

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 11:45 a.m., Tuesday, September 22, 2009**  
**Glenn S. Dumke Auditorium**

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

#### **Consent Items**

Approval of Minutes of Meeting of May 12, 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 Relating to the Financial Statements of the Auxiliary Organizations 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**

**May 12, 2009**

**Members Present**

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

Chair Guzman called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of March 24, 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 May 12-13, 2009, Board of Trustees agenda.

For the benefit of the newly elected member of the Board of Trustees, Mr. Mandel explained that the red numbers on the Status Report indicated progress towards, or completion of, outstanding recommendations since the distribution of the Agenda. He further explained that the left-hand side of the Status Report showed the status of 2009 audit assignments that were approved by the Board at the January meeting, and indicated that 15 of those audits were currently in progress. Mr. Mandel reported that since the distribution of the Agenda, supporting documentation had been submitted to clear recommendations for 19 campus audits. He commended the campuses for their efforts to complete the recommendations in a timely manner, and noted the substantial improvement in timeliness over the last couple of years with regard to this process. Mr. Mandel reminded the Trustees that as part of the 2009 audit plan, construction audits are now being

## Audit

performed in-house by Office of the University Auditor (OUA) staff, instead of by KPMG who had conducted these audits previously. He indicated that four construction audit assignments were currently in progress and anticipated the completion of a total of 12 assignments for calendar year 2009 (which is approximately double the number of assignments completed by KPMG in the past and which will be performed at a lesser cost to the California State University system).

### **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, presented the status of the corrective action plans related to the Single Audit Report of Federal Funds (A-133) for fiscal year 2007/08. He reminded the Trustees that at the March 2009 Board meeting, the final version of the Single Audit Report was presented. He reported that corrective actions had been completed by the campuses and reviewed and validated by the OUA, resulting in all six audit findings being successfully closed.

Chair Guzman thanked the campuses for working with the OUA and chancellor's office staff in the clearing of the outstanding items for the past/current audit assignments, as well as for the items pertaining to the Single Audit Report.

## **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, Information Security, Police Services, and Student Records) 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 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. Six audits await a campus response prior to finalization.

#### *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. Two campuses/nine auxiliary reports await a campus response prior to finalization, and report writing is being completed for three campuses/ten 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. One audit awaits a campus response prior to finalization, report writing is being completed for five campuses, and fieldwork is currently taking place at three 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. Two audits await a campus response prior to finalization, report writing is being completed for six campuses, 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. Report writing is being completed for six campuses, and 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. One audit has been completed, three audits await a campus response prior to finalization, report writing is being completed for three projects, 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 25 prior audits (FISMA, Auxiliary Organizations, Contracts and Grants, 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 9/4/2009)

	<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		Information Security		Police Services		Student Records	
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK					RW	12/12	-	3	19/19	-					7/7	-		
CHI				FW		8/8	-	3	6/6	-	3/3	-	28/28	-				
CI			RW			9/9	-	3	10/10	-					6/6	-		
DH	AI							3	14/14	-	10/10	-	15/19	4	7/7	-		
EB			RW	FW		25/25	-	4	24/30	10	10/10	-						
FRE			AI			14/14	-	6	25/25	-	9/9	-					3/6	7
FUL		AI		RW	RW	9/9	-	4			3/3	-	16/16	-				
HUM				RW		0/11	5	4	15/15	-								
LB		RW	RW			13/13	-	3		-	2/2	-			9/9	-	3/3	-
LA					RW	3/3	-	4	11/11	-							6/6	-
MA				RW		16/16	-	2	11/15	4								
MB			FW			11/11	-	2	0/15	4							9/9	-
NOR		AI			RW	16/16	-	5		-			16/16	-				
POM				AI	RW	6/6	-	3	24/24	-			16/16	-				
SAC			RW		FW	3/4	5	6	28/28	-	5/5	-						
SB	AI	RW						3		-					7/8	13	3/8	7
SD	AI				RW			4	11/11	-			14/14	-			8/8	-
SF	AI	RW		AI				4		-					4/4	-		
SJ				AI		0/9	3	5	32/32	-			18/25	6	5/5	-		
SLO			FW			12/12	-	4	21/24	8								
SM			FW	RW		3/3	-	3	22/22	-							6/8	5
SON	AI							4	18/18	-	3/3	-	20/20	-			5/5	-
STA	AI			RW				4	17/17	-			3/27	10	5/5	-		
CO			RW			2/2	-	2	4/4	-								
SYS											11/11	-			0/7	5		
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 Relating to the Financial Statements of the Auxiliary Organizations for Year Ended June 30, 2008**

#### **Presentation By**

George V. Ashkar  
Interim Assistant Vice Chancellor  
Financial Services

#### **Summary**

At the Board meeting in March, 2009, we presented a progress report on audit findings of the University and its related eighty-nine Auxiliary Organizations for the year ended June 30, 2008. Among the auxiliary organizations findings, three auxiliary organizations had findings that were considered to be material weaknesses.

Corrective actions for the audit findings of the University were reported as complete at the May Board meeting. With the concurrence of the University Auditor's office, we now report corrective actions for the audit findings of the three auxiliaries are complete. Two of the auxiliaries (CSU Monterey Bay Foundation and CSU San Marcos Foundation) completed the corrective actions in April, and the last one, CSU East Bay Foundation, completed the corrective action at the end of July.

CSU Monterey Bay Foundation (a GASB reporting entity) implemented corrective actions for its findings, including a material weakness finding because it followed the FASB literature instead of GASB literature that resulted in a prior year restatement. The Foundation will seek guidance from GASB standards, other auxiliary organizations, and the Chancellor's Office as a corrective action to the material weakness finding.

CSU San Marcos Foundation had one finding for not recording contribution revenue in the correct year, and has implemented quarterly review of major pledges in the finance committee meetings to ensure pledge revenue is recognized in the proper period.

CSU East Bay Foundation took corrective action to revise its agency account establishment form to clearly define the nature of the funds and allowable expenses. Accountants have been hired to prepare monthly bank reconciliations, and ensure proper segregation of duties. Journal entries will be reviewed and approved by the appropriate level of management before they are recorded. Policies and procedures have been implemented to ensure all steps are taken for an accurate and timely month-end close.

This completes the report on auxiliary organizations for the fiscal 2007-08 audit year.