

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 2:00 p.m., Tuesday, March 16, 2010**  
**Glenn S. Dumke Auditorium**

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

#### **Consent Items**

Approval of Minutes of Meeting of January 26, 2010

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Update on the status of corrective action for the findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports 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**

**January 26, 2010**

**Members Present**

Melinda Guzman, Chair  
Raymond W. Holdsworth, Vice Chair  
Herbert L. Carter, Chair of the Board  
Carol R. Chandler  
Kenneth Fong  
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 November 17, 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 January 26-27, 2010, Board of Trustees agenda.

Mr. Mandel 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. He further reported that several of the 2009 audit assignments (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 next board meeting. Mr. Mandel reminded the Trustees that as part of the 2009 audit plan, construction audits are now being performed in-house by Office of the University (OUA) staff. He stated that several construction audit assignments were currently in progress and/or had been completed and anticipated the completion of a total of 12 assignments by the next board meeting.

**Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2010**

Mr. Mandel stated that each year at the January meeting of the Board of Trustees, the Committee on Audit selects the audit assignments for the OUA and approves the audit plan for the year. He noted that the OUA performed a risk assessment of the California State University (CSU) in the last quarter of 2009 to determine the areas of highest risk to the system. The results of that risk assessment indicated the following eight areas: Financial Aid, NCAA, Post-Award, IT Disaster Recovery Planning/Backups, HIPAA Security, Business Continuity, Main and Satellite Cashiering, and Fund-Raising and Gift Processing. He further noted that audits would be performed at those campuses where a greater degree of risk was perceived for each of these areas. Mr. Mandel added that FISMA (financial internal control) audits would no longer be conducted in the same manner as has been done for the past 15 years. He explained that in prior years, FISMA audits were conducted at each of the campuses every two years as required by the Office of State Audits and Evaluations of the Department of Finance (DOF), and included approximately ten specific areas, such as cash, accounts payable, etc. However, the DOF has requested a different auditing approach that would address all high-risk areas, whether or not they are included in those ten specific areas. As a result, this new approach would show that the CSU has a system of internal control that can be relied upon. Mr. Mandel indicated that along with the high-risk areas, Auxiliary Organizations and Construction audits would continue to be included in the 2010 audit plan. He explained that audits are conducted at each campus on a three-year cycle for the approximately 91 auxiliary organizations. In addition, another 12 construction projects would be reviewed in 2010 and would include the most costly projects in the system.

Mr. Mandel reminded the Trustees that at the November meeting of the Committee on Audit, he indicated that he would be proposing a resolution as part of the 2010 audit plan that would address the development of a systemwide compliance function which will be housed within the OUA. In order to leverage audit resources and take a proactive approach to reduce the potential number of audit issues, the reallocation of resources to develop a compliance function was recommended.

Trustee Chandler inquired as to the follow-up process regarding outstanding recommendations, noting its importance for identifying problems at the campuses.

Mr. Mandel explained that each campus is required to submit sufficient documentation to the OUA demonstrating that a particular recommendation has been satisfied. He added that management then verifies that the campuses have, in fact, completed the recommendations appropriately.

Trustee Holdsworth asked for the status of the audits pertaining to the NCAA, Division I schools.

Mr. Mandel responded that the audit of Athletics Administration was conducted a couple of years ago; and at that time, all the Division I schools were completed. He explained that the

NCAA subject area proposed for the 2010 audit plan would be an additional review to ensure that the OUA recommendations had been implemented. He added that other schools in addition to the Division I schools may be included in these reviews.

Trustee Holdsworth inquired as to the number of schools that could potentially be included in the review process for NCAA.

Mr. Mandel responded that the number of schools selected for review would be determined by those with the highest risk according to the risk assessment but would probably be five or six schools. He added that schools with other than NCAA affiliation may be selected for review.

Trustee Holdsworth inquired as to status of the information security audit.

Mr. Mandel responded that the Information Security audit has been ongoing for the last two years, with the assistance of two special consultants (who were previously employed with KPMG). He stated that a systemwide report on information security that includes reviews at 20 campuses will be presented to the board at the next meeting. Mr. Mandel commented that all of the campuses have been very complimentary regarding the audit, offering that it had visible value to the campuses and helped them to achieve their objectives pertaining to information security.

Trustee Holdsworth shared his concern with the importance and high visibility of information security at the campuses and asked whether it would be beneficial to audit this area again this year.

Mr. Mandel acknowledged the high visibility of information security. However, he indicated that since information security had been reviewed for the last two years, the campuses should be given the chance to complete the recommendations before any further review is conducted.

Trustee Mendoza inquired about the salary findings from approximately two years ago and the lack of sufficient follow-up as indicated by the Bureau of State Audits (BSA).

Chancellor Reed stated that it is his responsibility to respond to all BSA audits and noted that he responded to two state audits regarding executive compensation and hiring practices. He explained that due to specific reasons, management responded to some of the findings in ways that were insufficient according to the state auditor. For example, instead of setting an absolute maximum for the reimbursement of relocation expenses, management responded that it was not practical or possible considering the vast differences in relocation costs. Another example pertained to the state auditor's recommendation that every leave of absence should be approved by the Board of Trustees. Chancellor Reed explained that this recommendation would not be feasible given the CSU has approximately 48,000 employees. Therefore, to address this issue, management changed Title 5 to include expanded definitions and criteria, giving campus presidents and the chancellor the authority to approve paid leaves of absences. In addition, the state auditor also recommended that the CSU change its existing systems regarding the monitoring of all CSU employee payroll transactions. He indicated that this was not feasible

## Audit

given that the implementation of this recommendation would include the hiring of several new employees throughout the campuses. Therefore, management responded that the chancellor would approve payroll transactions (salaries and benefits) for all new employees at the vice presidential level and above and report this information to the board at each September meeting. Regarding hiring practices, the state auditor recommended that the CSU require disclosure from all employees, including faculty members, who have dual employment outside of the CSU. Management responded that collective bargaining agreements prohibit the CSU from requiring these disclosures. Chancellor Reed summarized by stating that it is his intention for the CSU to be as transparent as possible and stated his belief that the recommendations for the two above-noted state audits were addressed in the most comprehensive way.

Trustee Hauck asked Chancellor Reed whether he has had an in-person discussion with the state auditor. He stated his belief that a meeting may be beneficial in an attempt to explain that we have provided substantial compliance in the spirit of the recommendations, and that some of the items are literally impossible or too costly to implement.

Chancellor Reed responded that he has not personally met with the state auditor to discuss these issues, but will do so.

Trustee Carter also encouraged Chancellor Reed to meet in-person with the state auditor in the hope that she would come to understand our position on these issues.

Trustee Hauck agreed with Trustee Carter's suggestion but in the event that the discussion is unsuccessful, he suggested that consideration be given to meeting with the Joint Legislative Budget Committee. Because the CSU has acted in good faith and provided substantial compliance with the recommendations, he stated his belief that it is unjust for the state auditor to go public with an inaccurate statement that the CSU literally did not implement the recommendations.

Trustee Mendoza also agreed with the suggestion regarding the meeting with the state auditor especially in light of this information being in the press.

Chair Guzman called for a motion to approve the Committee Resolution (RAUD 01-10-01). A motion was then made and the resolution was passed unanimously to approve the audit plan for calendar year 2010.

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

Chair Guzman complimented the campus presidents and their staffs for their exceptional efforts in the financial statement preparation process. She indicated that based on prior discussions with KPMG management, this year's report is very favorable and noted that the major difference from last year was due to the advanced preparation and focus on the part of the various accounting staffs.

Mr. George V. Ashkar, interim assistant vice chancellor/controller, presented the financial statements for the CSU system for fiscal year ended June 30, 2009. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) using the business-type model as do most public universities in the United States.

Mr. Ashkar reported that the general fund appropriation decreased by \$817 million, representing a decrease from the previous year of 27.5 percent. In addition, student fee revenues increased by \$101 million (approximately 7 percent) from the previous year due to student fee rate increases and enrollment growth. He further reported that the CSU received \$268.5 million in fiscal year 2009 as the first phase of the Federal American Recovery and Reinvestment Act (ARRA) funds, which are intended to offset the state general fund appropriation reduction in fiscal year 2009; the remaining \$448 million was received in fiscal year 2010. Regarding student enrollment, he noted that head count had increased by one-tenth of 1 percent (from 465,703 in 2008 to 466,075 in 2009); and full-time equivalent students had also increased by approximately 1.1 percent (from 368,424 in 2008 to 372,393 in 2009).

Mr. Ashkar reported that total revenues (operating, non-operating, and capital) for the university decreased from \$6.3 billion in 2008 to \$5.7 billion in 2009, which is a decrease of 9.6 percent. The major sources in total revenue included the following: decrease of \$817.3 million in state non-capital appropriations; decrease of \$202 million in state capital appropriations; increase of \$100.8 million in student tuition and fees; increase of \$314.2 million in grants, contracts, and gifts (including \$268.5 million in the federal AARA funds); and a decrease of \$5 million in other sources such as auxiliary enterprise and investments. He further reported that total investment and endowment income for the university decreased by \$22.8 million (from \$115.2 million in 2008 to \$92.5 million in 2009). In addition, due primarily to the economic downturn, the total investment and endowment loss for the auxiliaries increased by \$126.8 million (from \$32.6 million in 2008 to \$159.4 million in 2009).

Trustee Mendoza asked for the percentage of the endowment loss for the auxiliaries.

Lori Redfearn, assistant vice chancellor, advancement services, responded on behalf of Mr. Ashkar and stated that the losses in endowments were 17 percent, which compares to the average for universities across the nation of 19 percent.

Mr. Ashkar reported that total operating expenses for the university increased from \$5.6 billion in 2008 to \$5.7 billion in 2009, mainly due to an increase in student grants and scholarships. He noted that instruction and educational support account for nearly 70 percent of the total operating expenses; educational support includes research, public service, academic support, student services, and student grants and scholarships.

Mr. Ashkar reported that net assets decreased from \$5.6 billion in 2008 to \$5.4 billion in 2009 (3.3 percent decrease). He added that this was due primarily to a decrease of \$429 million in Unrestricted Net Assets offset slightly by an increase of \$147 million in Invested in Capital Assets Net of Related Debt and an increase of \$98 million in unexpended Capital Outlay funds. He noted that the ending balance in Unrestricted Net Assets as of June 30, 2009, was \$672

## Audit

million as a result of the \$429 million decrease in Unrestricted Net Assets. He further noted that this was due to a timing difference between the recognition of the state budget cut (which was \$715.5 million in fiscal year 2008/09) and the receipt of the remaining AARA grant funds (which was \$448 million in fiscal year 2009/10). He added that the total of the \$429 million decrease in Unrestricted Net Assets relates to a large increase in current liabilities and accounts payable. In addition, the Unrestricted Net Assets balance represents resources designated for very specific purposes that may not be repurposed and spent for other activities (e.g., housing, parking, campus-based programs, and special capital projects).

Trustee Hauck asked why unrestricted net assets are labeled as such.

Mr. Mark Thomas, KPMG partner, responded that GASB accounting pronouncements are very specific as far as what can be included in this category. He explained that assets need to be restricted either by the source (the provider) or by law. He added that if an asset has been purposed for a part of a particular program that is not specifically restricted by law or donor, then it ends up in an unrestricted category.

Trustee Hauck asked whether an explanation of unrestricted net assets could be included in a footnote in the CSU financial statements for clarification purposes.

Mr. Thomas responded that the explanation is included as a footnote in the CSU financial statements.

Mr. Ashkar continued his presentation by reporting that state non-capital appropriation budget approved for fiscal year 2010 is \$2.34 billion, which is \$633 million below the 2008 funding level of \$2.97 billion before the economic downturn. He stated that due to the state budget crisis in August 2009, the CSU began furloughing all employees (with the exception of public safety personnel) two days per month. As a result, the state furloughs will reduce up to \$273 million in expenditures for fiscal year 2010. He further stated that the state will be deferring some payments to the CSU – \$290 million that was due in July 2009 was deferred until October 2009 and it is anticipated that \$250 million due in February 2010 and \$150 million due in March 2010 will both be deferred until May 2010 (most due to payroll requirements).

Trustee Linscheid asked for an explanation of the technical difference between deferred and borrowed in regard to the state's deferred payment agreement. He added his understanding that the CSU is essentially loaning the money to the state and asked if this was a correct assumption. Dr. Benjamin F. Quillian, executive vice chancellor/chief financial officer, responded that in essence the CSU is loaning the state money; however, there is no payment of interest.

Trustee Mendoza inquired as to how the CSU was able to operate with the large decrease in cash (from \$29 million at July 1, 2008 to \$9 million at June 30, 2009). He commended the efforts in ensuring that the CSU was able to function with this type of challenge.

Mr. Ashkar responded that at year end, he was providing cash reports daily to Dr. Quillian and stated that there was uncertainty as to our position as we were starting to collect fees. He further

stated that while the system was always able to stay in a positive position, management believed, at one point in time, that the system was going to run negative by as much as \$100 million. Mr. Ashkar added that when management reported to the rating agencies, they complimented our cash management efforts.

Mr. Ashkar then presented the findings of the A-133 Single Audit Report. He stated that every year, the CSU system issues a single audit report that includes the 23 campuses and the chancellor's office; however, it does not include the auxiliaries. He further stated that the report discloses the findings and questioned costs relating to the following: financial statements reported in accordance with Government Auditing Standards (GAS) and the federal awards in accordance with Office of Management and Budget (OMB) Circular A-133. He explained that an entity that expends \$500,000 or more in a year in federal awards is required to issue a single audit report. He noted that the federal awards reported by the campuses, including financial aid and non-financial aid programs, are disclosed in the systemwide single audit report. Mr. Ashkar then highlighted significant details in the report. He indicated that total federal awards received by the university increased by \$497 million (from \$1.45 billion in fiscal year 2007/08 to \$1.947 billion in fiscal year 2008/09). He added that this increase is mainly due to \$268.5 million in ARRA funds and an increase of \$232.8 million in the Family Education Loan, the Pell Grant, and the Perkins Loan.

Chancellor Reed commented on the importance of the increase in the federal awards, especially as it relates to Pell Grant loans. He added that the CSU is the largest beneficiary in the United States of Pell Grant scholarships.

Mr. Ashkar continued his presentation by providing a summary on the four findings of the A-133 Single Audit Report. He reported that finding 09-01 related to systemwide information technology segregation of duties conflicts and system access. He noted that KPMG had acknowledged that management had undertaken a comprehensive plan to establish standardized procedures to monitor the activities of users with high-level access authority in situations where the segregation of duties was not feasible. He further noted that KPMG assessed management's remediation efforts and noted that the chancellor's office and all campuses were in compliance with segregation of duties and/or mitigating controls since the issuance of the A-133 Single Audit Report. He added that management will continue to enforce the implementation of monitoring controls and periodic access reviews, as well as the monitoring of security on an ongoing basis. Mr. Ashkar reported that findings 09-02 through 09-04 related to the administration of federal financial programs (i.e., Pell Grant, Family Education Loans, and the William Ford Direct Loans). Specifically, finding 09-02 pertained to the lack of Pell Grant payment procedures and timely reporting of disbursements at some of the campuses. Finding 09-03 pertained to the lack of required communication within the specified time of disbursements of Family Education Loans at one campus. The 09-04 finding indicated that some of the campuses tested were not reporting timely and accurate student status changes, such as withdrawal and graduation, with regard to Family Education Loans and William Ford Direct Loans.

## Audit

Mr. Ashkar summarized by stating that the chancellor's office will coordinate with the applicable campuses to ensure appropriate corrective action is taken on the reported findings and will provide ongoing progress reports to the board until all corrective actions have been completed. He further stated that follow-up will also be reported to the board regarding findings noted during the auxiliary reviews.

Mr. Ashkar concluded by thanking and congratulating the campus presidents and their accounting staffs for the extremely great effort provided this year, especially with the challenging year due to furloughs, and for the efficiency and timely completion of the financial reporting process.

Trustee Mendoza asked whether the questioned costs totaling \$50,000 are required to be repaid.

Mr. Chris Ray, managing partner, KPMG, responded that it is the federal government's decision as to the repayment of questioned costs.

Chancellor Reed added that the repayment amount for questioned costs is usually negotiated with the federal government.

Mr. Ashkar then introduced Mr. Ray who discussed the audit of the CSU systemwide financial statements for fiscal year 2008/09.

Mr. Ray stated that the consolidated financial statements include over 120 different organizations, including the auxiliary organizations. He further stated that the auxiliary organizations audits are performed by over 31 different external auditing firms, which are primarily small firms, minority firms, disabled veteran firms, and local firms within the location of the various campuses. KPMG then combines all of those reports and ultimately issues the systemwide report. He reported that KPMG provided an unqualified, clean opinion on the university's financial statements, which speaks very highly to the effort provided by the campuses accounting staffs regarding the financial statement reporting process. He indicated that KPMG also issues a report on compliance with internal controls and in accordance with GAS. He added that KPMG was required to report a finding pertaining to the systemwide information technology segregation of duties conflicts and system access, as it related to internal control deficiencies. He was glad to report that the one control finding noted in last year's financial statement audit related to financial reporting and preparedness was no longer a systemic issue at all of the campuses.

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 \$1.6 billion), it is subject to 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), the AARA program, and the Head Start Program (which is located at two campuses).

Mr. Ray provided some required communication that must be presented at the end of each audit. He stated that when an audit is performed in accordance with GAS, KPMG reviews controls in place and, based on those controls, determines the audit procedures to be performed. He further stated that if there were significant findings noted in the audit, KPMG would be required to communicate those to the board. He added that the only significant finding pertained to the systemwide information technology segregation of duties conflicts and system access that was noted by Mr. Ashkar. He indicated that there is disclosure included in the footnotes in the financial statements indicating that certain amounts are estimates (e.g., the collectability of receivables). He reported that there were no significant audit adjustments in this year's audit. He added that if there were disagreements with management or difficulties encountered during the audit, these issues would be communicated to the board at this time, but there were none to report. Mr. Ray stated that KPMG is required to inform the board of any management advisory or consultant services performed as part of the audit; the only additional work performed by KPMG for the CSU was further testing to ensure that the information technology remediation effort was working effectively. He added that initial testing indicated exceptions; modifications were then made; and subsequent testing in January indicated that the proper controls had been put in place and were operating effectively.

Trustee Holdsworth inquired as to whether there were any recurring auxiliary organizations issues that should be noted, specifically in regard to the five auxiliary organizations noted in the report, and whether progress is being made.

Mr. Ray responded that issues noted during the audit of the auxiliary organizations change each year. He added that some of the issues for fiscal year 2008/09 related to control deficiencies at certain campuses, but not at all the campuses. He stated that when compared to prior years, five is less than what has been previously noted at the auxiliary organizations. He further stated, however, that because the CSU has continued to see issues at the auxiliary organizations each year, ongoing monitoring and evaluation would need to be required. He noted that as recommended by Mr. Ashkar and his team, KPMG provided webcast training sessions for the auxiliary organizations, as well the auxiliaries' external auditors, in an effort to ensure that everyone is up to date on new accounting standards, etc. He commented that these types of strategies are a step in the right direction to ensure quality within the auxiliary organizations.

Mr. Ashkar added for clarification and edification that the follow-up process regarding the issues with the five auxiliary organizations (out of approximately 91) will go through the same clearing process for clearing items as is done with all of the other campus findings. He reminded the Trustees that the process includes receiving the supporting documentation from the auxiliary organizations and providing it to the OUA for their review and verification for clearing the recommendations. Progress reports will also be presented to the board at each meeting, providing a status on these findings.

Mr. Hauck asked whether the auxiliary organizations were receptive to the training.

## Audit

Mr. Ashkar responded that the auxiliary organizations were very receptive to the training; and during the monitoring of the sessions, it showed that not only auxiliary personnel were participating, but also some of the external auditors.

Mr. Ashkar stated that in order to ensure independence of the external audit firm, KPMG engagement partners are periodically rotated and noted that this was Mr. Ray's transition year. He thanked Mr. Ray for all of his efforts during the past two years. He then stated that Mr. Mark Thomas would be replacing Mr. Ray in his systemwide role as the engagement partner. He reminded the Trustees that Mr. Thomas is no stranger to the CSU and had previously been on the audit for ten years, had rotated off for two years, and had managed a couple of the audits on the campuses this past year.

Ms. Guzman commended and thanked the campuses for their tremendous efforts in meeting the requirements of the audit. She stated her belief that the improvement was due to the planning, the focus, and the advanced preparation of the campus presidents and their staffs.

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 2010 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of Auxiliary Organizations, high-risk areas (Main and Satellite Cashiering, Post Award process, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA Security, Business Continuity, and Fund-Raising) and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Information Security, Emergency Preparedness, Off-Campus Activities, and Student Records) is currently being conducted on approximately 40 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 2010 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: Auxiliary Organizations, high-risk areas (Main and Satellite Cashiering, Post Award process, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA Security, Business Continuity, and Fund-Raising) and Construction.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 314 staff weeks of activity (31.9 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/32 auxiliaries. Fieldwork is being conducted at one campus/four auxiliaries.

#### *High Risk Areas*

##### Main and Satellite Cashiering

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing cash receipt controls; accountability for cash; safeguarding of

cash; and accurate recordkeeping. Six campuses will be reviewed. Report writing is being completed at six campuses.

#### Post Award

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing 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. Six campuses will be reviewed. Fieldwork is currently taking place at one campus.

#### Information Technology Disaster Recovery

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing 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. Six campuses will be reviewed.

#### Financial Aid

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing funding arrangements; compliance with federal and state laws, Trustee policy, and systemwide directives; reliability, confidentiality, and integrity of information; effectiveness, efficiency, and economy of operations; and attainment of established objectives and goals. Six campuses will be reviewed.

#### Intercollegiate Athletics

The initial audit plan indicated that approximately 43 staff weeks of activity (4.3 percent of the plan) would be devoted to auditing 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. Six campuses will be reviewed.

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

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing procedures for handling confidential information; communications; training; and necessary retention of key records. Six campuses will be reviewed

### Business Continuity

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing 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. Six campuses will be reviewed.

### Fund-Raising and Gift Processing

The initial audit plan indicated that approximately 42 staff weeks of activity (4.2 percent of the plan) would be devoted to auditing 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. Six campuses will be reviewed.

### *Construction*

The initial audit plan indicated that approximately 92 staff weeks of activity (9.3 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. Report writing is being completed for one project, and fieldwork is currently taking place for two projects.

### *Compliance Function*

The initial audit plan indicated that approximately 86 staff weeks of activity (8.7 percent of the plan) would be devoted to an initial inventory of compliance activities and owners, and a determination of major areas of compliance risk.

### *Information Systems*

The initial audit plan indicated that approximately 45 staff weeks of activity (4.6 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training are ongoing.

### *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.

### *Special Projects*

The Office of the University Auditor is periodically called upon to provide non-investigative support to the chancellor's office/campuses. Twenty-seven staff weeks have been set aside for this purpose, representing approximately 2.7 percent of the audit plan.

### *Follow-ups*

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 40 prior audits (FISMA, Auxiliary Organizations, Information Security, Emergency Preparedness, Off-Campus Activities, 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. Seventeen staff weeks have been set aside for this purpose, representing approximately 1.7 percent of the audit plan.

*Committees*

Staff of the Office of the University Auditor is periodically called upon to sit on systemwide committees to offer an audit perspective. Seven staff weeks have been set aside for this purpose, representing approximately 0.7 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.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 3/1/2010)

	2010 ASSIGNMENTS									FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS												
	Aux Orgs	Main & Satel Cashg	Post Award	IT Distr Rcvry	Fin Aid	Inter Athls	HIPAA Scrty	Bus Cont	Fund Raisg	FISMA		Auxiliary Organizations		Information Security		Emergency Preparedness		Off Campus Activities		Student Records		
										*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK										14/14	-	3	19/19	-								
CHI										8/8	-	3	6/6	-	28/28	-						
CI										9/9	-	3	10/10	-								
DH										7/7	-	3	14/14	-	19/19	-						
EB										25/25	-	4	29/30	16								
FRE										14/14	-	6	25/25	-	0/22	5					5/6	13
FUL										5/5	-	4	30/32	8	16/16	-	0/2	3	1/8	5		
HUM										11/11	-	4	15/15	-			8/8	-				
LB										13/13	-	3	14/34	4	3/21	4					3/3	-
LA										3/3	-	4	11/11	-					3/6	4	6/6	-
MA										3/6	8	2	15/15	-			5/6	4				
MB										11/11	-	2	15/15	-							9/9	-
NOR		RW								16/16	-	5	14/27	5	16/16	-						
POM										6/6	-	3	24/24	-	16/16	-	6/7	7				
SAC		RW								4/4	-	6	28/28	-								
SB		RW								6/7	6	3	0/30	5							8/8	-
SD	RW		FW							2/2	-	4			14/14	-			0/6	5	8/8	-
SF		RW								6/6	-	5	32/32	-	3/19	6	2/3	6				
SJ										9/9	-	5	32/32	-	25/25	-	5/7	6				
SLO										12/12	-	4	23/24	14								
SM		RW								3/3	-	3	22/22	-			2/2	-			8/8	-
SON										2/4	5	4	18/18	-	20/20	-					5/5	-
STA		RW								4/4	-	4	17/17	-	27/27	-	0/6	4				
CO			FW							2/2	-	2	4/4	-								
SYS																					4/11	8

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.

**Status Report on Current and Follow-Up Construction Audit Assignments**  
(as of 3/1/2010)

	Project No.	Project	Contractor	Construction Cost	Start Date	Comp. Date	Managed By	Current *	Campus Follow-Up		CPDC Follow-Up	
									**RECS	***MO.	**RECS	***MO.
2009	CH-597	Student Services Center	Turner Construction	\$34,449,814	8/10/2006	Apr-08	Campus	AC	9/10	8	1/1	-
	MB-647	Library	SJ Amoroso	\$54,697,000	9/11/2006	Sep-08	Campus	AC	3/3	-		
	SL-49	Faculty/Staff Housing	BDC Development	\$16,584,310	5/30/2004	Aug-07	Auxiliary	AC	0/7	6		
	SB-640	College of Education	douglas e. barnhart	\$37,371,905	7/17/2006	Oct-08	Campus	AI				
	CI-250	John Spoor Broome Library	PCL Const Services	\$40,763,528	1/13/2006	Mar-08	CPDC/Campus	AI				
	NO-218	Student Housing Phase I	Bernards Brothers	\$23,305,317	12/17/2007	Apr-09	Campus	AI				
	HU-609	Forbes PE Complex Ren.	Kiewit Construction Co.	\$38,675,000	6/27/2006	Mar-09	Campus	AI				
	PO-717	Science Bldg. Seismic Ren.	Kemp Bros. Constr.	\$17,540,000	9/25/2006	Jan-09	Campus	RW				
	LA-105	Student Union Replacement	douglas e. barnhart	\$31,595,595	8/14/2006	Nov-07	Campus	RW				
	FR-720	Library Addition and Ren.	Swinerton Builders	\$73,241,559	11/29/2006	Dec-08	Campus	RW				
2010	SO-30	Housing Phase II	Wright Contracting	\$46,395,000	7/23/2007	Aug-09	Campus	RW				
	FU-100003	College of Business & Econ	Turner Construction	\$75,484,293	12/18/2006	Aug-08	Campus	FW				
	EB-431	Pioneer Heights Std Housing	Lathrop Construction	\$24,135,000	7/20/2007	May-09	Campus	FW				
*FW = Field Work in Progress; RW = Report Writing in Progress; AI = Audit Incomplete (awaiting formal exit conference and/or response); AC = Audit Complete												
**The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.												
***The number of months that recommendations have been outstanding (since the formal exit conference).												

## **COMMITTEE ON AUDIT**

### **Update on the status of corrective action for the findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports For The Fiscal Year Ended June 30, 2009**

#### **Presentation by**

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

1. Corrective action for findings in the CSU A-133 Single Audit Reports

With respect to the finding 2009-01 IT Segregation of Duties Conflicts and System Access, the implementation of the standardized procedures for segregation of duties and monitoring controls was completed by January, 2010. Monitoring of compliance with the procedures is an on-going process.

There were three audit findings related to Federal financial aid programs: 2009-02 Pell Payment Data Reporting, 2009-03 Special Tests and provisions on Disbursements regarding Federal Family Education Loans, and 2009-04 Special Test and Provisions on Student Status Changes regarding Federal Family Education Loans and William Ford Direct Loans. Some findings involved more than one campus. Corrective action is complete at two of the five campuses, but is still in progress at three campuses. The goal is to complete the corrective action for all campuses before the Board meeting in May, if possible.

2. Corrective action for findings in the campus auxiliary organization audit reports

Of the five auxiliary organizations with material weaknesses in internal control over the financial reporting process, corrective action is complete at two of the auxiliaries, but is still in progress at three auxiliaries. The goal is to complete the corrective action for all auxiliaries before the Board meeting in May, if possible.