

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 2:15 p.m., Tuesday, March 24, 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  
Henry Mendoza

#### **Consent Items**

Approval of Minutes of Meeting of January 27, 2009

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Progress Report on the Corrective Action Plans for the Audit Findings in the Single Audit Report of Federal Funds for year-ended June 30, 2008, *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**

**January 27, 2009**

**Members Present**

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

Chair Guzman called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of November 18, 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 January 27-28, 2009, Board of Trustees agenda.

Mr. Mandel stated that most of the audit plan for calendar year 2008 had been completed, and anticipated the remaining assignments being concluded by the March Board meeting. He indicated that the campuses continue to make excellent progress in the timely completion of the recommendations. Mr. Mandel reported that two systemwide areas (Contracts and Grants and Athletics Administration) had outstanding recommendations at nine months, but anticipated the closing of several of those recommendations by the next Board meeting. He further reported that all recommendations pertaining to the six construction audits performed by KPMG for 2007/08 had been completed with the exception of one at California State Polytechnic University, Pomona, where only a part of a recommendation is still outstanding. Mr. Mandel informed the Trustees that as part of the 2009 audit plan, construction audits are now being performed internally by a construction audit manager on the Office of the University Auditor (OUA) staff.

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

Mr. Mandel stated that each year at the January meeting of the Board of Trustees, the Committee on Audit selects three subject area audit assignments for the OUA and approves the audit plan for the year, usually with the assistance of a triennial risk assessment. Because there was a possibility that the system would move toward instituting a campus-based auditors program (where an auditor is housed at each of the campuses and performs audits specific to that campus), a triennial risk assessment was not performed as scheduled in September/October 2008. However, the program was placed on hold due to the state budget crisis. He further stated that due to time constraints, a less intensive management survey was mailed to the chancellor, vice chancellors, campus presidents, and campus vice presidents requesting their opinions as to the areas they perceived to have the highest risk and where an audit would be most beneficial. Mr. Mandel noted that Audit Item 2, Attachment A, listed the six audit areas that were determined based on the survey results: Information Security, Contracts and Grants, Off-Campus Activities, Athletics Administration, Emergency Preparedness, and Police Services. He noted that two of these areas had been done in 2008 (i.e., Police Services and Information Security). He also noted that in addition to the risk assessment survey, a meeting was held with the Executive Audit Committee (which is represented by four campus presidents and the vice chancellor of administration and finance) to obtain executive insight into the selection process.

Mr. Mandel recommended the following three subject areas for review during calendar year 2009: Information Security (continue with another ten campuses), Off-Campus Activities (internships, fieldtrips, club sports, international programs), and Emergency Preparedness (last reviewed in 2006, but would be beneficial in order to determine compliance with a newly issued executive order).

Chair Guzman called for a motion to approve the Committee resolution (RAUD 01-09-01). A motion was then made and the resolution was passed unanimously to approve the audit plan for calendar year 2009.

**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 Report 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 and the A-133 audit of federally sponsored programs, which were conducted by KPMG. She reported that all corrective actions for the remaining items for the 2006/07 audit with regard to IT user access had been completed, with validation from the OUA for the closing of the items. Ms. Nickles reminded the Trustees that as a result of the IT review as part of the financial statement audit for fiscal year 2007/08, 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. She reported that management has been actively working with KPMG and the campuses to ensure that there is appropriate segregation of duties over high-level systems and database accounts. As a result, all campuses have completed the necessary actions required to demonstrate appropriate segregation of duties over these high-level accounts or have developed an approach for conducting reviews and taking mitigating actions to ensure controls based on policy statements provided by a systemwide team of technology experts. She indicated that KPMG had also reviewed those policy statements and agreed that they would provide the necessary assurances for segregation of duties and monitoring processes. Ms. Nickles stated that she expected to provide a progress report at the March Board meeting indicating that the OUA had reviewed and closed the action plan associated with the 2007/08 IT audit item.

Ms. Nickles then introduced Mr. Kurt Ramey, partner, KPMG, who provided additional comments regarding the IT segregation of duties issue.

Mr. Ramey reported that as of January 2009, all campuses had either resolved the segregation of duties issues through corrections or by agreeing to and taking actions to implement new monitoring processes. He stated his 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 the single CSU-wide process; and as a result, information security across the CSU has been much improved by this effort.

Chair Guzman thanked Mr. Ramey and Ms. Nickles for their efforts. She also thanked the campus presidents and their staffs for the hard work that was required in order to resolve this issue, especially during a time when there are fewer resources and employees.

### **Report of the Systemwide Audit in Accordance With Generally Accepted Accounting Principles Including the Report to Management**

Mr. Richard P. West, former executive vice chancellor/chief financial officer, introduced the item by noting that the information presented in the financial statements includes data ending June 30, 2008, which was a good year from a budget point of view. He stated that there were a lot of increases in the financial statements' activity in the number of students and levels of asset improvement in capital areas, but also in revenue and operating expenses. He added that Mr. Chris Ray, managing partner, KPMG, would be discussing subsequent events in relation to the financial statements.

Mr. West then introduced Ms. Nickles, who presented the financial statements for the CSU system for fiscal year ended June 30, 2008. She explained that the delay in issuing a hard copy of the financial statements was due largely to the necessity for drafting language for a subsequent event item, which may end up being an addendum to the financial statements.

Ms. Nickles stated that the financial statements reflect the third year of the six-year higher education financing compact with the governor. She reported that in fiscal year 2007/08, the university's general fund increased by \$179 million, representing an increase from the previous fiscal year of approximately 4 percent. She added that there were also increases in certain mandatory costs that were funded for new space, health benefits, insurance premiums, the 2.5 percent enrollment growth, and additional funding for math, science, and nursing. She noted that the student revenue budget had increased by \$122 million, a 10-percent increase from the previous fiscal year. This increase was based on both enrollment growth (\$26.3 million) and student fee rate increases (\$96 million). Regarding student enrollment in 2008, she noted that headcount had increased by 4.2 percent (from 446,993 in 2007 to 465,703 in 2008); and full-time equivalent students had also increased by 4.2 percent.

Ms. Nickles reported that total revenues (operating, non-operating, capital) for the university increased from \$5.5 billion in 2007 to \$6.2 billion in 2008, which is an increase of 12.1%. She clarified that these amounts are for the university only and do not include the auxiliary organizations. She noted that approximately 55 percent of operating and non-operating revenues were from the State of California. She further reported that state capital appropriations increased by \$227 million in 2008, largely due to the timing of the state funding for the capital programs; however, the unspent portion of the capital appropriations was suspended in December due to the state budget crisis. State non-capital appropriations increased by \$186 million, largely from enrollment growth and fee increases. In addition, student tuition and fees increased by \$122 million, and other fund sources (such as enterprise activities, federal and state financial aid grants, etc.) increased by \$106 million.

Ms. Nickles reported that total operating expenses for the university increased from \$5.1 billion in 2007 to \$5.6 billion in 2008 (nearly a 10-percent increase). She noted that instruction and educational support account for nearly 70 percent of the total operating expenses, with the remaining 30 percent for other purposes, such as operation and maintenance of plant, institutional support, and auxiliary enterprise expenses.

Ms. Nickles reported that net assets increased from \$5.1 billion in 2007 to \$5.6 billion in 2008 (an increase of 10.4 percent), largely due to an increase (\$399 million) in Invested in Capital Assets, net of accumulated depreciation and outstanding debt. She further reported that \$970 million of the \$1.1 billion Unrestricted Net Assets are designated for very specific purposes (i.e., enterprise activities, campus-based programs, Systemwide Revenue Bond reserves, and debt service). She reminded the Trustees of the discussion at the January 2008 Board meeting regarding the use of the term unrestricted net assets, explaining that the majority of unrestricted net assets are not really undesignated, but are dedicated for the purposes for which they were collected.

Ms. Nickles stated that due to the state budget and cash flow crises, payments for state-financed construction projects were suspended as of December 18, 2008, until the budget crisis is resolved and the state can begin issuing bonds. She further stated that the financial statements show \$816

million receivable from the state capital appropriations as of June 30, 2008, which decreased to approximately \$530 million as of December 2008. She added that the large change in receivable is a reason for the subsequent event item.

Ms. Nickles introduced Mr. Ray who further discussed subsequent events in relation to the financial statements. He described subsequent events as transactions or events that occurred after the audit period (i.e., June 30, 2008) but prior to the issuance of the financial statements; for example, suspension of state-financed construction projects and the settlement of litigation. He stated that these events are required to be considered and evaluated to determine whether disclosure is required in the financial statements. He explained that although the financial statements had been completed in mid-December, the single audit component related to the federal programs is currently being completed. He further explained that as part of that process, KPMG is required to perform subsequent event reviews related to the financial statements because the two audits are linked together and submitted to the federal government. He noted that subsequent events result in additional disclosure, but no changes to the financial statements.

### **Single Audit Reports of Federal Funds**

Mr. West explained that the Single Audit Reports was still in draft form due to a subsequent event and the need to come to agreement with the external auditors with respect to the wording, because of its substantial impact on the financial statements. He further explained the importance of the disclosure in relation to rating agencies and others who hold CSU debt. Mr. West then introduced Mr. Ray who provided a high-level overview of the results of both the financial statement audit and the single audit.

Mr. Ray stated that the systemwide report on the university's basic financial statements includes not only the 23 campuses and the chancellor's office, but also the auxiliary organizations. He added that the majority of the auxiliary organizations were not audited by KPMG, but by other accounting firms across the state of California. He further stated that the auditors' reports for each of the auxiliary organizations were accumulated and combined in order for KPMG to issue an opinion about the financial statements for the CSU as a whole. Mr. Ray reported that KPMG issued an unqualified opinion on the university's basic financial statements for fiscal year ended June 30, 2008, which indicates that the financial statements were fairly stated in all material respects in accordance with Generally Accepted Accounting Principles (GAAP).

Mr. Ray stated that the other component of the annual audit is the single audit of federal funds. He explained that because the CSU is a large recipient of federal funds (approximately \$1.4 billion), it is subject to Office of Management and Budget (OMB) Circular A-133. He further explained that this year the areas chosen for review were the student financial aid program (which is reviewed every year due to its volume) and the Head Start Program (which primarily focused on the two campuses with the largest programs, San Francisco State University and Sonoma State University). He indicated that as part of both the financial statement audit and the single audit, federal guidelines are very specific as to what must be disclosed as a finding,

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especially as they relate to internal control and issues noted as significant deficiencies. He reminded the Trustees that with the issuance of auditing standard SAS 112, there was a change in the reporting requirement on evaluating the severity of control deficiencies, and the bar was effectively lowered; anything considered more than inconsequential now has to be reported.

Mr. Ray reported on two findings related to the financial statements audit. One of the findings pertained to IT security in relation to segregation of duties conflicts and system access, but noted that the finding was already being addressed by management even before the draft report was completed by KPMG. The other finding related to financial reporting. He explained that the CSU system as a whole maintains its internal financial statements on the legal basis of accounting prescribed by the State of California. He noted the difficulty in getting 23 campuses to convert from legal basis of accounting to the accrual basis of accounting in accordance with GAAP at year end. As a result, sometimes adjustments are identified and/or recommendations are made as part of that process. He added that although this is a repeat finding from last fiscal year, definite improvement was noted from both a systemwide and campus-wide standpoint.

Mr. Ray stated that from a single audit standpoint, the bar is even lower. If a finding is identified that could be more than \$10,000 in magnitude, the federal government requires it to be reported. He reported that one finding was noted pertaining to the student financial aid program related to verification procedures. He explained that the student verification process includes very complex procedures to help ensure that applicant data is properly verified; however, one instance was identified where some exceptions were made for two students. He further reported that four findings were noted pertaining to the Head Start Program, a couple of which were related to the procurement policies, ensuring that vendor suspension and debarment verification procedures are performed timely and appropriately documented. He added that no vendors were noted to be debarred; however, \$90,000 of questioned costs were identified as part of one finding relating to subrecipients who receive funds as part of the Head Start Program.

Mr. Ray reported that overall, there were not a large number of findings to report. He concluded by sharing some required communication that is a part of every audit. He stated that when an audit is performed in accordance with GAAP standards as well as government auditing standards, KPMG reviews controls in place and, based on the controls in place, determines the audit procedures that were performed. He further stated that if there were significant findings as noted in the audit, KPMG would be required to communicate those to the Board. If there were significant audit adjustments, KPMG would also bring them to the Board's attention. He reported that audit adjustments were made as a result of the noted findings, but none were considered material to the financial statements, just more than inconsequential. He added that if there were disagreements with management or difficulties encountered with performing the audit, these issues would be communicated to the Board at this time, and he had none to report. He further reported that if there were consultations with other engaged accountants regarding significant issues, these items would also be communicated at this time, but there were none to report. He indicated that KPMG is required to inform the Board of any management advisory services performed as part of the audit; the only additional work performed by KPMG for the

CSU were the prior construction audits and a few IT security assessments as requested by some of the campuses.

Trustee Hauck inquired as whether the external audit team reported any weaknesses noted during fieldwork.

Mr. Ray responded that all weaknesses were summarized and the ones with a systemwide impact had been communicated. He stated that campus-specific findings generally pertain to ensuring that checks and balances are in place and ensuring proper segregation of duties. He further stated that some feedback received from the campuses included concerns regarding having sufficient staff to perform the necessary tasks, especially in light of the budget crisis preventing vacant positions from being filled.

Trustee Hauck asked if the campus-specific findings were reported to the campus chief financial officer.

Mr. Ray responded that the issues were addressed to the campus presidents.

Trustee Hauck asked if problems in terms of number of staff and their ability to do the required processes with respect to all the accounting functions were brought to the president's attention during the review.

Mr. Ray responded that it is definitely communicated throughout the audit. He added that during the financial statements audit, the audit team met weekly with campus and chancellor's office management to discuss any noted control exceptions and/or findings.

Mr. West reemphasized Mr. Ray's comments. He stated that there are really two systemwide findings. One is the issue of IT controls pertaining primarily to segregation of duties. He explained that on small campuses, one person may have multiple access to accounts that could be changed and modified; and on larger campuses, proper segregation of duties may not be defined, which in both cases creates exposure and risk. The second issue pertains to GAAP accounting and the two types of closing procedures required at year end, which produces a real workload issue: one is called the legal basis of accounting prescribed by the State of California and the other is the accrual basis of accounting in accordance with GAAP. He explained that the GAAP standards are where we are judged by the external auditors, and this knowledge of GAAP standards requires some expertise that is not always present in higher education and generally requires one or two people to perform the required tasks. He noted that the CSU's weaknesses have been in the areas of retention of accountants in this market and the recruitment of new accountants with higher education experience and knowledge of GAAP accounting. Mr. West indicated that throughout the year starting in July, chancellor's office management and accounting staff work closely with the campus staffs on this process. As a result, he and the Chancellor are aware of which campuses need assistance and work with the presidents and chief financial officers to ensure that there are no issues about timing and closing of the books. The

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chancellor's office accounting staff also includes professionals with GAAP expertise who are available for deployment upon a campus's request for assistance, due to vacancies or staff illnesses, etc.

Chancellor Reed added further to Mr. West's comments stating that a hard lesson was learned four years ago regarding the reduction of staff in certain accounting areas, especially staff with knowledge of GAAP accounting. He also indicated the importance of continuous training programs related to GAAP accounting. He reminded the Trustees of what happened in 2002, 2003, and 2004, when the CSU eliminated too many people from its accounting offices. He added that subsequently, the CSU has had to hire additional accounting staff, especially those with knowledge of GAAP accounting. Chancellor Reed reiterated that on a weekly basis, problems are reported from the campuses; and when needed, chancellor's office accounting staff is sent to those campuses to provide interim assistance.

Mr. West added a comment regarding the A-133 federal audit. He mentioned that there is approximately \$1.4 billion in federal funds that are shown in the A-133 report; of that amount, \$1.2 billion is student financial aid. He indicated that there are other federal funds that are managed by the related institutions, the auxiliary organizations; most non-financial aid federal funds are in those entities and are not shown in this report. He added that the campuses that are mentioned are those campuses that choose to organize its contracts and grants activity on the university side. He further added that there are 89 auxiliary organizations and the auditors' reports on these auxiliaries are monitored via management letters. He stated that at the March Board meeting, there would be a summary of the auxiliary organizations findings in the final A-133 report.

Trustee Mendoza inquired as to whether the \$90,000 in questioned costs had to be returned to the federal government.

Mr. Ray responded that KPMG is required to identify the questioned costs, but the federal government determines what part (or all) of the questioned costs would need to be returned. He added that it varies depending on what caused the compliance issue.

Trustee Mendoza asked for the management letters pertaining to the audit findings that were discussed at the Board meeting.

Mr. Ray responded that this year, all the letters were grouped together with the Single Audit Reports (starting on page 16) versus last year where they were separate.

Chancellor Reed stated that the systemwide audit was dated and received on December 18, 2008. He added that a subsequent letter from the State Controller, requiring the suspension of State-funded capital projects, had also been received on the same day. He asked if there would still have been a subsequent event if the letter had arrived at a later date.

Mr. Ray responded that until the single audit is completed, it would be considered a subsequent event.

Chair Guzman once again thanked Mr. West, Ms. Nickles, KPMG, and all of the campuses for their efforts in the preparation and completion of the financial statement process.

Chair Guzman 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 2009 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, Emergency Preparedness, Off-Campus Activities, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Contracts and Grants, Athletics Administration, Information Security, Police Services and Student Records) is currently being conducted on approximately 35 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the Committee meeting.

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

At the January 2009 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, Emergency Preparedness, Off-Campus Activities, and Construction.

#### *FISMA*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Report writing is being completed for two campuses, and fieldwork is currently taking place at three campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 318 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/30 auxiliaries. Report writing is being completed for one campus/four auxiliaries.

*Information Security*

The initial audit plan indicated that approximately 124 staff weeks of activity (12 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 one campus, and fieldwork is currently taking place at two campuses.

*Emergency Preparedness*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the plan) would be devoted to a 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. Fieldwork is currently taking place at one campus.

*Off-Campus Activities*

The initial audit plan indicated that approximately 103 staff weeks of activity (10 percent of the audit plan) would be devoted to a review systems and procedures for controlling and monitoring off-campus activities, which include service learning, study abroad programs, internships, field trips, and club sports. The audit program for this subject is currently being developed.

*Construction*

The initial audit plan indicated that approximately eighty-eight staff weeks of activity (9 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the close-out process and liquidated damages; and overall project accounting and reporting. One audit awaits a campus response prior to finalization, report writing is being completed for one project, and fieldwork is currently taking place for one project.

### *Information Systems*

The initial audit plan indicated that approximately 45 staff weeks of activity (4 percent of the plan) would be devoted to technology support in the area of financial internal controls for both campus (FISMA) and auxiliary audits, in addition to subject area audits. Reviews and training are ongoing.

### *Follow-ups*

The audit plan indicated that approximately 26 staff weeks of activity (3 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 35 prior audits (FISMA, Auxiliary Organizations, Contracts and Grants, Athletics Administration, Information Security, Police Services and Student Records) 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. 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.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 3/5/2009)

	<b>2009 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>															
	FISMA	Aux Orgs	Info Security	Emerg Prep	Off Campus Activity	FISMA		Auxiliary Organizations			Contracts and Grants		Athletics Administration		Information Security		Police Services		Student Records		
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs
BAK						12/12	-	3	15/19	7			13/13	-							
CHI						7/8	7	3	6/6	-	3/3	-			0/28	4					
CI						6/9	10	3	10/10	-							6/6	-			
DH	FW							3	14/14	-	10/10	-					5/7	7			
EB			FW			17/25	7	4	0/30	4	10/10	-									
FRE			RW			14/14	-	6	21/25	7	9/9	-	15/15	-							
FUL		RW						4			3/3	-	9/9	-	16/16	-					
HUM								4	15/15	-			9/9	-							
LB			FW			12/13	10	3	19/19	-	2/2	-	14/14	-						3/3	-
LA						3/3	-	4	11/11	-										3/6	5
MA								2													
MB						11/11	-	2												0/9	3
NOR						16/16	-	5	30/30	-			12/12	-							
POM				FW		0/6	3	3	24/24	-					5/16	6					
SAC								6	14/28	5	5/5	-	13/13	-							
SB	FW							3	17/17	-							7/8	7			
SD	RW							4	11/11	-			14/14	-						0/8	5
SF	RW							4	32/32	-							3/4	5			
SJ								5	32/32	-			20/20	-			5/5	-			
SLO						7/12	5	4					12/12	-							
SM						3/3	-	3	22/22	-											
SON	FW							4	18/18	-	3/3	-			5/20	5					
STA						11/11	-	4	17/17	-							2/5	3			
CO						2/2	-	2	4/4	-											
SYS											5/11	11	0/11	11							
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 Findings in the Single Audit Report of Federal Funds for Year-Ended June 30, 2008**

#### **Presentation By**

Colleen Nickles  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

There were two systemwide findings, in addition to campus-specific findings, resulting from the Single Audit of Federal Funds. The first systemwide finding was related to access and segregation of duties in the information technology systems. Specifically, the auditor's review of security and access privileges noted segregation of duties conflicts for access to key PeopleSoft systems support functions. This deficiency resulted from the availability of powerful systems access accounts to systems support personnel, both centrally and at all 23 campuses, without ensuring that key systems duties were well segregated or activities were reviewed. Management has taken steps to address KPMG's recommendations by establishing standardized procedures to implement segregation of duties or monitor the activity for users with high level access authority in situations where the segregation of duties is not feasible.

The second finding was related to financial reporting. KPMG identified and recorded several adjusting and reclassification journal entries when campuses were converting from legal basis accounting to generally accepted accounting principles (GAAP), which resulted from deficiencies in the internal control over financial reporting. The auditors recommended the continued evaluation of the processes in place to prepare the GAAP reporting packages, in addition to skill set, training, and time availability of the individuals performing this function.

A more detailed report on the activity underway to correct these two findings, as well as the campus-specific findings, will be presented at the meeting.

Additionally, a summary of the auxiliary auditors' findings from their reviews of the CSU's auxiliary organizations will be presented to the Audit Committee. This presentation will discuss the types of findings that are made by the auxiliary auditors as well as steps the CSU and auxiliary organizations have taken to address these findings. Because most of the federal grant and contract activity conducted by the CSU occurs in auxiliary organizations, these findings are a key component of the Single Audit, and the Chancellor's Office has gone through the process of reviewing the findings and ensuring campus auxiliary organizations take the appropriate corrective actions each year.