

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 2:00 p.m., Tuesday, November 9, 2010**  
**Glenn S. Dumke Auditorium**

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

#### **Consent Items**

Approval of Minutes of Meeting of September 21, 2010

#### **Discussion Items**

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

**September 21, 2010**

**Members Present**

Henry Mendoza, Chair  
Raymond W. Holdsworth, Vice Chair  
Nicole M. Anderson  
Herbert L. Carter, Chair of the Board  
Margaret Fortune  
George G. Gowgani  
William Hauck  
Charles B. Reed, Chancellor

Chair Mendoza called the meeting to order.

**Approval of Minutes**

The minutes of May 11, 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 September 21-22, 2010 Board of Trustees agenda.

Mr. Mandel reminded everyone that updates to the status report are now displayed in green color (instead of red), to indicate progress toward or completion of outstanding recommendations since the distribution of the agenda. He reported that many of the campuses are continuing to make very good progress in the closing of outstanding recommendations. He noted that a couple of the campuses have long-outstanding recommendations, but stated that the Office of the University Auditor was working diligently with those campuses in an effort to close the recommendations in a timely manner. Mr. Mandel stated that most of the audit assignments from the 2010 audit plan (as shown on the left-hand side of the status report) are in various stages of completion, with the exception of Fund-Raising, which will begin in October. He added that all assignments would be completed by the January 2011 Board meeting. In addition, he indicated that several construction audit assignments were currently in progress and/or had been completed, and that the campuses are completing the recommendations in a timely manner.

### **University and Auxiliary Organizations Funds**

Chancellor Reed, stated that last year, as part of the routine internal auditing process of the auxiliary organizations, the Office of the University Auditor concluded that some of the auxiliaries were holding funds collected on behalf of the campus longer than appropriate before transmitting them to the campus for deposit. As a result, Mr. Mandel recommended that the campuses complete a review of all auxiliary organization programs and projects accounts, determine which accounts contain state/campus funds, and move those funds to campus accounts within a certain time frame. Dr. Reed explained that these types of funds consist of miscellaneous fees, not General Fund allocations or student fee revenue. Examples of the types of funds involved would be fees for workshops and conferences; gate receipts for athletic and other university events; reimbursement for services and products paid for by the campus on behalf of the auxiliaries; and rental fees for university services. He then clarified that auxiliaries have the authority to deposit these types of funds in auxiliary accounts but must follow state procedures. He added that no violations were found by the university auditor of any policy or legal guidelines.

Dr. Reed went on to explain that this issue had been discussed with both the campus presidents and chief financial officers.

Dr. Reed reiterated that there were no findings by the university auditor of improper administration of any funds being held in the auxiliary accounts. Dr. Reed commented that he accepted the recommendation offered by the university auditor to reduce risk in this area. As a result, Dr. Benjamin F. Quillian, executive vice chancellor/chief financial officer, was requested to draft an executive order to reiterate existing CSU policy and provide clearer direction to the universities regarding a) the required accounting and reporting of university and auxiliary organization funds; and b) the necessary reimbursement of the university for costs incurred related to auxiliary operations and activities.

Dr. Reed indicated that periodically, there have been reviews and policies promulgated to coordinate the activities of the auxiliaries and the CSU. He stated his belief that now is the proper time to undertake a more comprehensive review of all auxiliaries and foundations. Therefore, the Review Committee on the Status of Auxiliaries in the California State University has been established. The Review Committee will be chaired by Richard P. West, executive vice chancellor emeritus and will consist of presidents, vice presidents, vice chancellors, the university auditor, and other individuals the chancellor may designate to determine.

The Review Committee is anticipated to meet several times with a report to be provided to the chancellor by the end of calendar year 2010. The chancellor will subsequently provide a report to the Board at the January 2011 meeting.

Trustee Holdsworth applauded the effort regarding the Review Committee on the Status of Auxiliaries, especially in light of the CSU's diligence in developing a transparent and clear representation throughout the state, and hoped that the campus presidents would be supportive of this initiative.

Trustee Achtenberg asked Dr. Reed whether there are auxiliaries located at all universities.

Dr. Reed responded that all of the universities have auxiliaries that were created for the benefit of the university they support, e.g., the philanthropic foundations are allowed to invest funds differently than state requirements.

Trustee Achtenberg further asked whether auxiliaries have a process to reimburse the state side when state resources are used.

Dr. Reed responded that the auxiliaries do have a process; however, it was not being done in a timely manner.

Trustee Achtenberg asked whether the university auditor's finding included any issue with the absconding or misappropriation of monies while in the auxiliary accounts.

Mr. Mandel responded that his staff found no misappropriation of monies by the auxiliary organizations and that the issue is more a matter of the proper accounting of these funds.

Trustee Achtenberg asked Mr. Mandel whether the 90-day timeline for the transfer of any state funds is a best practice.

Mr. Mandel responded that the 90-day timeline is meant to be a reasonable amount of time for the funds to be transferred after a transaction has taken place.

Dr. Quillian stated that he viewed the 90-day timeline as the maximum amount of time allowed for the transfer of state funds, unless there was a specific reason for the delay as justified by a campus president, but the normal expectancy is less than 90 days for the transfer.

Trustee Achtenberg asked whether this issue is basically pertaining to the accounting of funds and the proper transfer of those funds to the state.

Dr. Quillian responded affirmatively and indicated that most of the time this process can happen in less than 90 days; however, occasionally, there are reasons to go beyond the 90-day timeline.

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 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, and Off-Campus Activities) 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/32 auxiliaries. One campus/four auxiliaries have been completed, three campuses/11 auxiliary reports await a campus response prior to finalization, and report writing is being completed at two campuses/eight 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. All six audits have been completed.

#### 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. Five audits have been completed, while one report awaits a campus response prior to finalization.

#### 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. Four reports await a campus response prior to finalization, and report writing is being completed at two campuses.

#### 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. Five reports await a campus response prior to finalization, and report writing is being completed at one campus.

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

#### 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. Three reports await a campus response prior to finalization, and report writing is currently taking place at two campuses.

#### 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. Report writing is currently taking place at four campuses.

#### 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. Report writing is taking place at one campus, while fieldwork is currently taking place at one campus.

#### *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. Ten projects will be reviewed. Four reviews have been completed, three reviews await campus responses prior to finalization, report writing is being completed for two projects, and fieldwork is currently taking place for one project.

#### *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 CSU 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 10/22/2010)

	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	FISMA		Auxiliary Organizations			Information Security		Emergency Preparedness		Off Campus Activities	
										*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK				AI				RW		4/8	7	3	19/19	-					5/5	-
CHI										8/8	-	3	6/20	6	28/28	-	10/10	-		
CI							AI	RW		4/5	7	3	10/10	-	13/15	10				
DH								RW		7/7	-	3	19/22	7	19/19	-				
EB				AI		RW	AI			25/25	-	4	30/30	-	6/12	10	2/8	9		
FRE			AC				RW			4/6	7	6	25/25	-	22/22	-				
FUL					AI				RW	5/5	-	4	31/32	16	16/16	-	2/2	-	8/8	-
HUM			AI		AI					11/11	-	4	15/15	-			8/8	-	3/6	9
LB						RW				3/3	-	3	34/34	-	21/21	-				
LA	RW					RW	AI			3/3	-	4			7/7	-			6/6	-
MA				RW						6/6	-	2	15/15	-			6/6	-		
MB				AI						8/9	8	2	15/15	-	22/22	-				
NOR		AC		RW	AI					16/16	-	5	27/27	-	16/16	-			5/6	8
POM	AI			AC						6/6	-	3			16/16	-	7/7	-	3/5	10
SAC		AC								4/4	-	6	28/28	-	17/23	11			5/9	8
SB		AC			RW					6/7	14	3	30/30	-						
SD	AC		AC		AI			RW		2/2	-	4	0/24	4	14/14	-			6/6	-
SF		AC	AC							6/6	-	5	17/30	9	19/19	-	3/3	-		
SJ	AI		AC					RW		9/9	-	5			25/25	-	7/7	-	6/6	-
SLO										12/12	-	4	23/24	22	19/27	7				
SM	AI	AC				RW				3/3	-	3			7/7	-	2/2	-		
SON					AI				FW	4/4	-	4	12/12	-	20/20	-				
STA	RW	AC								4/4	-	4			27/27	-	6/6	-		
CO			AC							5/5	-	2	4/4	-	16/19	9				
SYS																	5/6	6	0/11	5

<p>FW = Field Work In Progress  RW = Report Writing in Progress  AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  AC = Audit Complete</p>	<p>* 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.</p> <p>**The number of months recommendations have been outstanding (since the formal campus exit conference).  • The number of auxiliary organizations reviewed.</p>
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**Status Report on Current and Follow-Up Construction Audit Assignments**  
(as of 10/22/2010)

	Project	Project	Contractor	Construction	Start	Comp.	Managed	Current	Campus Follow-Up		CPDC Follow-Up	
	No.			Cost	Date	Date	By	*	**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	7/7	-		
	SB-640	College of Education	douglas e. barnhart	\$37,371,905	7/17/2006	Oct-08	Campus	AC	8/8	-		
	CI-250	John Spoor Broome Library	PCL Const Services	\$40,763,528	1/13/2006	Mar-08	CPDC/Campus	AC	5/5	-		
	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	AC	7/7	-		
	LA-105	Student Union Replacement	douglas e. barnhart	\$31,595,595	8/14/2006	Nov-07	Campus	AC	3/3	-		
	FR-720	Library Addition and Ren.	Swinerton Builders	\$73,241,559	11/29/2006	Dec-08	Campus	AC	0/5	5	2/2	-
2010	SO-30	Housing Phase II	Wright Contracting	\$46,395,000	7/23/2007	Aug-09	Campus	AC	6/6	-		
	FU-100003	College of Business & Econ	Turner Construction	\$75,484,293	12/18/2006	Aug-08	Campus	AC	3/3	-		
	EB-431	Pioneer Heights Std. Housing	Lathrop Construction	\$24,135,000	7/20/2007	May-09	Campus	AC	5/6	5		
	NO-718	Science I Replacement	Hathaway Dinwiddie	\$44,781,641	7/16/2007	Sep-09	Campus	AC	2/2	-		
	BK-205	Student Recreation Center	S C Anderson	\$17,059,115	6/18/2007	Apr-09	Campus	AI				
	ST-303	Student Recreation Complex	McFadden Construction	\$11,418,000	11/5/2007	Aug-09	Campus	AI				
	SLO-70	Poly Canyon Village	Clark Design/Build	\$239,000,000	1/10/2006	Jun-09	Campus	AI				
	DH-639	Education Resource Center	SJ Amoroso	\$46,590,000	10/22/2007	Nov-09	Campus	RW				
	SB-581	Science Bldgs. Add./Ren. Ph. II	douglas e. barnhart	\$21,087,257	5/11/2006	Oct-08	Campus	RW				
	SO-79	Music/Faculty Office Bldg.	Rudolph & Sletten	\$53,767,950	9/21/2006	Jan-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).												