

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:30 a.m., Wednesday, September 21, 2005
Glenn S. Dumke Auditorium

Raymond W. Holdsworth, Chair
Herbert L. Carter, Vice Chair
Roberta Achtenberg
Debra Farar
Bob Foster
George G. Gowgani
William Hauck

Consent Items

Approval of Minutes of Meeting of July 20, 2005

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on the Corrective Action Plans for the Audit Findings in the Single Audit Reports (A-133) for the Year Ended June 30, 2004, *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**

July 20, 2005

Members Present

Raymond W. Holdsworth, Chair
Herbert L. Carter, Vice Chair
Roberta Achtenberg
Bob Foster
Murray L. Galinson, Chair of the Board
George G. Gowgani
William Hauck
Charles B. Reed, Chancellor

Trustee Holdsworth called the meeting to order.

Approval of Minutes

The minutes of the meeting of May 11, 2005, 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 July 19-20, 2005, Board of Trustees agenda.

Mr. Mandel commended the campuses for their continued timeliness in completing the outstanding recommendations.

Selection of the External Auditor for the California State University System

Trustee Holdsworth stated that after further conversation with Chancellor Charles B. Reed and Richard P. West, executive vice chancellor and chief financial officer, this agenda item was modified as "information." He further stated that due to the lack of bidders to conduct the external audit of the California State University System financial statements, a decision was made to attempt to expand the pool of potential firms to conduct this audit. He indicated that Chancellor Reed will take advantage of the existing contract clause to extend the current contract with KPMG LLP for the fiscal year ending June 30, 2006. He added that university staff will

2

Audit

seek ways with the Trustees to encourage more competition and a new Request for Proposals will be issued in spring 2006.

Trustee Galinson inquired as to whether the current contract with KPMG LLP could be renewed one year at a time.

Trustee Holdsworth responded that this is the last year under our contract with KPMG LLP to renew and a Request for Proposals will be issued for a new three-year contract in spring 2006.

Trustee Holdsworth 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 2005 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of FISMA (financial internal controls), Auxiliary Organizations, Continuing Education, Housing/Residential Services, Information Systems, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Admissions, Human Resources, and Student Activities) is currently being conducted on approximately 30 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the Committee meeting.

Status Report on Current and Follow-up Internal Audit Assignments

At the January 2005 meeting of the Committee on Audit, an audit plan calling for the review of the following subject areas was approved: FISMA (financial internal controls), Auxiliary Organizations, Continuing Education, Housing/Residential Services, Student Records and Registration, Information Systems, and Construction. At the May 2005 meeting of the Committee on Audit, Student Records and Registration was deleted from the audit plan due to difficulties in recruiting the necessary staff.

FISMA

The initial audit plan indicated that approximately 132 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. One audit has been completed, and report writing is being completed on four campus reviews.

Auxiliary Organizations

The initial audit plan indicated that approximately 241 staff weeks of activity (29 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/27 auxiliaries. One campus/three auxiliary reports have been completed, and report writing is currently being completed for three campuses/fourteen auxiliaries.

Continuing Education

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of continuing education activity and maintenance of CERF contingency reserves. Report writing is being completed on three campus reviews, and fieldwork is taking place at two campuses.

Housing/Residential Services

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the plan) would be devoted to a review of ten campuses to ensure proper management of on-campus residence halls and the programming of activities for residential students; support of activities afforded students in locating suitable housing; review of Dormitory Revenue Fund Operations and residence hall costs; processes for establishing housing fees; and maintenance of residence halls. Report writing is being completed on three campus reviews, and fieldwork is currently taking place at one campus.

Student Records/Registration

The initial audit plan indicated that approximately 97 staff weeks of activity (12 percent of the audit plan) would be devoted to a review of ten campuses to ensure proper administration of database recordkeeping and registration systems; procedures for creating and changing records; and security measures protecting against unauthorized or inadvertent modification, removal or destruction of records. Vacant positions, together with recruitment challenges, have necessitated the deletion of this subject from the audit plan.

Information Systems

The initial audit plan indicated that approximately 43 staff weeks of activity (5 percent of the plan) would be devoted to review of systemwide projects such as: Disaster Recovery, Common Management Systems (CMS), and Web Security. In addition, support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary audits. Review and training are ongoing.

Follow-ups

The audit plan indicated that approximately 28 staff weeks of activity (3 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of the University Auditor is currently tracking approximately 30 prior audits (FISMA, Auxiliary Organizations, Admissions, Human Resources, and Student Activities) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Consultations and Investigations

The audit plan indicated that approximately 76 staff weeks of activity (9 percent of the plan) would be devoted to campus consultations and special requests. 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. Typically, the special requests are investigative in nature and often are the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations will now be performed on an ongoing basis, both by referral from the State Auditor, and directly from the chancellor's office.

Construction

The audit plan indicated that approximately five staff weeks of activity (1 percent of the plan) would be devoted to coordination of construction auditing. For the 2004/05 fiscal year, six construction projects are being reviewed by KPMG with coordination from the Office of the University Auditor. Areas under review include construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. One audit has been completed, and four audits await an exit conference/response prior to completion.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 9/2/2005)

	2005 ASSIGNMENTS				FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS										
	FISMA	Aux Orgs	Cont Educ	Housing/ Res Svcs	FISMA		Auxiliary Organizations		Admissions		Human Resources		Student Activities		
					*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		RW			13/13	-	3							9/9	-
CHI			RW		6/6	-	3	32/32	-			6/7	7		
CI		AC			23/23	-	2	0/26	2						
DH	RW						3	36/36	-	6/6	-	1/5	6		
EB					17/17	-	4	65/65	-						
FRE		RW			8/8	-	6							3/6	7
FUL			RW		6/6	-	4	32/32	-	4/4	-			5/5	-
HUM					4/4	-	3	0/25	3						
LB				RW	7/7	-	3	27/27	-			5/5	-	5/5	-
LA			FW		7/7	-	4	42/42	-						
MA			FW		0/7	4	2	21/21	-	5/6	9				
MB					25/25	-	2	40/40	-			7/9	9		
NOR				FW	11/11	-	5	46/46	-	2/2	-				
POM			RW		0/11	4	3	24/24	-						
SAC		RW			13/13	-	5					7/7	-		
SB					8/8	-	3	33/33	-	3/3	-	5/5	-		
SD	AC			RW	0/9	4	4	20/21	10	6/6	-				
SF	RW						4	48/48	-			3/3	-	8/8	-
SJ					9/9	-	4	30/42	6	5/5	-				
SLO				RW	10/14	10	2	29/29	-						
SM					12/12	-	3	34/34	-						
SON	RW						4	21/21	-					7/7	-
STA	RW						4	0/27	4					11/11	-
CO					10/10	-	2	10/11	4			2/2	-		
SYS										4/5	3	11/11	-	0/8	2
FW = Field Work In Progress RW = Report Writing in Progress AI = Audit Incomplete (awaiting formal exit conference and/or campus response) AC = Audit Complete					* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report. A "0" in a column is used as a place holder until such time as documentation is provided to the OUA evidencing that a recommendation has been satisfactorily addressed; significant progress may have been made prior to that time. **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.										

COMMITTEE ON AUDIT

Status Report on the Corrective Action Plans for the Audit Findings in the Single Audit Reports (A-133) for the Year Ended June 30, 2004

Presentation By:

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

At the January 2005 Board of Trustees meeting, the University's external auditor, KPMG, reported on the Systemwide Single Audit in accordance with generally accepted accounting principles for the fiscal year ending June 30, 2004. There were three audit findings for the year ended June 30, 2004:

- 04-01: San Francisco State University Financial Statement Preparation Process Reportable Condition
- 04-02: California State Polytechnic University, Pomona Financial Reporting of the Pell Grant Payment Data
- 04-03: California State University, San Marcos William Ford Direct Loan Program Reconciliations

Implementation of the Corrective Action Plans for the three audit findings has been completed and the University Auditor has reviewed the correction plans from the campuses for completeness and compliance and now agrees there is full compliance.

04-01 San Francisco State University

The campus has taken steps to remedy the problems in the financial statements preparation process with specific action items including the establishment of a GAAP working group, additional training, organizational changes establishing a separate financial reporting unit with a new Manager, as well as the hiring of a new Controller with a C.P.A. and significant higher education accounting experience.

Implementation of the corrective action plan was completed by August 2005.

04-02 California State Polytechnic University, Pomona

The campus has established procedures and a schedule to ensure student payment data is reported to the U.S. Department of Education within the 30-day reporting requirement. A technical person was assigned to monitor the reporting process to ensure adherence to the reporting schedule and compliance with the regulation.

Implementation of the corrective action plan was completed by November 2004.

04-03 California State University, San Marcos

To ensure the required monthly reconciliations of the Direct Loan School Account Statement, the campus hired a consultant to write procedures for compliance while also working toward bringing the monthly reconciliations up to date. A permanent staff member was trained to perform the required reconciliations in a timely manner.

Implementation of the corrective action plan was completed by June 2004.