

AGENDA

COMMITTEE ON AUDIT

Meeting: 4:00 p.m., Tuesday, January 27, 2009
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 November 18, 2008

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2009, *Action*
3. 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*
4. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
5. 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 18, 2008

Members Present

Jeffrey L. Bleich, Chair of the Board
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter
Kenneth Fong
Margaret Fortune
George G. Gowgani
William Hauck

Vice Chair Holdsworth called the meeting to order.

Approval of Minutes

The minutes of the meeting of September 17, 2008, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Dr. Charles B. Reed, chancellor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the November 18-19, 2008, Board of Trustees agenda on behalf of Mr. Larry Mandel, university auditor.

Chancellor Reed stated that at the January 2008 meeting of the Board of Trustees, the Committee on Audit approved three subject area assignments to be included in the 2008 audit plan. He further stated that financial internal control (FISMA) reviews, auxiliary organization reviews, and oversight of the construction audits were also planned for calendar year 2008 and noted that all assignments are on schedule. He reported that the campuses continue to make good progress in the timely completion of outstanding recommendations as evidenced by the status report. However, he added that two areas (Auxiliary Organizations at California State University, Stanislaus and Contracts and Grants at California State University, East Bay) had outstanding recommendations at seven and nine months, respectively.

Vice Chair Holdsworth stated that as per discussion with Dr. Mohammad Qayoumi, president, California State University, East Bay, the one outstanding recommendation pertaining to Contracts and Grants would be completed and submitted to the Office of the University Auditor

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in the near future. He requested that Ms. Colleen Nickles, assistant vice chancellor, financial services, provide an overview of the outstanding recommendations for the three Systemwide audits of Contracts and Grants, Occupational Health and Safety, and Athletics Administration.

Ms. Nickles stated that all three Systemwide audits were fairly significant in scope. She explained that the Occupational Health and Safety recommendations had been recently completed with an executive order signed by Chancellor Reed and noted that it would be forwarded to the Office of the University Auditor for review and approval. She further explained that both the Contracts and Grants and Athletics Administration audits require the development of significant systemwide policies that are currently being drafted by appropriate systemwide committees. She noted that additional time would be needed to complete the corrective actions for these two audits but would expect continued progress in this effort.

Ms. Nickles agreed with Vice Chair Holdsworth's assumption that the corrective actions for the three Systemwide audits would not be completed by the ten-month deadline due to the complexity of the issues.

Vice Chair Holdsworth then requested that Ms. Nickles provide the Trustees with a timetable for the completion of outstanding recommendations for the Systemwide audits within the next week.

Trustee Hauck asked Dr. Hamid Shirvani, president, California State University, Stanislaus as to the reasons for the three outstanding recommendations pertaining to the Auxiliary Organizations audit.

Dr. Shirvani responded that the campus had significant changes in the past two years, mainly with staff turnover but anticipated completion by the next Board of Trustees meeting in January.

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 2006/07 annual financial statement audit, the information technology audit, and the A133 audit of federally sponsored programs, which were conducted by KPMG. As she reported in September 2008, the corrective actions required for all of the findings had been completed with the exception of the item regarding information technology (IT) user access. Ms. Nickles reiterated to the Trustees that she and the acting assistant vice chancellor for information technology sent a memorandum to the campus vice presidents of administration on July 2, 2008, reminding them of the requirements to annually review user access to ensure no one person has overly broad access to systems and that continuing access is necessary. She reported that a single item requiring correction at one campus remains from the 2006/07 audit exceptions, but anticipated completion by the end of December 2008. Ms. Nickles stated that as a result of the IT review conducted by KPMG as part

of the financial statement audit for fiscal year 2007/08, revised instructions were forwarded to the campuses requesting a more structured review regarding both user and database access to the finance and human resources systems. She added that since July 2008, chancellor's office management has been actively working with KPMG and the campuses to ensure that there is appropriate segregation of duties of high-level systems and database accounts, preventing one person from being able to both enter and approve the same transaction. She indicated that in instances where there is no clear segregation of duties due to lack of staff, regular reviews of system activities may alternatively be required; and it is that review of these system activities that is currently being evaluated. She reported that of the 23 campuses and the chancellor's office, only three campuses have not completed all of the items associated with the 2007/08 review, but anticipated completion by the end of 2008.

Ms. Nickles then introduced Ms. Julie Flaiz-Windham, senior manager, KPMG, who provided more detail regarding the process that KPMG had conducted with the campuses, the significance of the process, and the complexity and implications of the actions required of the campuses.

Ms. Flaiz-Windham stated that during the audit for the year ending June 30, 2007, KPMG identified instances where certain employees at campuses had access rights that represented segregation of duties weaknesses; the most significant related to powerful system-level accounts as noted by Ms. Nickles. She explained that audit test work is founded on sampling and rotation; and while it is the same objective each year related to evaluating controls, the review includes different data, controls, and campuses from year to year. Ms. Flaiz-Windham indicated that additional instances as well as similar issues from last year were noted during this year's review and reported to management during the course of test work. She noted that each campus has its own finance and human resources systems (separate versions of PeopleSoft); and decisions related to security and systems support are made at the campus level, resulting in variations of in-house security. She stated that after discussions with chancellor's office management in September 2008, KPMG was asked to expand their work to include a more complete review of the finance and human resources systems for each campus, specifically regarding segregation of duties issues across a number of categories. Ms. Flaiz-Windham noted that the issue of segregation of duties over powerful system-level accounts is complex and is caused by an inherent conflict between strong security and the need to support operations in a 24/7 environment where support staff frequently must have multiple duties. She further noted that the systems themselves are delivered with accounts used by programs that, when available to people, contribute to these issues; and implementing the right approach for an organization requires adjustments to system accounts, organizational duties, and development of oversight tools. These are complex actions that take some time to get right as they must be balanced with keeping the systems running. Ms. Flaiz-Windham reported that over the course of mid-September to mid-November, the California State University (CSU) has made significant progress in resolving the issues identified in this more expansive analysis. She added that based on data received from the campuses, substantially all campuses have either resolved the issues through corrections or new monitoring processes, or have active tickets open to resolve the remaining issues, and anticipates that campuses will continue to clear the remaining tickets

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quickly. She indicated that the chancellor's office is also publishing new policies and implementing a quarterly monitoring system to review campus activities and new accounts. She stated her belief that the CSU has gone beyond responding to the audit findings by looking for similar areas that could represent security issues and resolving them as part of a single CSU-wide process. She added that completing the remaining outstanding tickets, implementing the new policies, and executing the monitoring process will resolve the issues identified during this year's audit and the additional items identified during the expanded review.

Vice Chair Holdsworth inquired as to whether clearing the items associated with the 2007/08 audit for the remaining three campuses by the end of December 2008 would, according to KPMG, close all outstanding finance and human resources issues.

Mr. Kurt Ramey, partner, KPMG, responded that he is assured that the segregation of duties issues that had been identified would be resolved very quickly according to the specified deadline.

Vice Chair Holdsworth asked if similar issues had been identified from campus to campus.

Mr. Ramey responded that there were many similar situations due to his belief that logical people presented with similar problems come to similar solutions. He added that management has organized an approach that shares information from campus to campus and is developing a process to monitor these issues going forward.

Vice Chair Holdsworth asked if any outstanding vulnerabilities pertaining to IT access were identified during the review.

Mr. Ramey wanted to be clear that KPMG did not look at areas such as intrusion detection and some of the other elements of security. However, he reiterated that the issue of segregation of duties related to security was reviewed, and it is his belief that security would be well controlled in the use of these very powerful system-level accounts.

Vice Chair Holdsworth inquired as to whether the campuses have the necessary training in place for staff and others who are working on IT access so that there is an understanding of the procedures required for implementation.

Mr. Ramey stated his belief that campus and chancellor's office staff are working well together on the importance of IT security. He also stated his belief that determining what is an appropriate level of training is a judgment call but stated that security is becoming more complex and significant every day and recommended ongoing training to address new problems and issues that may arise in the future.

Mr. Richard P. West, executive vice chancellor/chief financial officer, reminded the Trustees that Information Security was selected as part of the 2008 internal audit plan; and as a result,

significant effort and attention has been expended to ensure information policies are in place. He reported that the policies are in draft form, subject to review by both faculty and staff through the academic senate process and through collective bargaining processes requiring additional consultation. He indicated that the Office of the University Auditor had also contracted with KPMG to perform technical security assessments at ten campuses this year to include a broader review of IT security. He noted that KPMG auditors have made recommendations to campus management on issues such as breaches of security access, controls on the campus, etc. He stated that as per further discussions with Mr. Mandel and Dr. Ben Quillian, vice chancellor, administration and finance, it was determined that KPMG would conduct technical security assessments at five additional campuses as part of the 2009 audit plan, which will be presented to the Trustees in January 2009. Mr. West reassured the Trustees that the security issues have been seriously addressed and are in the process of being completed.

Chancellor Reed commented that the segregation of duties issue has been a major concern and understands its importance. He stated that some of the campuses are underfunded and understaffed administratively, especially the small to mid-sized campuses, resulting from the CSU budget cuts back in 2002/03. He added that staffing issues are being discussed in an effort to properly segregate duties, especially relating to IT security.

Vice Chair Holdsworth acknowledged Chancellor Reed's concerns and reiterated the importance of proper staff training.

Vice 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 (FISMA, Auxiliary Organizations, Contracts and Grants, Occupational Health and Safety, and Athletics Administration) 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 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. Six audits have been completed, one audit awaits a formal exit conference or campus response prior to finalization, report writing is being completed for four campuses, and fieldwork is currently taking place at one campus.

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. Five campus/twenty-one auxiliary reports have been completed, one campus/two

auxiliary reports awaits a formal exit conference or campus response prior to finalization, and report writing is being completed for two campuses/four 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. Five audits have been completed, three audits await a formal exit conference or campus response prior to finalization, and report writing is being completed for 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. Five audits have been completed, two audits await a formal exit conference or campus response prior to finalization, and report writing is being completed for one campus.

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. Three audits have been completed, four audits await a formal exit conference or campus response prior to finalization, and report writing is being completed for one campus.

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 25 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. All six audits have been completed. In fiscal year 2008/09, Office of the University Auditor staff began performing construction audits. Report writing is being completed for one construction project.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 1/9/2009)

	2008 ASSIGNMENTS					FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS										
	FISMA	Aux Orgs	Info Security	Police Services	Student Records	FISMA		Auxiliary Organizations			Contracts and Grants		Occ Health and Safety		Athletics Administration	
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		AC		AI		12/12	-	3	0/19	5					13/13	-
CHI	AC		AC			7/8	5	3	6/6	-	3/3	-				
CI		AC		AC		5/9	8	2	10/10	-						
DH			RW	AC		9/9	-	3	14/14	-	10/10	-				
EB	AC	AC				9/25	5	4	0/30	2	10/10	-	9/9	-		
FRE		AC			AI	14/14	-	6	11/25	5	9/9	-			15/15	-
FUL	RW		AC					4	31/31	-	3/3	-	8/8	-	9/9	-
HUM	RW							4	15/15	-					9/9	-
LB				RW	AC	12/13	8	3	19/19	-	2/2	-			14/14	-
LA	AC				AC	3/3	-	4	11/11	-			3/3	-		
MA	FW	RW						2								
MB		RW			AI	11/11	-	2					9/9	-		
NOR	AC		AI			16/16	-	5	30/30	-			4/4	-	12/12	-
POM	AI		AC					3	24/24	-						
SAC	RW	AC						6	0/28	3	5/5	-			13/13	-
SB				AC	AI	3/3	-	3	17/17	-						
SD			AI		AC	7/7	-	4	11/11	-			7/7	-	14/14	-
SF			RW	AC		11/11	-	4	32/32	-			6/6	-		
SJ	RW		AI	AC				5	32/32	-			8/8	-	20/20	-
SLO	AC	AI				0/12	3	2							12/12	-
SM	AC				RW	3/3	-	3	22/22	-						
SON			AC		AI	6/6	-	4	18/18	-	3/3	-				
STA			AC	AI		11/11	-	4	17/17	-						
CO						2/2	-	2	4/4	-						
SYS											5/11	9	5/5	-	0/11	9

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

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2009

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 2009.

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 the adequacy of internal accounting and administrative controls and 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 2007/08 or 2008/09 (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
Operating Fund	Trust Funds
Cash Disbursements	Cash Management Operations

The depth of our review in each area will depend upon an initial risk assessment for each campus. Twelve FISMA audits are planned for calendar year 2009. This represents 103 staff weeks of audit effort, which is approximately 10 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 longer than average length, it is estimated that ten campus audits will take place during calendar year 2009. This represents 124 staff weeks of audit effort, which is approximately 12 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 2009. This represents 103 staff weeks of audit effort, which is approximately 10 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 2009. This represents 103 staff weeks of audit effort, which is approximately 10 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 30 auxiliary reviews will take place during calendar year 2009. This represents 318 staff weeks of audit effort, which is approximately 31 percent of the audit plan.

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 2009, which is approximately 4 percent of the audit plan.

CONSTRUCTION

Construction auditing was previously performed by KPMG with coordination from the Office of the University Auditor. In fiscal year 2008/09, Office of the University Auditor staff began performing construction audits. Areas under review include design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and

construction components; the close-out process and liquidated damages; and overall project accounting and reporting. It is estimated that 12 construction projects will be reviewed during calendar year 2009. This represents 88 staff weeks of audit effort, which is approximately 9 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. Twenty-five staff weeks have been set aside for this purpose, representing approximately 3 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 4 percent of the audit plan.

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Agenda Item 2
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The following resolution is recommended for approval:

RESOLVED, By the Committee on Audit of the Board of Trustees of The California State University, that the 2009 internal audit plan, including FISMA, Auxiliary Organizations, Information Systems, Construction, Consultation, Investigations, _____, _____ and _____ (to be determined by the committee) be approved.

**OFFICE OF THE UNIVERSITY AUDITOR
RESULTS OF 2008 MANAGEMENT SURVEY**

HIGHEST RISK AREAS

Subject Area	Last Time Audited by the Office of the University Auditor
Information Security	2008
Contracts and Grants	2007
Off-Campus Activities	2003&2004*
Athletics Administration	2006&2007
Emergency Preparedness	2006
Police Services	2008

*These audits included club sports, field trips, and service learning but excluded international programs.

**OFFICE OF THE UNIVERSITY AUDITOR
SELECTION OF AUDIT TOPICS FOR 2008**

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 2009. The list below reflects the highest risk areas as determined by a 2008 management survey 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.

Information Security

Contracts and Grants

Off-Campus Activities

Athletics Administration

Emergency Preparedness

Police Services

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.

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 ongoing evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access; securing information; detecting security breaches; and security incident reporting and response.

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).

Off-Campus Activities

Off-campus activities includes service learning, study abroad programs, internships, field trips, and club sports.

Potential impacts include:

- injury of students, faculty, and staff;
- inability to achieve institutional objectives and goals;
- adverse publicity; and
- excessive costs and legal liabilities.

Proposed audit scope would include review of systems and procedures for controlling and monitoring off-campus activities.

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.

Emergency Preparedness

Emergency preparedness includes program and facility readiness and resource planning for actions related to natural and man-made disasters and the recovery therefrom.

Potential impacts include:

- injury of students, staff, faculty, and visitors;
- disruption of programs and services;
- non-compliance with the National Incident Management System
- financial exposures;
- damage claims from injured parties; and
- property damage.

Proposed audit scope would include review of compliance with the National Incident Management System, 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 training and testing; and relationships with state and federal emergency management agencies.

Police Services

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.

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

YearFunction

- 2008 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Information Security
Police Services
Student Records and Registration
Construction
- 2007 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
Auxiliary Organizations
Athletics Administration
Contracts and Grants
Occupational Health and Safety
Construction
- 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

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.

COMMITTEE ON AUDIT

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

Presentation By

Benjamin F. Quillian
Vice Chancellor
Administration and Finance

Colleen Nickles
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.

COMMITTEE ON AUDIT

Single Audit Report of Federal Funds

Presentation By

Benjamin F. Quillian
Vice Chancellor
Administration and Finance

Colleen Nickles
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.