

AGENDA

COMMITTEE ON AUDIT

Meeting: 11:30 a.m., Tuesday, July 15, 2008
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of May 13, 2008

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 Systemwide Audit in Accordance with Generally Accepted Accounting Principles and the Single Audit Reports for the Year Ended June 30, 2007, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

May 13, 2008

Members Present

Raymond W. Holdsworth, Chair
Kenneth Fong, Vice Chair
Roberta Achtenberg, Chair of the Board
Herbert L. Carter
George G. Gowgani
Melinda Guzman
William Hauck
Glen O. Toney

Chair Holdsworth called the meeting to order.

Approval of Minutes

The minutes of the meeting of March 11, 2008, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the May 13-14, 2008, Board of Trustees agenda.

Mr. Mandel indicated that the campuses continue to make excellent progress in the timely completion of the recommendations as evidenced on the status report. He reported that two reviews (Athletics Administration, California State University, Long Beach and Auxiliary Organizations, California State Polytechnic University, Pomona) had outstanding recommendations at nine months. He added that the office of the university auditor was working with the campuses on the completion of those recommendations, noting that the recommendation pertaining to the Long Beach campus required a signed contract with the City of Long Beach and anticipated completion this month; the recommendation regarding the Pomona campus pertained to auxiliary reimbursement to the campus and anticipated completion by the end of July 2008.

Mr. Mandel reported that two recommendations contained within construction reviews were outstanding for ten months.

Audit

Ms. Elvyra San Juan, assistant vice chancellor, capital planning, design and construction, responded by indicating that she has been working with chancellor's office accounting and budget management on how best to address the issue regarding consistency in capital project accounting among the campuses, noting that in addition to PeopleSoft, some campuses currently utilize shadow systems for the tracking of project costs. Ms. San Juan added that, although it was initially projected that this item would require a year for completion, she anticipated that another four months would now be required.

Chair Holdsworth requested that Ms. San Juan provide an update on the progress and time schedule for the completion of these outstanding recommendations at the next Board meeting.

Progress Report on the Corrective Action Plans for the Audit Findings in the Systemwide Audit in Accordance with Generally Accepted Accounting Principles and the Single Audit Reports for the Year Ended June 30, 2007

Ms. Colleen Nickles, assistant vice chancellor, financial services, provided a status report regarding the five findings pertaining to the annual financial statement audit, the information technology audit, and the A133 audit, which were conducted by KPMG. One of the findings addressed significant deficiencies in internal control over financial reporting at CSU Fresno, CSU Fullerton, and CSU Stanislaus. She added that no material weaknesses were cited but explained that according to more stringent auditing standards, KPMG was required to report this finding in the significant deficiencies category. Another finding noted that improvement was needed over specific controls related to user access at several of the campuses. Two other findings pertained to federal student financial aid eligibility and verification issues at CSU Long Beach. The last finding reported on the charging of unallowable costs to federal awards by Sonoma State University for their Head Start Program. Ms. Nickles reported that good progress was being made on the corrective actions required for each of the five findings and anticipated completion by the end of June 2008. She added that another progress report would be provided at the July 2008 Board meeting.

Chancellor Reed reminded the Trustees that the finding at Sonoma State University involved an ongoing investigation; however, the ongoing investigation will not have a direct impact on the completion of the financial audit finding and the Sonoma campus has reported that it expects to complete the corrective actions by the end of June 2008.

Chair Holdsworth adjourned the meeting.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

Larry Mandel
University Auditor

Summary

This item includes both a status report on the 2008 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Auxiliary Organizations, Information Security, Police Services, Student Records and Registration, and Construction. In addition, follow-up on past assignments (Special Investigations, FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, and Athletics Administration) is currently being conducted on approximately 20 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 2008 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (financial internal controls), Auxiliary Organizations, Information Security, Police Services (formerly known as Public Safety), Student Records and Registration, and Construction.

FISMA

The initial audit plan indicated that approximately 130 staff weeks of activity (15 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed for six campuses.

Auxiliary Organizations

The initial audit plan indicated that approximately 298 staff weeks of activity (35 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/28 auxiliaries. One campus/six auxiliary reports are awaiting a campus response prior to finalization, and report writing is being completed for 3 campuses/11 auxiliaries.

Information Security

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to a review of the systems in place to protect the confidentiality, integrity, and access/availability of information including systems to limit collection of information, control access to data and assure that individuals with access to data do not utilize the data for unauthorized purposes, encrypt data in storage and transmission, and implement physical and logical security measures for all sources. Report writing is being completed for four campuses, while fieldwork is currently taking place at two campuses.

Police Services

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the plan) would be devoted to a 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 fund. Report writing is being completed for four campuses.

Student Records and Registration

The initial audit plan indicated that approximately 97 staff weeks of activity (11 percent of the audit plan) would be devoted to a 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. Report writing is being completed for three campuses.

Information Systems

The initial audit plan indicated that approximately 45 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 23 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 20 prior audits (FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, and Athletics Administration) 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. Eight staff weeks have been set aside for this purpose, representing approximately 1 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

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 2007/08 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. Three audits have been completed, while three audits await responses from the campuses/chancellor's office prior to finalization.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 6/27/2008)

	2008 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS												
	FISMA	Aux Orgs	Info Security	Police Services	Student Records	Special Investigations		FISMA		Auxiliary Organizations			Contracts and Grants		Occ Health and Safety		Athletics Administration	
						*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		RW						12/12	-	3							13/13	-
CHI	RW		FW							3	6/6	-	3/3	-				
CI		RW						0/9	2	2								
DH				RW				9/9	-	3	14/14	-	6/10	6				
EB	RW					0/6	3			4	40/40	-	0/10	5	9/9	-		
FRE		AI						0/14	3	6			9/9	-			15/15	-
FUL			RW					9/9	-	4	31/31	-	3/3	-	8/8	-	9/9	-
HUM								14/14	-	4	0/15	3					9/9	-
LB								13/13	-	3	19/19	-	2/2	-			14/14	-
LA	RW				RW					4	11/11	-			0/3	5		
MA								16/16	-	2	14/14	-						
MB					RW			0/11	2	2	17/17	-			5/9	7		
NOR	RW									5	30/30	-			4/4	-	12/12	-
POM			RW					10/10	-	3	24/24	-						
SAC		RW						10/10	-	5	36/36	-	5/5	-			13/13	-
SB				RW				3/3	-	3	17/17	-						
SD			FW		RW			7/7	-	4	11/11	-			0/7	6	14/14	-
SF				RW				11/11	-	4	32/32	-			6/6	-		
SJ				RW				24/24	-	5	32/32	-			0/8	6	20/20	-
SLO	RW									2	13/13	-					1/12	3
SM	RW									3	22/22	-						
SON			RW			7/7	-	0/6	2	4	18/18	-	3/3	-				
STA			RW					11/11	-	4	0/17	3						
CO								4/4	-	2	4/4	-						
SYS													0/11	3				
FW = Field Work In Progress RW = Report Writing in Progress AI = Audit Incomplete (awaiting formal exit conference and/or campus response) AC = Audit Complete						* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A "0" in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time. **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.												

COMMITTEE ON AUDIT

Progress Report on the Corrective Action Plans for the Audit Findings in the Systemwide Audit in Accordance with Generally Accepted Accounting Principles and the Single Audit Reports for the Year Ended June 30, 2007

Presentation by

Colleen Nickles
Assistant Vice Chancellor
Financial Services

Summary

The Chancellor's Office has been working with campuses to develop guidelines to remedy weaknesses identified from the audits. Campuses are in the process of implementing corrective steps based on the guidelines.

A more detailed status report on resolving the weaknesses identified by the external auditors will be presented at the meeting. The Internal Auditor will validate that the corrective work adequately addresses the weaknesses.