

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 3:45 p.m., Tuesday, May 12, 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 March 24, 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 Findings in the Single Audit Reports 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**

**March 24, 2009**

**Members Present**

Melinda Guzman, Chair  
Raymond W. Holdsworth, Vice 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 January 27, 2009, 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 March 24-25, 2009, Board of Trustees agenda.

Mr. Mandel stated that ten assignments from the 2009 audit plan had begun and were in various stages as indicated on the Status Report. He reported that since the distribution of the Agenda, there had been ten updates to the Status Report indicating progress towards, or completion of, outstanding recommendations. Mr. Mandel noted three audits that have recommendations outstanding for long periods of time: FISMA, California State University (CSU), Channel Islands; Contracts and Grants, Systemwide; and Athletics Administration, Systemwide. As per discussions with management at CSU Channel Islands, he stated that the one outstanding recommendation is expected to be completed by May 2009. As reported at the last Board meeting, the outstanding recommendations pertaining to Systemwide are expected to be completed in April 2009. Mr. Mandel reminded the Trustees that as part of the 2009 audit plan, construction audits are now being performed by a construction audit manager on staff of the Office of the University Auditor. He indicated that three construction audit assignments are currently in progress.

**Progress Report on the Corrective Action Plans for the Audit Findings in the Single Audit Report of Federal Funds for the Year Ended June 30, 2008**

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, stated that this agenda item is to present the final version of the Single Audit Report of Federal Funds for the CSU, otherwise known as the A-133 audit. He reminded the Trustees that at the last Board meeting, a draft version of the Single Audit Report was distributed and discussed. He also reminded the Trustees that KPMG was considering including a subsequent event item in both the consolidated financial statements and the Single Audit Report about the suspension of state-funded capital projects. He reported that upon reconsideration, KPMG had determined that a subsequent event item was not required; and as a result, the consolidated financial statements stand as presented at the January 2009 Board meeting.

Mr. Quillian then introduced Ms. Colleen Nickles, assistant vice chancellor, financial services, who discussed the six audit findings that were noted in the single audit and provided a progress report on the corrective action for each of those findings. In addition, Ms. Nickles also provided a summary of the independent auditors' findings from their reviews of the auxiliary organizations.

Ms. Nickles stated that each year, the CSU issues a single audit report which includes the 23 campuses and the chancellor's office. She explained that an entity that expends \$500,000 or more per year in federal awards associated with contracts and grants and financial aid is required to issue a single audit report. The report discloses the findings and questioned costs relating to the financial statements reported in accordance with Government Auditing Standards (GAS) and federal awards in accordance with Office of Management and Budget Circular (OMB) A-133.

Ms. Nickles provided a summary of the six findings as noted in the Single Audit Report for the year ending June 30, 2008:

*Audit Finding 08-01**Information Technology: Segregation of Duties Conflicts and System Access*

Based on a review of security and access privileges, segregation of duties conflicts for access to key PeopleSoft systems support functions were noted on all campuses. A similar finding was also noted in the 2006/07 audit; however, at the last Board meeting, Kurt Ramey, KPMG partner, discussed the significant progress that the CSU had made in addressing this segregation of duties item. KPMG is currently testing all of the campuses' access to both the system and the database. Corrective action for this finding is in progress and is anticipated to be completed by the May Board meeting.

*Audit Finding 08-02*

*Financial Reporting*

Deficiencies were noted in the internal control over financial reporting at eight of the campuses. Two of the campuses have submitted corrective action plans, while the other six campuses are still in progress.

*Audit Findings 08-03 through 08-06*

*Head Start Program*

Issues were noted at both the Sonoma State University and the San Francisco State University campuses related to procurement policies, ensuring that vendor suspension and debarment verification procedures are performed timely and appropriately documented. In addition, issues were noted regarding the certification of time and effort of employees at the San Francisco State University campus. Also at San Francisco State University, issues were noted regarding questioned costs, totaling \$90,289, pertaining to the monitoring of subrecipient activities and the assurance that awards are administered in compliance with federal requirements.

Ms. Nickles reported that all six findings were in progress, discussions had taken place with the campuses regarding their resolution, and completion is anticipated fairly quickly.

Trustee Carter asked for clarification on the status of the Head Start Program findings, and Ms. Nickles explained that discussions had taken place with the campuses regarding their understanding of the findings as well as the development of corrective action plans. However, corrective action plans have not yet been received by her office nor validated by the Office of the University Auditor.

Trustee Carter asked whether a time frame for the completion of the corrective action plans had been established.

Ms. Nickles responded that every effort would be made to close out the campuses' corrective action plans by the May Board meeting.

Trustee Holdsworth stated that it would be beneficial for the committee to have a schedule indicating the campuses' progress on the corrective action plans for Audit Findings 08-03 through 08-06, including expectations and timeline for completion. He then asked for confirmation that KPMG had completed all of the testing for Audit Finding 08-01 pertaining to Information Technology and whether they would present at the May Board meeting.

Ms. Nickles responded that she anticipates the closing of Audit Finding 08-01 by the next Board meeting, as a lot of work has already been done on this finding; however, KPMG is currently performing testing.

Trustee Holdsworth requested that Ms. Nickles provide further confirmation to the Board ensuring that the finding will be closed by the May Board meeting. He then asked for a time

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frame as to when the remaining two campuses would be submitting their reports regarding Audit Finding 08-02.

Ms. Nickles responded that she anticipated receiving the remaining two reports within the next week or so.

Trustee Holdsworth then asked for a time frame for the resolution of corrective actions for Audit Finding 08-02 for all eight campuses.

Ms. Nickles responded that she anticipated resolution by either the May or July Board meetings.

Chancellor Reed commented on the criminal investigation pertaining to the Head Start Program at Sonoma State University, which has been ongoing for the last two years. He added that there are several federal and state agencies involved in conducting the investigation, but it is going to take several months to conclude. Chancellor Reed stated that he will provide the Trustees with ongoing status reports on this investigation.

Ms. Nickles continued her presentation regarding the systemwide single audit findings. She explained that since the CSU auxiliary organizations (90 in total) receive federal funding of \$500,000 or more per year, a single audit report is prepared in compliance with federal requirements. She added that each of the auxiliary organizations selects its own independent external auditor to conduct the single audit. However, the systemwide reporting team reviews each report and summarizes all findings, corresponding management responses, and corrective actions. The team also follows up with the auxiliary organizations on the status of the completion of any corrective actions that were noted. Periodic progress reports are then presented to the Board.

Ms. Nickles reported that for the year ended June 30, 2008, ten auxiliaries had significant deficiencies noted in the single audit, where there were questioned costs in programs which received federal awards and/or other matters; among those, material weaknesses were noted in three auxiliary organizations. She then summarized the significant deficiencies and material weaknesses, as well as their corrective actions, for each of the three auxiliaries. Ms. Nickles hoped that the ongoing status reports given to the Trustees provide assurance that these audits are taken seriously in the chancellor's office and that continuous follow-up is performed to ensure the timely completion of corrective actions by the campuses and auxiliary organizations.

Chancellor Reed commented on the progress that has been made in relation to the auxiliary organizations. He stated that in 1999, Trustee Hauck asked him during his first year as chancellor what he believed was the single biggest risk to the board – he stated that the risk was the auxiliary organizations, which included 70 entities at that time. He indicated that during that earlier time, there were several hundred footnotes in the financial statements, most relating to the auxiliaries. To address this risk, Chancellor Reed indicated that he and Mr. Richard P. West,

former executive vice chancellor and chief financial officer, speak at each annual auxiliary organizations conference about various topics (such as best practices and risk management) in an effort to provide guidance to enable the auxiliaries to be more effective.

Chair Guzman thanked all the campuses for their efforts and hardwork in resolving these issues in a timely manner.

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. Two audits await a campus response prior to finalization, report writing is being completed for three campuses, and fieldwork is currently taking place at one campus.

#### *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. One campus/four auxiliary reports await a campus response prior to finalization, and report writing is being completed for one campus/five 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 two campuses, and fieldwork is currently taking place at one campus.

### *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. Report writing is being completed for one campus, and fieldwork is currently taking place at two campuses.

### *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 of systems and procedures for controlling and monitoring off-campus activities, which include service learning, study abroad programs, internships, field trips, and club sports. Fieldwork is currently taking place at one campus.

### *Construction*

The initial audit plan indicated that approximately 88 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. Two audits await 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 4/23/2009)

	<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	19/19	-			13/13	-			0/7	4			
CHI						8/8	-	3	6/6	-	3/3	-			7/28	6					
CI						8/9	12	3	10/10	-							6/6	-			
DH	RW							3	14/14	-	10/10	-					6/7	9			
EB			FW			24/25	9	4	9/30	6	10/10	-									
FRE			RW			14/14	-	6	21/25	9	9/9	-	15/15	-							
FUL		AI			FW	9/9	-	4			3/3	-	9/9	-	16/16	-					
HUM						14/14	-	4	15/15	-			9/9	-							
LB			RW			13/13	-	3	19/19	-	2/2	-	14/14	-			9/9	-	3/3	-	
LA						3/3	-	4	11/11	-									5/6	7	
MA						16/16	-	2	14/14	-											
MB						11/11	-	2	17/17	-									0/9	5	
NOR		RW				16/16	-	5		-			12/12	-							
POM				RW		3/6	5	3	24/24	-					10/16	8					
SAC						10/10	-	6	18/28	7	5/5	-	13/13	-							
SB	RW							3	17/17	-							7/8	9	0/8	3	
SD	AI							4	11/11	-			14/14	-					3/8	7	
SF	AI			FW				4	32/32	-							4/4	-			
SJ				FW		24/24	-	5	32/32	-			20/20	-			5/5	-			
SLO						10/12	7	4	0/24	4			12/12	-							
SM						3/3	-	3	22/22	-											
SON	RW							4	18/18	-	3/3	-			10/20	7					
STA	FW							4	17/17	-					1/27	6	2/5	5			
CO						2/2	-	2	4/4	-											
SYS											5/11	13	0/11	13							

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 Reports of Federal Funds for Year-Ended June 30, 2008**

#### **Presentation By**

Colleen Nickles  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

Corrective actions for all six audit findings in the Single Audit Reports for the year ended June 30, 2008 are complete. The following are corrective actions taken for each audit finding.

##### 08-01 Information Technology – Segregation of Duties Conflicts and System Access

Management has undertaken a comprehensive plan to establish standardized procedures to segregate duties where possible and develop mitigating procedures where segregation of duties is not practicable. Campuses submitted certification of access controls and segregation of duties and mitigating procedures to the CO in late March and resubmitted them again in mid April with further improvements and corrections after initial review by the CO.

##### 08-02 Financial Reporting

Campuses have taken corrective actions to address the issues identified, including remediation of weaknesses in the process and increases in levels of accountability.

##### 08-03 Procurement, Suspension, and Debarment concerning Head Start Program at Sonoma State University

The procedures for suspension and debarment verification were performed and documented.

##### 08-04 Procurement, Suspension, and Debarment concerning Head Start Program at San Francisco State University

The policy/procedure on suspension and debarment has been reviewed and updated, and training was held for the grant support coordinators.

##### 08-05 Activities allowed or unallowed and allowable costs/cost principles concerning Head Start Program at San Francisco State University

Time and effort reporting policies have been established and additional periodic review will be performed to make sure the policies are enforced.

##### 08-06 Subrecipient Monitoring concerning Head Start Program at San Francisco State University

Formal procedures have been implemented to ensure compliance with subrecipient monitoring compliance requirements.