

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 10:30 a.m., Tuesday, March 19, 2013**  
**Glenn S. Dumke Auditorium**

Henry Mendoza, Chair  
William Hauck, Vice Chair  
Lupe C. Garcia  
Steven M. Glazer  
Hugo N. Morales  
Glen O. Toney

#### **Consent Items**

Approval of Minutes of Meeting of January 22, 2013

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on 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, 2012, *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 22, 2013**

**Members Present**

Henry Mendoza, Chair  
Edmund G. Brown, Jr., Governor  
Steven M. Glazer  
Bob Linscheid, Chair of the Board  
Peter Mehas, Acting Member  
Hugo N. Morales  
Gavin Newsom, Lt. Governor  
Timothy P. White, Chancellor

Chair Mendoza called the meeting to order.

The minutes of the meeting of November 13, 2012, 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 22-23, 2013, Board of Trustees agenda.

Mr. Mandel reminded everyone that updates to the status report are displayed in green numerals and indicate progress toward or completion of outstanding recommendations since the distribution of the agenda. He noted that the campuses have completed all recommendations pertaining to IT Disaster Recovery, ADA Compliance, Sensitive Data, and Academic Personnel, as well as for the four completed construction projects. He stated that the campuses deserve a note of recognition for their tremendous effort in this process. He reported that the CSU Chancellor's Office systemwide recommendations for IT Disaster Recovery and Sensitive Data have now been completed, and only one remains open pertaining to Academic Personnel. He added that the Office of the University Auditor is currently working with the CSU Chancellor's Office in order to complete the three systemwide recommendations pertaining to ADA Compliance by the March board meeting. In addition, Mr. Mandel stated that the audit assignments, including the construction projects, from the 2012 audit plan would also be completed by the March board meeting.

Chair Mendoza commended all the campus presidents and their staffs for their commitment and effort in the timely completion of the audit recommendations. He stated his appreciation for the

vast improvement on the number of months outstanding since the time he became the chair of the Committee on Audit.

Trustee Glazer asked whether there were any crime reporting issues noted in the Police Services audit at the various campuses.

Ms. Wendee Shinsato, audit manager, Office of the University Auditor, responded that the crime reporting section of the Police Services audit covered a limited scope, specifically the campus's procedures for reporting crimes. She added that the audit did not focus on what crimes are being committed on the campuses and their process for alleviating it.

Trustee Glazer inquired as to how the campuses acquire crime statistics.

Ms. Shinsato responded that The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act requires the distribution of an annual security report (Clery Report) to all current faculty, staff, and students and notice of its availability to prospective students, faculty, and staff. The Clery Report is posted to the California State University (CSU) website for each campus and includes statistics for the previous three years concerning reported crimes that occurred on campus, in certain off-campus buildings or property owned or controlled by the California State University, and on public property within, or immediately adjacent to and accessible from the campus.

Chancellor White also responded to Trustee Glazer's question regarding crime statistics. He stated that in order to serve the trustees' purpose regarding information on reported crime activity and public safety at the campuses, an integrated report would be completed and presented by either the March or May board meeting.

### **Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2013**

Mr. Mandel stated that each year at the January meeting of the Board of Trustees, the Committee on Audit reviews the audit assignments for the Office of the University Auditor (OUA) and approves the audit plan for the year. In addition, Mr. Mandel noted that the OUA performed a risk assessment of the CSU in the last quarter of 2012 to determine the areas of highest risk to the system. The results of that risk assessment indicated the following six highest-risk areas for review in 2013: Centers and Institutes, International Programs, Sensitive Data Security and Protection, Hazardous Materials Management, Student Health Centers, and Conflict of Interest. He indicated that audits would be performed at those campuses where a greater degree of risk was perceived for each of these areas. He then explained that audits are periodically performed of high-profile areas in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system. Several years ago, the National Science Foundation requested the OUA to perform periodic reviews of sponsored programs; therefore, Sponsored Programs – Post Award has also been selected as a subject area for 2013. Mr. Mandel stated that audits will also be performed that address core financial areas. This year the OUA will complete an audit of Credit Cards, which includes procurement cards, travel cards, one-cards, etc. He

further indicated that along with the high-risk areas, auxiliary organizations and construction audits would continue to be included in the audit plan, along with any requested special investigations. He explained that auxiliary organizations audits are conducted at each campus on a three-year cycle for the approximately 92 auxiliary organizations. In addition, as part of the proposed 2013 audit plan, Mr. Mandel introduced a new function that the OUA would like to offer to all campuses, called Advisory Services. OUA Advisory Services would partner with management to identify solutions for business issues, offer opportunities to improve the efficiency and effectiveness of operating areas, and assist with special requests, while ensuring the consideration of related internal control issues. Advisory services are more consultative in nature than traditional audits and are performed in response to requests from campus management. The goal of OUA Advisory Services would be to enhance awareness of risk, control, and compliance issues and to provide a proactive independent review and appraisal of specifically identified concerns.

Chair Mendoza commented that the Advisory Services function would be a great benefit to the campuses, by assisting management in a proactive way.

Trustee Glazer also supported the audit plan for 2013. He asked for Mr. Mandel's insights as to whether there is a role for the OUA in the external audit process and whether it should be part of the 2013 audit plan. He suggested that specifically the OUA could review the current process to ensure good practices going forward and provide input and advice on the selection of the system external auditor and systemwide audit activities.

Mr. Mandel responded that the OUA could certainly carve out a portion of its resources to assist with the external audit process.

Trustee Glazer indicated that one option would be for Mr. Mandel to put forward a potential work plan, the costs associated with the plan, and how it would affect other reviews identified within the 2013 audit plan, in order to allow the Committee on Audit members to discuss whether having the OUA participate in the external audit process would be a productive course of action.

Chair Mendoza agreed with Trustee Glazer and wants to also include in the discussion the changing role of the Committee on Audit members pertaining to the external auditor selection process in order to provide better governance.

Mr. Mandel stated that he will present a work plan regarding the OUA's participation in the external audit process at the March board meeting.

Chair Mendoza called for a motion to approve the committee resolution (RAUD 01-13-01). A motion was then made, and the resolution was passed unanimously to approve the audit plan, as amended to include preparation of scope of work regarding input and advice on the selection of the system external auditor and systemwide audit activities, for calendar year 2013.

## **Report on the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management**

Dr. Benjamin F. Quillian, executive vice chancellor/chief financial officer, stated that as required by state law and federal requirements, the CSU system and all its recognized auxiliary organizations are subject to annual audits of the financial statements.

Mr. George V. Ashkar, assistant vice chancellor/controller, presented the financial statements for the CSU system for fiscal year ended June 30, 2012. Mr. Ashkar reported that total revenues for the university were \$6.2 billion in 2011-2012 and added that there was no significant change in total revenues from the prior year. He stated that there was an increase of \$317 million in student tuition and fees; an increase of \$38.9 million in grants, contracts and gifts; an increase of \$40.8 million in sales and services; and an increase of \$265.6 million in other sources such as investment income. He added that the increases in university revenues were offset by a decrease of \$580 million in noncapital state appropriations. He also noted that student tuition and fees are greater than state appropriation, noncapital and capital by 1 percent.

Mr. Ashkar reported that total operating expenses for the university increased by \$174 million (3 percent), from \$5.9 billion in 2010-2011 to \$6.0 billion in 2011-2012. The main factor was due to increased student enrollment (instruction expenses, grants and scholarships, and student services), as well as other factors in auxiliary enterprises due to housing and parking lot improvements, depreciation and amortization, and operating maintenance and repair. He noted that instruction and other educational support activity account for approximately 70 percent of the total operating expenses.

Mr. Ashkar reported that there were no significant changes in total net assets for fiscal year 2011-2012. Total net assets as of June 30, 2012, were \$5.8 billion. He further reported that there was an increase of \$77.3 million in unrestricted net assets, which is mainly due to increases in student fees in fiscal year 2011-2012. He added that the increase of \$77.3 million is the net of a \$140 million increase in designated and a \$56 million decrease in undesignated. He also noted that there was a decrease of \$107.5 million in unrestricted expendable net assets, mainly due to debt service repayments, spending down of existing capital appropriations, and not receiving new capital appropriations. Mr. Ashkar indicated that the ending balance of the unrestricted net assets reached \$1.9 billion – most of them are designated for very specific purposes. He further indicated that although unrestricted net assets are not subjected to externally imposed restrictions per accounting definition, most of them (\$1.33 billion) are designated for very specific purposes (i.e., enterprise activities, campus-based programs, etc.). He also added that approximately \$584 million are undesignated and dedicated primarily to working capital in the operating fund and reserve for contingencies.

Mr. Ashkar provided information pertaining to major events since June 30, 2012, as follows: The State Budget Act for fiscal year 2012-2013 provides the CSU with general fund appropriations of \$2.06 billion, approximately the same level as operating support as in the fiscal year 2011-2012 enacted budget. In addition, the CSU anticipates a \$51.5 million adjustment in university appropriations that was not included in the fiscal year 2012-2013 enacted budget to

account for fiscal year retirement cost increases. In November 2012, Proposition 30 was passed by voters. As a result, a potential decrease in the fiscal year 2012-2013 budget was avoided. Therefore, a rollback of tuition fees for terms beginning Fall 2012 occurred, and the CSU refunded \$132 million; it is anticipated that \$125 million of which will be recovered from the state in fiscal year 2013-2014.

Trustee Glazer commented on the lack of information in the agenda regarding the annual audit of the financial statements. He stated his belief that it serves the system well to be expansive with this type of information as there are so many issues that go into the financial health of the campuses. Given the vastness and complexity of the CSU financial systems, he believes that it would be more helpful if additional information were provided in summary form with as much detail as is reasonable for the trustees' review prior to board meetings.

Chair Mendoza agreed with Trustee Glazer that in the future, the Board of Trustees members should receive all reports/documentation pertaining to the annual financial statement audit prior to board meetings.

Mr. Ashkar apologized for the oversight. Copies of the CSU Financial Statements for the period ending June 30, 2012, had been mailed to the Board members prior to the Board meeting. However, copies of the CSU Financial Statements for and Single Audit Reports were then distributed during the meeting. He stated that he would ensure that the trustees are provided with this information prior to future board meetings.

### **Single Audit Report of Federal Funds**

Mr. Ashkar 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 CSU Chancellor's Office. 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 federal awards recorded by the campuses, including financial aid and nonfinancial 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 \$123 million (from \$2.33 billion to \$2.45 billion in fiscal year 2011-2012). Of the \$2.45 billion, \$1.60 billion was student loans and \$0.85 billion was grants. He further indicated that the \$123 million increase in federal awards was a result of a \$230 million increase in grants and loans of student financial aid, partly offset by a \$107 million decrease in American Recovery and Reinvestment Act (ARRA) funds provided through the State Fiscal Stabilization Fund. He added that the \$230 million consists of a \$192 million increase in loans and a \$33 million increase in grants.

Mr. Ashkar continued his presentation by providing a summary on the findings as a result of the A-133 Single Audit Report. He reminded the trustees that last year's audit noted six findings: one financial finding and five federal awards findings. He stated that this year, the CSU had another clean opinion from KPMG, with no financial findings and only one federal awards finding. He explained that the finding related to verification control procedures in the administration of federal financial aid programs at six campuses. Mr. Ashkar stated that since this is a repeat finding, more time is being expended on this area, and he added that there is a system now in place for verification of tax filings from students and more extensive training is being provided to campus staff. He further stated that all campuses have completed corrective action plans, and the CSU Chancellor's Office, in conjunction with the OUA, will review those plans to ensure appropriate corrective action is taken on the reported findings. Mr. Ashkar indicated that in addition to the campus audits, 20 of the auxiliary organizations receive stand-alone single audits because of the level of funding they receive from the federal government. As a result of these reviews, four auxiliaries had five significant deficiencies and two auxiliaries had two material weaknesses. Mr. Ashkar stated that he would provide a progress report on the status of the completion of all of the corrective action plans at the March board meeting. He then thanked all of the campus presidents, vice presidents of finance, and their accounting staffs for the great effort in completing the financial reporting process this year.

Mr. Ashkar then introduced the KPMG representatives: Mr. Mark Thomas, managing partner, and Tracy Hensley, partner in charge of the A-133 audit. Mr. Thomas reported that KPMG issued unqualified, clean opinions relating to the university's consolidated financial statements and the audit of federal funds for fiscal year ended June 30, 2012. He noted that there was a significant change in the audit scope this year because of recently passed legislation, i.e., stand-alone financial statement audits of the individual campuses are no longer required. However, he noted that there is a reporting requirement that each campus's financial statements must still be presented as a supplemental schedule.

Mr. Thomas stated that the other component of the annual audit is the single audit of federal funds. Because the CSU is a large recipient of federal funds, it is subject to OMB Circular A-133. He noted that the CSU receives approximately \$2.45 billion in federal funds, of that approximately \$2.38 billion is in student financial aid.

Mr. Thomas stated that the CSU audit is a significant effort and is a consolidation of more than 120 entities. He explained the makeup and complexity of the CSU reporting entity pertaining to the financial statement audit, noting that it is a substantial undertaking organizationally to bring so many components together into the consolidated financial statements. He noted that in addition to the audits of the 23 campuses, 92 auxiliary organizations receive individual audits of their financial statements as required by the Education Code. Of those 92 auxiliaries, 20 also receive stand-alone A-133 audits because of the level of funding they receive from the federal government. There are also a number of sub-audits occurring in the overall scope of the audit, such as NCAA reports at various campuses, the California State University Risk Management Authority, the Revenue Bond Program (\$4 billion plus in liabilities), etc. Mr. Thomas indicated that the State Controller's Office has a deadline where its goal is to have all state agencies report by mid-October each year; he stated that the CSU system historically has never made that

deadline. However, he reported that due to a change in scope and the improvement in the timing and efficiency of the audit, the financial statements for the CSU system were completed by mid-November this year; a significant accomplishment as the financial statements had never been issued in the month of November. He stated that it was a monstrous undertaking by everyone in the system and the process has improved substantially. He stated his belief that going forward there is a great possibility that compliance with the State Controller's Office reporting requirement is on the horizon.

Chair Mendoza and Trustee Glazer thanked the CSU Chancellor's Office, KPMG, and the campuses for the great effort in the completion of the financial statement preparation process.

Mr. Ashkar noted some of the many reasons for the success of the financial statement process this year. He explained that planning for the next year's audit begins two days after the January board meeting and includes discussions on improving the process. He stated that very intensive training is conducted for all of the campuses and auxiliary organizations and is offered on a repeated basis via the CSU website. He further explained that the interim audit preparation process begins in May, and governmental and nongovernmental fund reporting is now completed in mid-July so that the generally accepted accounting principles (GAAP) process can begin early. He stated that there is a tremendous amount of communication and coordination among the CSU Chancellor's Office, KPMG, and the campuses to help ensure a successful and timely audit.

Governor Brown asked if the big task in completing the annual financial statements is due to the audit of federal funds.

Mr. Thomas responded that the single audit of federal funds (i.e., student financial aid, student loans, grants, etc.) is only one aspect of the year-end audit.

Governor Brown asked why the financial statement preparation process is so complex and difficult and why has it taken several years to improve the process.

Mr. Thomas responded that student financial aid regulations are more much complex than even the tax code when it comes to calculating and refunding financial aid, reporting student status changes and withdrawals, etc. Because of the complexity of the regulations, it has taken years to refine the process to where the campuses are doing a better and better job. He added that the number of audit findings has decreased every year to where it is just one finding this year.

Governor Brown asked if the auditing of federal funds is more complicated than the welfare system and Medi-Cal.

Mr. Thomas responded that KPMG also audits the welfare system and Medi-Cal and stated that clearly, the audit of the CSU system is more complex.

Governor Brown asked whether there is something that we should be advocating by way of the Department of Education to help simplify the process.

Mr. Thomas stated that he is aware of many attempts for more simplicity but currently there is no real active movement toward this. He further stated that the Department of Education dictates the rules and regulations pertaining to federal funds, and as a result, complexities are continually added to the process.

Governor Brown asked whether it needs to be so complex or costly.

Mr. Thomas responded that in relation to the overall audits of the university system, it probably represents about 10 percent of the overall audit costs. He stated that it is a small number, relatively, in comparison and there are 23 campuses with specialized staff that have to constantly be trained on very, very technical areas.

Dr. Eduardo M. Ochoa, interim president, CSU Monterey Bay, stated that the Office of Post-Secondary Education was in charge of developing many of those rules. He stated that the department is limited by statute to developing a single set of rules for all institutions that qualify for federal student aid, including for-profit and very small institutions. His belief is that the rules end up being overly complicated and overly scrutinized of large, well-established institutions, but noted that those are the rules that are needed to catch the abuses that occur in other sectors.

Governor Brown asked if perhaps the same type of model used for K-12, where funds are distributed based on a limited number of simple criteria, would be beneficial in streamlining the process.

Mr. Thomas responded that there are some actions that are currently being proposed to raise some thresholds relating to when an audit has to be done, but those will still affect more lower-dollar recipients and will have zero effect on the CSU system, as well as the other big systems such as the community college systems, the K-12 system, etc.

Trustee Cheyne asked if the public has access to the financial statements and corresponding reports.

Mr. Ashkar responded that the financial statements and corresponding reports, including the consolidated financial statements, campus and auxiliary organization financial statements, the A-133 report, the systemwide Revenue Bond Program report, etc., are all public reports and are posted to the CSU website after the January board meeting.

The meeting adjourned.

## **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 2013 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 (International Programs, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Student Health Centers, and Conflict of Interest), high profile area (Sponsored Programs – Post Awards), core financial area (Credit Cards), and Construction. In addition, follow-up on past assignments (Special Investigations, Auxiliary Organizations, ADA Compliance, Academic Personnel, Cost Allocation, Title IX, Data Center Operations, Facilities Management, Identity Management, International Programs, and Police Services) 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**

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 305 staff weeks of activity (29.7 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/30 auxiliaries. Report writing is being completed for one campus/five auxiliaries.

#### *High-Risk Areas*

#### International Programs

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of program approvals, fiscal administration and controls; risk management processes; curriculum and credit transfers; utilization of third-party providers; compliance with U.S. Department of State and other regulatory international travel requirements;

and processes used to recruit international students, verify student credentials, and provide support on campus. Six campuses will be reviewed. Report writing is being completed for three campuses.

#### Sensitive Data Security

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of policies and procedures for handling confidential information; communication and employee training; tracking and monitoring access to sensitive data; and retention practices of key records. Six campuses will be reviewed. Report writing is being completed for one campus, and fieldwork is being conducted at one campus.

#### Centers and Institutes

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of campus policies and procedures for establishing, operating, monitoring, reviewing, and discontinuing centers, institutes, and similar entities; fiscal administration and controls; faculty workload including the potential for conflicts of interest; policies and procedures for identifying and reporting allegations of misconduct in research and other related activities; and campus processes for reporting entity activities including the implementation status of campus policies and procedures to the CSU Chancellor's Office. Six campuses will be reviewed.

#### Hazardous Materials Management

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of the systems and procedures for controlling the purchase, generation, storage, use and disposal of hazardous materials and wastes; employee training; emergency response plans; reporting requirements; and compliance with federal and state regulations. Six campuses will be reviewed.

#### Student Health Centers

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of compliance with federal and state laws, Trustee policy, and CSU Chancellor's Office directives; establishment of a student health advisory committee; accreditation status; staffing, credentialing and re-credentialing procedures; safety and sanitation procedures, including staff training; budgeting procedures; fee authorization, cash

receipt/disbursement controls and trust fund management; pharmacy operations, security and inventory controls; and the integrity and security of medical records. Six campuses will be reviewed.

#### Conflict of Interest

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of the process for identification of designated positions; monitoring, tracking and review of disclosures relating to conflicts of interest, such as research disclosures; faculty and CSU designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer. Six campuses will be reviewed.

#### *High Profile Area*

#### Sponsored Programs – Post Awards

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of contract/grant budgeting and financial planning; indirect cost administration including cost allocation; cost sharing/matching and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems. Six campuses will be reviewed.

#### *Core Financial Area*

#### Credit Cards

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of credit card administration; compliance with campus policies and procedures; approval to use credit cards; monitoring and review of credit card purchases; enforcement of sanctions for misuse; and processes to deactivate credit cards upon employee termination or transfer. Six campuses will be reviewed.

#### *Construction*

The initial audit plan indicated that approximately 44 staff weeks of activity (4.3 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 closeout process and liquidated damages; and overall project accounting and reporting. Six

projects will be reviewed. Report writing is being completed for one project, and fieldwork is being conducted for one project.

#### *Advisory Services*

The initial audit plan indicated that approximately 171 staff weeks of activity (16.7 percent of the plan) would be devoted to partnering with management to identify solutions for business issues, offer opportunities to improve the efficiency and effectiveness of operating areas, and assist with special requests, while ensuring the consideration of related internal control issues. Reviews are ongoing.

#### *Information Systems*

The initial audit plan indicated that approximately 45 staff weeks of activity (4.4 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 CSU Chancellor's Office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.2 percent of the audit plan.

#### *Committees*

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. Seven staff weeks have been set aside for this purpose, representing approximately 0.7 percent of the audit plan.

#### *Special Projects*

The Office of the University Auditor is periodically called upon to provide non-investigative support to the CSU Chancellor's Office/campuses. Fifty-five staff weeks have been set aside for this purpose, representing approximately 4.9 percent of the audit plan.

*Follow-ups*

The audit plan indicated that approximately 11 staff weeks of activity (1.1 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 (Special Investigations, Auxiliary Organizations, ADA Compliance, Academic Personnel, Cost Allocation, Title IX, Data Center Operations, Facilities Management, Identity Management, International Programs, and Police Services) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

*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 2/28/2013)

	2013 ASSIGNMENTS										FOLLOW-UP PAST/CURRENT ASSIGNMENTS				
	Aux Orgs	Int'l Prog	Credit Cards	Sen Data Security/Protection	Sen Data	Ctrs and Instit	Haz Mat Mgmt	Spon Prog	Health Ctrs	Conflict of Interest	Special Investigations	Auxiliary Organizations	ADA Compliance		
										*Recs **Mo.	*No. *Recs **Mo.	*Recs **Mo.			
BAK											4	16/16	-		
CHI		RW								0/8	4	20/20	-		
CI				FW							3	15/15	-	4/4	
DH											3	22/22	-		
EB											3	21/21	-		
FRE											6	25/25	-		
FUL											4	28/28	-		
HUM											4	25/25	-		
LB		RW									3	34/34	-	3/3	
LA											4	13/13	-	4/4	
MA											2	2/4	11		
MB											2	16/16	-		
NOR			FW								5	13/22	4		
POM											3	12/12	-		
SAC											6	36/36	-		
SB			RW								3	24/28	6	5/5	
SD											4	24/24	-	6/6	
SF			RW								5	19/19	-		
SJ	RW										5		#		
SLO											4	12/12	-		
SM											3	13/13	-	4/4	
SON		RW									4	5/5	-		
STA			RW								4	18/18	-		
CO											2	0/0	-		
SYS														0/3	12

\* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.  
 \*\* The number of months recommendations have been outstanding.  
 ● The number of auxiliary organizations reviewed.  
 # Represents recommendations that are being held in abeyance pending compliance with new systemwide policies.

FW = Field Work In Progress  
 RW = Report Writing in Progress  
 AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  
 AC = Audit Complete

Status Report on Current and Follow-Up Internal Audit Assignments  
 (as of 2/28/2013)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS																
	Academic Personnel		Cost Allocation		Title IX		Data Center Operations		Facilities Management		Identity Mgmt/Comm Access		International Programs		Police Services	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK									5/5	-						
CHI					2/2	-	0/2	5								
CI							0/7	5	4/4	-						
DH							4/4	-							0/7	3
EB	6/6	-					2/6	6								
FRE			2/4	10											0/6	5
FUL					1/3	8							1/4	4		
HUM	4/4	-	0/2	11							0/1	3				
LB	4/4	-					8/8	-								
LA					1/1	-							4/4	-		
MA									0/6	7						
MB											0/2	3				
NOR	5/5	-	2/2	-												
POM							0/8	5	4/4	-						
SAC			0/0	-					1/4	6						
SB																
SD					3/3	-					0/2	3				
SF																
SJ	4/4	-			7/7	-			4/4	-			8/8	-		
SLO			2/2	-												
SM	4/4	-			0/2	6					0/0	-				
SON			0/0	-												
STA													3/5	5		
CO																
SYS	2/3	11	0/1	9												

\* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.

\*\* The number of months recommendations have been outstanding.

• The number of auxiliary organizations reviewed.

# Represents recommendations that are being held in abeyance pending compliance with new systemwide policies.



## **COMMITTEE ON AUDIT**

### **Status Report on 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, 2012**

#### **Presentation By**

George V. Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

As explained at the previous Board meeting in January, there was one audit finding in the University's systemwide A-133 Single Audit Reports for the 2011/12 fiscal year. That audit finding 2012-01 was related to internal control over the verification of student aid application information regarding the Federal awards for student financial aid programs at six campuses. As part of the corrective action plan, the Chancellor's Office conducted a workshop for campus financial aid directors to identify best practices in January. In addition, campuses have taken steps to further strengthen internal controls to ensure application data are properly verified and any discrepancies in the Institutional Student Information Report (ISIR) are properly resolved and reported to the Department of Education. Corrective action is under review at this time and is expected to be completed before the date of the Board of Trustees meeting.

There were six audit findings involving five auxiliary organizations at three campuses. Five of the findings were related to preparation of financial statements and one finding was related to documentation for Federal awards. Corrective action for all except one is completed. Corrective action for the remaining audit finding is in progress and expected to be completed before the date of the Board of Trustees meeting. More detailed descriptions of the auxiliary organizations' audit findings are below:

- Overstatement of student fees and understatement of deferred revenue due to improper revenue recognition of advanced fee collections
- Incorrect adoption of FASB framework when GASB framework was the correct model
- Insufficient documentation for verification procedures regarding suspension/debarment status of contractors prior to making awards
- Improper revenue recognition of various revenue streams
- Improper recording of receivables related to expense allocations among projects
- Incorrect calculation of net present value of pledges receivable