

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 4:00 p.m., Tuesday, January 26, 2010**  
**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 November 17, 2009

#### **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 2010, *Action*
3. Report on the Financial Statements and Audit Findings for the Fiscal Year Ended June 30, 2009, *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 17, 2009**

**Members Present**

Melinda Guzman, Chair  
Herbert L. Carter, Chair of the Board  
Carol Chandler  
Margaret Fortune  
George G. Gowgani  
William Hauck  
Henry Mendoza

Chair Guzman called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of September 22, 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 November 17-18, 2009, Board of Trustees agenda.

Mr. Mandel stated that several of the audit assignments from the 2009 audit plan (as shown on the left-hand side of the Status Report) had been completed, and indicated that the remainder of the assignments should be completed by the end of the year. He reported that since the distribution of the Agenda, there have been several updates to the Status Report indicating progress towards or completion of outstanding recommendations, in addition to the inclusion of other items being listed for the first time. Mr. Mandel stated that the campuses are making good progress in the closing of outstanding recommendations. He noted that a couple of campuses have long-outstanding recommendations, but stated that the Office of the University Auditor (OUA) was working with those campuses and anticipated completion by the end of the calendar year. Mr. Mandel reminded the Trustees that as part of the 2009 audit plan, construction audits are now being performed in-house by OUA staff, instead of by KPMG who had conducted these audits previously. He reported that several construction audit assignments were currently in progress and/or had been completed and anticipated the completion of a total of 12 assignments

## Audit

for calendar year 2009 (which is approximately double the number of assignments completed by KPMG in the past).

Chair Guzman inquired as to whether there is a cost savings as a result of performing the construction audits in-house.

Mr. Mandel responded that the OUA is performing the construction assignments at a lesser cost to the system.

Chair Guzman complimented and thanked Mr. Mandel and his staff for their efforts in completing double the number of construction assignments as was done in the past. She also thanked the campus presidents for working diligently with their staffs in completing the outstanding recommendations in a timely manner.

### **Development of a Systemwide Compliance Function**

Mr. Mandel stated that at the January meeting of the Committee on Audit, he will present a resolution as part of the 2010 audit plan that will address the development of a systemwide compliance function which will be housed within the OUA. He further stated that since its inception 35 years ago, this is the first time that resources allocated to audit have been reduced. He added that in an effort to do more with less, we will be recommending a reallocation of resources aimed at reducing the potential number of audit issues; the reallocated resources (consisting of a manager and an auditor) will be used to develop a compliance function. Mr. Mandel explained that a compliance function is a preventive control providing tools to the campus community that will enable them to know high-risk areas and take the necessary steps to reduce potential negative outcomes. He further explained that an audit function is a detective control providing assurance that high risks are being mitigated to an acceptable level and that the institution is operating efficiently and effectively. He indicated that an effective compliance function may include such areas as best practices, risk mitigation, compliance awareness and ethics, conflict of interest reporting, and the reporting of significant compliance issues to executive management. He noted that additional information on the proposed compliance function would be presented at the January meeting.

Chair Guzman again complimented Mr. Mandel and his staff for their efforts in dealing with the challenges of limited resources. She stated her belief that the compliance function would help to create more of a risk management-type of system in order to prevent future audit issues.

Trustee Chandler asked whether the OUA would assume oversight of the compliance function or would it be campus-based with coordination from the OUA.

Mr. Mandel responded that at least at the start, the compliance function would be centralized in the OUA with an individual on each campus assigned as coordinator of the compliance function for their respective campus.

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, Information Security, Police Services, and Student Records) is currently being conducted on approximately 30 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 have been completed, and report writing is being completed for six audits.

#### *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. Three campuses/twelve auxiliaries have been completed, two campuses/eight 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 campus audit has been completed, five audits await a campus response prior to finalization, and report writing is being completed for four 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. Six audits have been completed, and four audits await a campus response prior to finalization.

### *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. Two audits have been completed, five audits await a campus response prior to finalization, and report writing is being completed for two campuses.

### *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. Four audits have been completed, three audits await a campus response prior to finalization, and report writing is being completed for four projects.

### *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 30 prior audits (FISMA, Auxiliary Organizations, 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 1/8/2010)

	<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			Information Security		Police Services		Student Records	
						*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	RW				AI		-	3	19/19	-			7/7	-		
CHI		RW		AI		8/8	-	3				28/28	-			
CI	RW		AI				-	3	10/10	-			6/6	-		
DH	AC	RW				0/7	5	3				19/19	-	7/7	-	
EB			AI	AI		25/25	-	4	29/30	14						
FRE	RW		AC					6	25/25	-					4/6	11
FUL		AC		AI	AC	1/5	6	4	23/32	6	16/16	-				
HUM				AC	RW	11/11	-	4	15/15	-						
LB	RW	AI	AI				-	3					9/9	-	3/3	-
LA			RW		AC	3/3	-	4	11/11	-					6/6	-
MA				AC		3/6	6	2	15/15	-						
MB	RW		RW					2	15/15	-					9/9	-
NOR		AC			AI	16/16	-	5	0/27	3	16/16	-				
POM				AC	AI	6/6	-	3	24/24	-	16/16	-				
SAC			AI		AI	4/4	-	6	28/28	-						
SB	AC	AC				0/7	4	3	0/30	3			8/8	-	8/8	-
SD	AC				AI	2/2	-	4	11/11	-	14/14	-			8/8	-
SF	AC	AI		AC		1/6	5	5			0/19	4	4/4	-		
SJ				AC	RW	9/9	-	5	32/32	-	25/25	-	5/5	-		
SLO			RW			12/12	-	4	23/24	12						
SM			RW	AC		3/3	-	3	22/22	-					8/8	-
SON	AC	RW				0/4	3	4			20/20	-			5/5	-
STA	AC			AI		0/4	4	4	17/17	-	27/27	-	5/5	-		
CO	RW		AI					2	4/4	-						
SYS													2/7	9	0/11	6
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 2010**

#### **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 2010.

#### **HIGH RISK AREAS**

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2009. The results of that risk assessment indicated the following eight areas of highest risk to the system:

Financial Aid  
NCAA  
Post-Award  
IT Disaster Recovery Planning/Backups  
HIPAA Security  
Business Continuity  
Main and Satellite Cashiering  
Fund-Raising and Gift Processing

Audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 335 staff weeks of audit effort, which is approximately 34.0 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 32 auxiliary reviews will take place during calendar year 2010. This represents 314 staff weeks of audit effort, which is approximately 31.9 percent of the audit plan.

## CONSTRUCTION

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 2010. This represents 92 staff weeks of audit effort, which is approximately 9.3 percent of the audit plan.

## COMPLIANCE

In order to leverage audit resources and take a proactive approach to reduce the potential number of audit issues, the Office of the University Auditor will reallocate resources to develop a compliance function. It is anticipated that the compliance program structure, an initial inventory of compliance activities and owners, and a determination of major areas of compliance risk will take place during calendar year 2010. Eighty-six staff weeks have been set aside for this purpose, representing approximately 8.7 percent of the audit plan.

## INFORMATION SYSTEMS

Technology support will be provided in the area of financial internal controls for both campus and auxiliary organization audits, in addition to subject area reviews. Forty-five staff weeks are planned during calendar year 2010, which is approximately 4.6 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-three staff weeks have been set aside for this purpose, representing approximately 4.3 percent of the audit plan.

## CONSULTATIONS

The Office of the University Auditor is periodically called upon to provide consultation to the campuses, to perform special audit requests made by the Chancellor, and/or to participate on committees. Fifty staff weeks have been set aside for this purpose, representing approximately 5.1 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. Sixteen staff weeks have been set aside for this purpose, representing approximately 1.6 percent of the audit plan.

## ANNUAL RISK ASSESSMENT

The Office of the University Auditor annually conducts a risk assessment to determine the areas of highest risk to the system. Four staff weeks have been set aside for this purpose, representing approximately 0.4 percent of the audit plan.

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 2010 internal audit plan, as detailed in Agenda Item 2 of the Committee on Audit at the January 26-27, 2010 meeting, be approved.

## **HIGH RISK AREAS**

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2009. The results of that risk assessment indicated the following eight areas of highest risk to the system:

Financial Aid  
NCAA  
Post-Award  
IT Disaster Recovery Planning/Backups  
HIPAA Security  
Business Continuity  
Main and Satellite Cashiering  
Fund-Raising and Gift Processing

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 may change after audit survey/work commences.

### **Financial Aid**

Financial aid includes identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Potential impacts include:

- inappropriate financial aid packaging;
- financial aid not provided to the neediest students;
- over-awarding beyond need and funding availability or failing to maximize available funds;
- awarding aid to ineligible students;
- high default rates on student loans;
- excessive costs;
- students not receiving timely award/denial notices;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit procedures would include review of funding arrangements; compliance with federal and state laws, Trustee policy, and systemwide directives; reliability, confidentiality, and

## **Attachment A**

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integrity of information; effectiveness, efficiency, and economy of operations; and attainment of established objectives and goals.

### **NCAA**

Intercollegiate athletics includes all activities pertaining to the sports programs administered in accordance with the rules and regulations of the National Collegiate Athletic Association (NCAA), the National Association of Intercollegiate Athletics (NAIA), and the various athletic conferences in which CSU student-athletes and sports teams compete.

Potential impacts include:

- admission of student athletes who do not show reasonable promise of being successful in a course of study leading to an academic degree;
- continuing eligibility of student athletes to participate in intercollegiate athletics based on academic progress that will not assure graduation within a specific time frame;
- infractions of rules and regulations that significantly impact the university in terms of lost revenues, adverse publicity, and sanctions;
- inequities in funding and participation opportunities between the men's and women's athletic programs;
- inappropriate use of funds raised and spent in intercollegiate athletics;
- athletics-related personnel actions and settlements; and
- abuse of student-athletes or excessive sports injuries.

Proposed audit scope would include athletic governance and organization, admission procedures for student-athletes, student-athlete eligibility certifications, academic support systems for student-athletes and reporting of academic performance, recruiting of student-athletes, administration of athletic financial aid, conduct of camps and clinics, compensation and benefits for athletic coaches and staff, procurement/use of athletic apparel and equipment, team travel, athletic event ticketing, institutional control over representatives of the university's athletic interests, and student-athlete extra benefits.

### **Post-Award**

Post-award administration of contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- commitments 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; and
- failure to provide deliverables.

Proposed audit scope would include review of contract/grant budgeting and financial planning, cost accounting and allocation, cost matching and transfer processes, effort-reporting, fiscal reporting, sub-recipient monitoring, and management and security of information systems.

### **Information Technology (IT) Disaster Recovery Planning/Backups**

IT disaster recovery includes program and facility readiness and resource planning for the recovery of data processing services, within a predetermined time, from any catastrophic event, be it natural or man-made. IT disaster recovery assumes that the business operations and facilities are intact but data processing services are interrupted, adversely affecting routine business processes.

Potential impacts include:

- disruption of campus or systemwide programs and services;
- financial exposures;
- adverse impact to institutional objectives and goals; and
- damage to the CSU reputation.

Proposed audit scope would include review of Trustee policy, systemwide directives, and campus policies and procedures; a study of the planned data processing recovery functions following a catastrophic event; disaster recovery plans; testing and exercising of plans; plan maintenance, communications, and training; data recovery and necessary retention of key records.

### **Health Insurance Portability and Accountability Act (HIPAA)**

HIPAA includes compliance with federal statutes regarding security and confidentiality of sensitive medical records maintained by the campus.

Potential impacts include:

- accidental disclosure of confidential medical information;
- financial exposures and penalties;
- litigation from affected parties;
- non-compliance with federally mandated statutes; and
- damage to the CSU reputation.

## **Attachment A**

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Proposed audit scope would include review of Trustee policy, federal directives, systemwide directives, and campus policies and procedures; procedures for handling confidential information; communications; training; and necessary retention of key records.

### **Business Continuity**

Business continuity includes program and facility readiness and resource planning for the recovery, within a predetermined time, from any catastrophic event, be it natural or man-made.

Potential impacts include:

- disruption of campus or systemwide programs and services;
- financial exposures;
- significant property damage;
- claims from injured parties;
- inability to achieve institutional objectives and goals; and
- damage to the CSU reputation.

Proposed audit scope would include review of Trustee policy, systemwide directives, and campus policies and procedures; a study of the essential functions or operations following a catastrophic event; business impact analysis and risk assessment; business continuity and disaster recovery plans; testing and exercising of plans; plan maintenance, communications, and training; and necessary retention of key records.

### **Main and Satellite Cashiering**

Main and satellite cashiering includes business unit cashiering procedures, cash receipts processes, change and purchase funds, and the overall accountability for cash.

Potential impacts include:

- inadequate segregation of duties;
- the opportunity for fraud or misappropriation of funds;
- weak accountability and failure to assign responsibility;
- non-compliance with state regulations; and
- accounting errors and inefficient operations.

Proposed audit scope would include review of Trustee policy, systemwide directives, state regulations, and campus policies and procedures for controlling cash receipts; accountability for cash; safeguarding of cash; timely deposits; and accurate record keeping.

### **Fund-Raising and Gift Processing**

Fund-raising and gift processing includes institutional or university advancement activities pertaining to donations.

Potential impacts include:

- inadequate non-state funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of non-monetary gifts;
- non-compliance with Internal Revenue Service regulations;
- breach of donor confidentiality;
- use of funds that conflict with donor intentions/potential violations of trust arrangements or matching program requirements; and
- inaccurate reporting of donations and development activity.

Proposed audit scope would include review of controls over the analysis of development needs, identification of prospective donors and donor relations, solicitation and acknowledgment of donations, valuation of non-monetary donations, recording gifts and posting to accounting records, securing donor information, expending donated funds, and preparation of reports on development activity.

**COMMITTEE ON AUDIT**

**Report on the Financial Statements and Audit Findings for the Fiscal Year Ended June 30, 2009**

**Presentation By**

George Ashkar  
Interim Assistant Vice Chancellor / Controller  
Financial Services

**Summary**

A report will be presented on the following items:

1. CSU systemwide:
  - a.) Financial Statements
  - b.) Findings for the campus auxiliary organizations
  
2. Findings in the A-133 Single Audit Report

The CSU systemwide financial statements were issued on schedule with an unqualified (i.e., clean) opinion. Highlights of the financial statements will be presented including the impact of the state appropriation reduction and the Federal ARRA funds.

There were five auxiliary organizations with material weaknesses in internal control over financial reporting. The description of the findings and the status of the corrective action will be presented.

There were four findings in the A-133 Single Audit Reports for the CSU system. None of the findings were material weaknesses. The first finding was a systemwide issue regarding segregation of duties in the information technology systems. The other three findings were campus specific issues related to the Federal student financial aid programs. The description of the findings and the status of the corrective action will be presented.