

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 2:00 p.m., Tuesday, May 11, 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 March 16, 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 Auditorium  
401 Golden Shore  
Long Beach, California**

**March 16, 2010**

**Members Present**

Melinda Guzman, Chair  
Raymond W. Holdsworth, Vice Chair  
Herbert L. Carter, Chair of the Board  
Carol R. 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 January 26, 2010, were approved as submitted.

**Status Report on Current and Follow-up Internal Audit Assignments**

Mr. Larry Mandel, university auditor, presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the March 16-17, 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 toward or completion of outstanding recommendations. He stated that the campuses are continuing to make very good progress in the closing of outstanding recommendations. He noted that Office of the University Auditor (OUA) staff is currently working with those campuses with long-outstanding recommendations in order to assist with continued progress toward a timely completion. Mr. Mandel reminded the Trustees that in addition to auxiliary organization and construction reviews, the 2010 audit plan includes reviews of eight high-risk areas (as determined by a risk assessment), and noted that some of these audits are currently in process. He stated that the audits would be performed at those campuses where a greater degree of risk was perceived for each of these areas—probably five or six campuses per high-risk area. Mr. Mandel also reminded the Trustees that construction audits will continue for the second year to be performed in-house by OUA staff and will include approximately 12 of the most costly construction projects in the system.

**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**

Mr. George V. Ashkar, assistant vice chancellor/controller, provided an update on the status of corrective action for the findings in the California State University (CSU) A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the fiscal year ended June 30, 2009.

Mr. Ashkar reported on the four findings included in the A-133 Single Audit Reports. He stated that the finding related to information technology segregation of duties conflicts and system access was completed by January 2010. He further stated that monitoring of compliance with the policies, procedures, and controls for this item will be an ongoing process performed both quarterly and annually. In addition, he indicated that a review of the corrective action for this issue had been completed by financial services internal control staff and verified by OUA staff. Mr. Ashkar then reported on the three findings related to federal financial aid programs. He noted that corrective action at two of the five campuses is complete and has been reviewed by financial services internal control staff and verified by OUA staff. However, three campuses are in the process of completing corrective action plans, with anticipated completion dates by the May 2010 board meeting. Regarding the findings in the auxiliary organization audit reports, Mr. Ashkar reported that 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 and has been reviewed by the financial services internal control staff and verified by OUA staff. He added that the goal for the completion of the corrective action plans by the remaining three auxiliaries is May 2010.

Chancellor Reed reminded the Trustees that they had asked him to meet with the California State Auditor in an attempt to reach a mutual agreement regarding the implementation of findings reported in two state audits relating to executive compensation and hiring practices. Chancellor Reed reported that he had recently met with the state auditor in Sacramento. He stated that it was a very satisfactory meeting, and he would continue to meet with her on a periodic basis.

Trustee Mendoza inquired as to the conclusion of the discussion pertaining to the state auditor's opinion regarding the insufficient completion of recommendations in these two audits.

Chancellor Reed stated that the state auditor acknowledged that she was unaware that the CSU was constrained in being able to accomplish some of the recommendations due to current collective bargaining agreements. She also was not aware of some of the changes that the CSU had made on the annual reporting of employee relocation costs and compensation adjustments at the vice presidential level. He concluded by stating that, it was a worthwhile discussion.

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 (Special Investigations, 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 eight campuses/thirty-two auxiliaries. Report writing is being completed at one campus/four auxiliaries, while fieldwork is being conducted at one campus/five 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. Five audits await a campus response prior to finalization, while report writing is being completed at one campus.

#### 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. Report writing is being completed at two campuses, while fieldwork is currently taking place at three campuses.

#### 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. Report writing is being completed at one campus.

#### 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. Report writing is being completed at three campuses.

#### 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 three projects, 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 that 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. 43 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 forty prior audits (Special Investigations, 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 6/4/2010)

	2010 ASSIGNMENTS									FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS													
	Aux Orgs	Main & Satellite Cash	Post Award	IT Dis Recov	Fin Aid	Inter Colleg Athl	HIPAA Security	Bus Cont	Fund Raising	Special Investigations	FISMA		Auxiliary Organizations			Information Security		Emergency Preparedness		Off Campus Activities		Student Records	
										*Recs	**Mo.	*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs
BAK											14/14	-	3	19/19	-					0/5	4		
CHI											8/8	-	3	6/6	-	28/28	-	10/10	-				
CI											9/9	-	3	10/10	-	0/15	4						
DH											7/7	-	3	14/14	-	19/19	-						
EB											25/25	-	4	30/30	-	2/12	4	0/8	3				
FRE			FW								14/14	-	6	25/25	-	10/22	7					5/6	15
FUL					RW						5/5	-	4	31/32	10	16/16	-	2/2	-	7/8	7		
HUM					RW						11/11	-	4	15/15	-			8/8	-	0/6	3		
LB											1/3	2	3	27/34	6	11/21	6					3/3	-
LA											3/3	-	4	11/11	-					6/6	-	6/6	-
MA											6/6	-	2	15/15	-			6/6	-				
MB											0/9	2	2	15/15	-	0/22	3					9/9	-
NOR		AI									16/16	-	5	20/27	7	16/16	-						
POM				RW							6/6	-	3	24/24	-	16/16	-	7/7	-	2/5	4		
SAC		AI									4/4	-	6	28/28	-	0/23	5			0/9	2		
SB		RW									6/7	8	3	25/30	7							8/8	-
SD	RW		RW								2/2	-	4			14/14	-			5/6	7	8/8	-
SF		AI	FW								6/6	-	5	32/32	-	8/19	8	3/3	-				
SJ	FW		FW								9/9	-	5			25/25	-	7/7	-				
SLO											12/12	-	4	23/24	16								
SM		AI								0/4	2	3/3	-	3	22/22	-	0/7	1	2/2	-		8/8	-
SON					RW						3/4	7	4	18/18	-	20/20	-					5/5	-
STA		AI									4/4	-	4	17/17	-	27/27	-	6/6	-				
CO			RW								2/2	-	2	4/4	-								
SYS																						11/11	-

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.

Numbers/letters in green are updates since the agenda mailout.

\*\*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 6/4/2010)

	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	10/10	-	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	8		
	SB-640	College of Education	douglas e. barnhart	\$37,371,905	7/17/2006	Oct-08	Campus	AC	0/8	4		
	CI-250	John Spoor Broome Library	PCL Const Services	\$40,763,528	1/13/2006	Mar-08	CPDC/Campus	AC	0/5	3		
	NO-218	Student Housing Phase I	Bernards Brothers	\$23,305,317	12/17/2007	Apr-09	Campus	AC	2/2	-		
	HU-609	Forbes PE Complex Ren.	Kiewit Construction Co.	\$38,675,000	6/27/2006	Mar-09	Campus	AC	6/6	-		
	PO-717	Science Bldg. Seismic Ren.	Kemp Bros. Constr.	\$17,540,000	9/25/2006	Jan-09	Campus	AI				
	LA-105	Student Union Replacement	douglas e. barnhart	\$31,595,595	8/14/2006	Nov-07	Campus	AI				
	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	RW				
	EB-431	Pioneer Heights Std Housing	Lathrop Construction	\$24,135,000	7/20/2007	May-09	Campus	RW				
	NO-718	Science I Replacement	Hathaway Dinwiddie	\$44,781,641	7/16/2007	Sep-09	Campus	FW				
	BK-205	Recreation Center	S C Anderson	\$17,059,115	6/18/2007	Apr-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

Corrective action for 2009-01 IT Segregation of Duties Conflicts and System Access was previously reported as complete in March. Monitoring of compliance with the procedures is an ongoing process by nature.

Corrective action for the 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) was previously complete at two of the campuses in March and is now complete at all five campuses that had one or more of these audit findings.

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

Of the five auxiliary organizations with material weaknesses in internal control over financial reporting process, corrective action was previously complete at two of the auxiliaries in March and is now complete at all five auxiliaries.