy of the report is enclosed for your review.

COMMITTEE ON AUDIT

Quality Assurance Review of the Office of the University Auditor

Presentation By

Larry Mandel
University Auditor

Summary

Government Code Section 1236 requires that all state agencies which conduct internal audits do so in conformity with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors. Government Code Section 8546.5 indicates that the Department of Finance is the agency which shall ensure that such standards are utilized.

The Department of Finance has agreed that a Quality Assurance Review, conducted by a team of chief audit executives from peer institutions using guidelines provided by the Institute, would fulfill Government Code requirements.

Quality Assurance Review of the Office of the University Auditor

As required by Government Code Section 8546.5, the Department of Finance (Department), Office of State Audits and Evaluations, periodically conducts reviews of state agency internal audit departments. In addition, the Association of College and University Auditors (ACUA) recommends that Quality Assurance Reviews be conducted of internal auditing departments at least once every five years.

The use of a review team composed of chief audit executives follows a process which has been used by many universities throughout the United States with positive outcomes. The Department agreed that the results of a review by peers from within the higher education community could be more beneficial than one conducted by those from another state agency.

The purpose of the review was to issue an opinion on the OUA's compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* cover the areas of purpose, authority and responsibility; independence and objectivity; proficiency and due professional care; quality assurance and improvement program; managing the internal audit activity; nature of work; engagement

planning; performing the engagement; communicating results; monitoring progress; and management's acceptance of risk.

The review was conducted in accordance with the guidelines provided by the Institute of Internal Auditors' *Quality Assurance Manual*. Mr. Ronald Stark, Associate Vice Chancellor for Internal Audit for the University System of Georgia was the Review Team Leader, and was joined by Mr. Don Guyton, Director of Internal Audit for the University of Houston System and Mr. Michael Dickinson, University Auditor, Cornell University.

The review team's conclusion was as follows:

Our overall evaluation of the Office of the University Auditor of the California State University System is that it complied with the *Standards* for the period under review. This overall evaluation was derived from separate evaluations for each of the eleven general and thirty-five specific standards and code of ethics that comprise the IIA *Standards*, and was limited to the scope of our review. Although this report contains recommendations that will strengthen the department, the OUA is in overall conformity with each major subsection of professional standards, as well as overall.

COMMITTEE ON AUDIT

Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be discussed. Representatives from KPMG, LLP, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions. A copy of the report is enclosed for your review.

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

The single audit report of federal funds and the related management letter for all campuses and the Chancellor's Office will be reviewed and discussed at the meeting. Representatives from KPMG, LLP, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions. A copy of the report is enclosed for your review.