

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 9:00 a.m., Wednesday, February 1, 2006**  
**Glenn S. Dumke Auditorium**

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

#### **Consent Items**

Approval of Minutes of Meeting of November 9, 2005

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2006, *Action*
3. Report on Construction Auditing in the California State University, 2004-2005, *Information*
4. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *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**

**November 9, 2005**

**Members Present**

Raymond W. Holdsworth, Chair  
Roberta Achtenberg  
Debra S. Farar  
Robert G. Foster  
George G. Gowgani  
William Hauck

Trustee Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of September 21, 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 November 8-9, 2005, Board of Trustees agenda.

Trustee Holdsworth commended the campus presidents and the chancellor on the progress that had been made in the completion of recommendations, noting specifically the accomplishment of the decrease in the number of months outstanding. He also commended Mr. Mandel and his staff for their assistance on this progress in the last six months.

Mr. Mandel also acknowledged the significant progress made by the campuses and reported that since the Agenda Book mail-out, there had been 13 updates to the status report regarding the completion of outstanding recommendations. He noted that several of the campuses had completed all of the recommendations for their particular subject area. He explained that because systemwide reports are distributed at the end of the subject area series, recommendations are understandably outstanding for Admissions and Student Activities; however, he anticipated completion within the next couple of months.

### **Review of the Qualifications Criteria in the Selection of the External Auditor for the California State University**

Mr. Dennis Hordyk, assistant vice chancellor, financial services, discussed the minimum qualifications criteria in the selection of the external auditor for the California State University (CSU). He reminded the Trustees that in spite of efforts to encourage many certified public accounting (CPA) firms to participate in the bidding process for a three-year contract for audit services, KPMG was the only firm to submit a bid. He recalled that at the July 2005 Board of Trustees' meeting, the Chancellor withdrew the agenda item requesting the Board's approval to contract with KPMG to be the University's external auditor for the next three years, starting with fiscal year ending June 30, 2006. He added that the Chancellor had decided to extend the existing contract with KPMG for an additional year in an attempt to encourage other firms to submit bids for a five-year contract, beginning with fiscal year ending June 30, 2007. He stated that the next step will begin in early 2006, when a new bid process will be initiated for the selection of the external auditor using the criteria summarized below.

Mr. Hordyk explained that the criteria for the selection of the external auditor are considered minimum qualifications and are designed to ensure the bidders have the knowledge, experience, and capacity to perform the audit services required for such a large university system. He summarized the qualifying criteria as follows: the firm and any subcontractors must be a CPA firm licensed to practice in the state of California; the firm must have expressed an audit opinion on financial statements in the past five years for a multi-campus higher education institution, with at least one campus with a budget base of at least \$50 million and an overall system budget base of at least \$500 million; the firm must have conducted an A-133 audit involving a multi-campus, higher education institution; the firm must have conducted an audit of the full range of federal student financial aid programs for a public university; and the firm must disclose any adverse actions or findings against them by the federal government concerning A-133 audits or any other disciplinary action by a state board of accountancy.

Trustee Holdsworth inquired as to the range of firms qualified to bid on this contract, based on the criteria.

Mr. Hordyk explained that there are several CPA firms that provide auditing services to small, private higher education institutions throughout the United States. However, there are only two firms that actually have a higher education function in the state of California: KPMG and PriceWaterhouseCoopers (PWC). He further explained that the dilemma lies in that we have two large firms that may be interested in conducting the audit; however, PWC currently conducts audits at the University of California, Stanford University, and the University of Southern California, making it extremely difficult to include the CSU system in their auditing capacity.

Trustee Hauck asked Mr. Richard West, executive vice chancellor and chief financial officer, how the pool of CPA firms could be broadened given the minimum criteria.

Mr. West offered his opinion that requiring the CPA firms to have higher education experience is essential, especially with the federal audit requirements. He also stressed the importance of demonstrated experience in the logistics of managing a statewide audit, especially in order to close the financial books. Due to the current shortage of accountants/auditors and the high volume of existing business, he stated that CPA firms have indicated they are passing on submitting bids as they are unable to fulfill the demand for auditing services. Mr. West indicated that another option encouraged in the request for proposals is a partnering approach, which includes the use of smaller auditing firms. He further indicated that the integration and consolidation would have to be completed by the single audit firm, who bears the risks and overall integrity of the document.

Chancellor Reed stated that he and Mr. West met with the senior partner in higher education and the local office partner of PWC to discuss the concerns over the qualification criteria for auditing services. Because the financial audit of the CSU system is a significant task that would require over a hundred auditors in the field, PWC expressed their concern as to whether they could build the auditing capacity required to perform the audit due to their involvement with other large higher education institutions.

Trustee Guzman Moore asked whether the criteria outlined triggers one potential auditing firm since the only other potential firm would probably be excluded due to its involvement with other higher education institutions.

Mr. Hordyk responded that the criteria outlined restrict the bidding process to possibly six large firms, but that the market restricts it to the two.

Trustee Guzman Moore expressed her concerns regarding the criteria which, in essence, trigger five or six potential bidders, but because of the current market and lack of auditing capacity, only one will likely submit a bid. She stated her belief that this does not constitute a true request for proposal process when the outcome is known in advance. She offered her opinion that we should encourage the firms to partner with other firms in order to help train others in the marketplace, which will broaden the pool of accountants with whom we can conduct business in the future.

Trustee Holdsworth agreed with Trustee Guzman Moore and stated that meetings have taken place with major firms in an effort to broaden the pool. He stated that part of the discussions encouraged partnering with other firms. He added that the contract period has been extended from three to five years also in an attempt to attract bidders. He explained that the problems lie with the lack of experience in public education, as well as the decrease in the capacity in the marketplace. He indicated that everything possible will be done to encourage a broader pool of bidders.

## **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, 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. Five audits have been completed, report writing is currently being completed for four campuses, and fieldwork is taking place at two campuses.

#### *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/28 auxiliaries. Three campuses/twelve auxiliary reports have been completed, one campus/five auxiliary reports are awaiting a campus response prior to finalization, report writing is currently

## Audit

### Agenda Item 1

January 31-February 1, 2006

Page 2 of 3

being completed for three campuses/nine auxiliaries, and fieldwork is currently taking place at one campus/two 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. Two audits have been completed, three reports are awaiting a campus response prior to finalization, and report writing is being completed on two campus reviews.

#### *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. Three reports have been completed, three reports are awaiting a campus response prior to finalization, and report writing is being completed on one campus review.

#### *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. Two audits have been completed, and four audits await a response prior to completion.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 1/31/2006)

	<b>2005 ASSIGNMENTS</b>				<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>										
	FISMA	Aux Orgs	Cont Educ	Housing/ Res Svcs	Special Investigations		FISMA		Auxiliary Organizations			Admissions		Student Activities	
					*Recs	**Mo.	*Recs	**Mo.	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	FW	AC							3	0/22	2			9/9	-
CHI			AC				6/6	-	3	32/32	-				
CI	FW	AC							2	26/26	-				
DH	AC						5/5	-	3	36/36	-	6/6	-		
EB		RW					17/17	-	4						
FRE	RW	AC							6	0/47	2			6/6	-
FUL			AC				7/7	-	4	32/32	-	4/4	-	5/5	-
HUM							9/10	9	3	25/25	-				
LB	RW		RW	AC					3	27/27	-			5/5	-
LA			AI				7/7	-	4	42/42	-				
MA		FW	AI				5/7	8	2			6/6	-		
MB		RW					25/25	-	2						
NOR				AI			11/11	-	5	46/46	-	2/2	-		
POM			AI	AI			11/11	-	3	24/24	-				
SAC		AI					8/13	5	5						
SB	RW								3	33/33	-	3/3	-		
SD	AC			AC			7/7	-	4	21/21	-	6/6	-	9/9	-
SF	AC			RW			5/6	4	4	48/48	-			8/8	-
SJ							13/16	5	4	40/42	10	5/5	-		
SLO		RW		AC			14/14	-	2						
SM			RW		0/5	3	12/12	-	3	34/34	-				
SON	AC			AI			5/6	4	4	21/21	-			7/7	-
STA	AC						5/16	3	4	27/27	-			11/11	-
CO	RW								2	11/11	-				
SYS												5/5	-	2/8	6
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. <b>Numbers/letters in red are updates since the agenda mailout.</b> **The number of months recommendations have been outstanding (since the formal campus exit conference). • The number of auxiliary organizations reviewed.										



**COMMITTEE ON AUDIT**

**Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2006**

**Presentation By**

Larry Mandel  
University Auditor

**Summary**

At the first meeting of the new year, the Committee on Audit selects the audit assignments for the Office of the University Auditor. The following is an audit plan for calendar year 2006.

**FINANCIAL INTEGRITY AND STATE MANAGER'S ACCOUNTABILITY ACT OF 1983**

In 1983, the California legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act requires that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the agency fully complies with requirements, the head of each agency is required to prepare and submit a report on the adequacy of the systems of internal accounting and administrative control following the end of each odd-numbered fiscal year.

These audits will review compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests which require annualized data, either the 2004/05 or 2005/06 (as appropriate) fiscal year will be the primary period reviewed. In certain instances, we are concerned with representations of the most current data. In those cases, the test period will normally be the two months prior to our arrival on campus. Specifically, we will review and test the following areas:

Cash Receipts	Payroll/Personnel
Receivables	Fixed Assets
Purchasing	Fiscal Information Technology
Revolving Fund	Investments
Cash Disbursements	Trust Funds

Twelve FISMA audits are planned for calendar year 2006. This represents 144 staff weeks of audit effort, which amounts to approximately 17 percent of the audit plan.

#### SUBJECT 1

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2006. This represents 97 staff weeks of audit effort, which is approximately 12 percent of the audit plan.

#### SUBJECT 2

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2006. This represents 97 staff weeks of audit effort, which is approximately 12 percent of the audit plan.

#### SUBJECT 3

To be determined by the Committee on Audit. If the subject matter lends itself to an audit of average length, it is estimated that ten campus audits will take place during calendar year 2006. This represents 97 staff weeks of audit effort, which is approximately 12 percent of the audit plan.

#### AUDITS OF AUXILIARY ORGANIZATIONS

In order to provide assurance to the Board that adequate oversight is being maintained over auxiliaries, the Office of the University Auditor administers an audit program covering internal compliance/internal controls. It is estimated that 29 auxiliary reviews will take place during calendar year 2006. This represents 257 staff weeks of audit effort, which is approximately 31 percent of the audit plan.

#### INFORMATION SYSTEMS

Technology support will be provided in the area of financial internal controls for both campus (FISMA) and auxiliary organization audits, in addition to subject area reviews. Forty-three staff weeks are planned during calendar year 2006. This represents approximately 5 percent of the audit plan.

#### FOLLOW-UPS

The purpose of this category is to follow-up on prior audit recommendations. The Office of the University Auditor reviews the responsiveness of the corrective action taken for each recommendation and determines whether additional action may be required. In certain instances, it may be necessary to revisit the campus to ascertain whether the corrective action taken is achieving the desired results. All recommendations are tracked until each is satisfactorily addressed. Reports of follow-up activity are made at each meeting of the Committee on Audit. Twenty-six staff weeks have been set aside for this purpose, representing approximately 3 percent of the audit plan.

### CONSULTATION

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. Thirty-four staff weeks have been set aside for this purpose, representing approximately 4 percent of the audit plan.

### 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. Thirty-six staff weeks have been set aside for this purpose, representing approximately 4 percent of the audit plan.

### CONSTRUCTION

In addition to the above, construction auditing will be a continuing focus of the Office of the University Auditor. For the 2005/06 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. Five staff weeks have been set aside for this purpose, representing approximately 1 percent of the audit plan.

The following resolution is recommended for approval:

**RESOLVED**, By the Committee on Audit of the Board of Trustees of The California State University, that the 2006 internal audit plan, including FISMA, Information Systems, Auxiliary Organizations, Construction, Consultations, Investigations, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ (to be determined by the committee) be approved.

**OFFICE OF THE UNIVERSITY AUDITOR  
 RESULTS OF 2005 RISK ASSESSMENT**

PROSPECTIVE AUDIT TOPICS (TOP 50% OF RISK)

	TOPIC	LAST TIME AUDITED BY THE OUA
1	Information Security	Never Audited
2	Disaster and Emergency Preparedness	2003
3	Athletics Administration	Never Audited
4	Occupational Health and Safety	1997
5	Contracts and Grants	2001
6	Hazardous Materials Management	2000
7	Development/Fund-Raising	2002
8	Public Safety	2000
9	Student Records and Registration	1999
10	Student Health Centers	2000
11	Environmental Management	Never Audited
12	Disability Support and Accommodations	2002
13	Capital Outlay Planning/Programming	Never Audited
14	Risk Management and Insurance	2003
15	Continuing Education/Extended Learning	2005
16	Student Activities/Organizations	2004
17	Human Relations/Personnel Services	2004
18	Ancillary Activities	1987
19	Housing/Residential Services	2005
20	Child Care Centers	Aux Orgs
21	Trust Funds	FISMA*
22	Cashiering and Ticket Sales	FISMA*
23	Financial Management/Reporting	Never Audited
24	Procurement	FISMA*
25	Financial Aid	2002
26	Travel/Hospitality	Never Audited
27	Accounts Receivable	FISMA*
28	Payroll Services	FISMA*
29	Accounts Payable	FISMA*
30	Treasury Functions	FISMA*

\*FISMA = Financial Integrity and State Manager's Accountability Act of 1983 which requires financial internal control reviews of all campuses once every two years. Items 21, 22, 24, 27, 28, 29, and 30 are covered within the FISMA audit cycle. Item 20 is covered during auxiliary organization reviews.

**OFFICE OF THE UNIVERSITY AUDITOR  
SELECTION OF AUDIT TOPICS FOR 2006**

The purpose of this attachment is to present additional information to assist the Committee on Audit in deciding the audit assignments for the Office of the University Auditor for 2006. The list below reflects the topics developed by the 2005 risk assessment process exclusive of priorities that are addressed by recent assignments and/or mandatory audits, e.g., Financial Integrity and State Manager's Accountability Act (FISMA), Delegations of Authority (Purchasing/Contracting, Leasing, Motor Vehicles - Education Code Section 89045(d)), and Auxiliary Organization Reviews.

- |  |   |
|--|---|
| 1. Information Security                | 12. Disability Support and Accommodations |
| 2. Disaster and Emergency Preparedness | 13. Capital Outlay Planning/Programming   |
| 3. Athletics Administration            | 14. Risk Management and Insurance         |
| 4. Occupational Health and Safety      | 15. Continuing Educ/Extended Learning     |
| 5. Contracts and Grants                | 16. Student Activities/Organizations      |
| 6. Hazardous Materials Management      | 17. Human Relations/Personnel Services    |
| 7. Development/Fund-Raising            | 18. Ancillary Activities                  |
| 8. Public Safety                       | 19. Housing/Residential Services          |
| 9. Student Records and Registration    | 23. Financial Management/Reporting        |
| 10. Student Health Centers             | 25. Financial Aid                         |
| 11. Environmental Management           | 26. Travel/Hospitality                    |

The following information is not necessarily complete. A complete survey of risks, controls, and associated audit procedures can only be compiled through the audit process. Accordingly, the descriptions should be read with the understanding that they are preliminary and presented for discussion purposes, and may change after audit survey/work commences.

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 2 of 12

### **1. Information Security**

Information security includes the activities/measures undertaken to protect the confidentiality, integrity, and access/availability of information including systems to limit collection of information, control access to data and assure that individuals with access to data do not utilize the data for unauthorized purposes, encrypt data in storage and transmission, and implement physical and logical security measures for all sources.

Potential impacts include:

- inappropriate disclosures of protected information;
- identity theft;
- adverse publicity;
- excessive costs;
- inability to achieve institutional objectives and goals; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include a review of the systems and managerial/technical measures for on-going evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access, securing information; detecting security breaches; and security incident reporting and response.

### **2. Disaster and Emergency Preparedness**

Disaster/contingency planning/emergency preparedness includes program and facility readiness and resource planning for actions related to natural and man-made disasters and the recovery therefrom.

Potential impacts include:

- injury of students, staff, faculty, and visitors;
- disruption of programs and services;
- financial exposures;
- damage claims from injured parties; and
- property damage.

Proposed audit scope would include review of compliance with the bond resolutions, Trustee policy and systemwide directives; contingency and disaster recovery planning; backup communications; building safety and emergency egress including provisions for individuals with disabilities; the extent of plan testing; and relationships with state and federal emergency management agencies.

### **3. Athletics Administration**

Athletics administration includes the institutional policies, systems and procedures for managing athletic programs and addressing issues beyond compliance requirements of regulatory groups such as the National Collegiate Athletic Association (NCAA) and National Association of Intercollegiate Athletics (NAIA).

Potential impacts include:

- inability to achieve institutional objectives and goals;
- damage to the CSU reputation;
- fines and penalties; and
- theft or inefficient use of property/resources.

Proposed audit scope would include review of the general control environment for athletics and control activities undertaken to assure implementation of appropriate institutional systems, policies and procedures for financial oversight and stewardship of athletics.

### **4. Occupational Health and Safety**

Occupational health includes oversight of the campus injury and illness prevention program (IIPP), job and workplace conditions, employee health examinations and medical monitoring, health and safety training, work-related accidents, and programs for complying with federal and state occupational regulations.

Potential impacts include:

- injury of staff, faculty, and students;
- non-detection of work-related illnesses;
- regulatory fines and sanctions;
- litigation; and
- excessive workers' compensation costs.

Proposed audit scope would include review of the development, implementation and communication of the campus IIPP; compliance with federal and state health and safety regulations; evaluation and inspection of job and workplace conditions; procedures for required employee health examinations and medical monitoring; provision of health and safety training; investigation, recording, and reporting of work-related accidents; and programs to mitigate perilous working conditions or potential hazards in the workplace.

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 4 of 12

### **5. Contracts and Grants**

Contracts and grants includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

Potential impacts include:

- commitments/proposals not in the best interest of the CSU;
- conflicts of interest by principal investigators;
- inadequate/excessive recovery of costs or contribution of matching requirements;
- misuse of funds;
- non-compliance with pertinent grantor/sponsor regulations;
- audit disallowances, regulatory fines and sanctions;
- misconduct in research such as fabrication, falsification, plagiarism or abuse of human subjects; and
- failure to provide deliverables.

Proposed audit scope would include review of solicitation activities and project approval; contract/grant budgeting and financial planning; cost accounting, allocation, and transfer processes; and award administration. The latter would include proposal development (faculty assistance, funding information, pre-award resource material), proposal preparation and review of compliance issues (human and laboratory animal use, certifications, other regulatory requirements), award negotiation and acceptance (negotiation, award and project initiation), closeout and audit (final reporting, audit issues, project conclusion), and post-award administration (management systems, agency liaison, accounting, fiscal and reporting issues).

### **6. Hazardous Materials Management**

Hazardous materials management includes the systems and procedures for controlling the purchase, generation, storage, treatment, use and disposal of hazardous materials (HAZMAT) and wastes and responding to hazardous spills, and compliance with regulatory permit and reporting requirements.

Potential impacts include:

- injury of staff, faculty, and students;
- environmental damage;
- adverse publicity;
- excessive costs and legal liabilities;
- facilities that present inordinate health risks;
- regulatory fines and sanctions; and
- inability to identify HAZMAT and respond to emergency situations.

Proposed audit scope would include review of compliance with federal and state regulations; development and implementation of HAZMAT communication and training programs and an emergency plan; HAZMAT identification and warnings and accessibility of material safety data sheets; HAZMAT purchasing, receiving, and storage; workplace safety inspections; and the hazardous waste identification and disposal program.

### **7. Development/Fund-Raising**

Development includes institutional or university advancement and fund-raising.

Potential impacts include:

- inadequate non-state funding;
- acceptance of gifts that are inconsistent with public policy;
- erroneous valuation of non-monetary gifts;
- non-compliance with Internal Revenue Service regulations;
- use of funds that conflict with donor intentions/potential violations of trust arrangements; and
- inaccurate reporting of donations and development activity.

Proposed audit scope would include campus development offices, foundations and other organizational constituencies involved in development; cash contributions and donations of property and services; and controls over the analysis of development needs; identification of prospective donors; solicitation and acknowledgment of donations; valuation of non-monetary donations; recording gifts and posting to accounting records; expending donated funds; and preparation of reports on development activity.

### **8. Public Safety**

Public safety includes police activities and law enforcement, parking program administration and enforcement, and crime reporting.

Potential impacts include:

- lack of, out-of-date, or undistributed policies and procedures;
- undeveloped or unused measures for self-evaluation and improvement;
- poor or undefined relationships with external agencies;
- inefficient use of physical assets or human resources;
- non-compliance with state-mandated standards and training requirements;
- unauthorized use of law enforcement data;
- inadequate crime reporting;
- lack of control or poor maintenance over sensitive or special equipment;

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 6 of 12

- excessive costs;
- lost parking fine revenue;
- inadequate control or supervision over activities having safety or liability considerations; and
- poor adjudication of internal investigations or personnel complaints.

Proposed audit scope would include review of compliance with federal and state laws, Trustee and campus policy, and Chancellor's Office directives; staffing and scheduling; participation in disaster planning and the CSU Critical Response Unit; certifications and training; budgeting controls and chargebacks; dispatch operations, field reporting, and case monitoring; internal investigations; evidence and equipment controls; accumulation and reporting of crime statistics; integrity and security of public safety records, files, and information; and parking citations revenue, and funds.

### **9. Student Records and Registration**

Student records and registration includes database integrity, security and confidentiality, and the enrollment process.

Potential impacts include:

- adverse publicity;
- excessive costs;
- erroneous records;
- release of inappropriate information; and
- low customer service.

Proposed audit scope would include review 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.

### **10. Student Health Centers**

Student health centers includes the provision of basic and augmented health services through campus student health facilities, and pharmacy operations.

Potential impacts include:

- substandard medical care;
- inconsistent accessibility;
- erroneous dispensing or theft of pharmaceuticals;
- inadequate health education and staff training;
- excessive costs and fees;

- legal liabilities;
- operational ineffectiveness and inefficiency; and
- unauthorized disclosure of personal information.

Proposed audit scope would include review of compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; establishment of a student health advisory committee; accreditation status; staffing, credentialing and re-credentialing procedures; monitoring of the quality and effectiveness of patient care; 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.

### **11. Environmental Management**

Environmental management includes activities of the CSU in complying with federal and state regulations for environmental protection and enhancement such as the California Environmental Quality Act (CEQA).

Potential impacts include:

- degradation of the environment;
- excessive costs and project delays;
- increased exposure to enforcement actions by regulatory agencies; and
- inability to meet program needs.

Proposed audit scope would include review of systems and procedures for preparation and approval of environmental reports/compliance documents; economical and efficient use of resources; and effectiveness of planned environmental mitigation measures.

### **12. Disability Support and Accommodations**

Disabled student services includes the provision of physical access and systemwide program accessibility, including academic programs and services, student services, auxiliary programs and services, and information resources and technologies, to all students, faculty, and visitors.

Potential impacts include:

- adverse publicity;
- inadequate accommodations and services for disabled;
- inconsistent accessibility;
- excessive costs;
- inappropriate use of funds;

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 8 of 12

- legal liabilities;
- regulatory fines and sanctions; and
- unauthorized disclosure of personal information.

Proposed audit scope would include review of compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; establishment of systemwide and campus disability advisory committees; verification of disabilities, including declining services; provision of reasonable access and accommodations; monitoring the quality and effectiveness of accommodations and services; student complaints and grievances; management of program funds and chargebacks; use of and inventory controls over adaptive aids and equipment; and the integrity and security of disabled student records.

### **13. Capital Outlay Planning/Programming**

Capital outlay planning and programming includes development and maintenance of physical master plans, identification and prioritization of facility needs, scoping and staging capital outlay projects, formulating the capital improvement program, and supporting capital outlay projects throughout approval and funding authorization.

Potential impacts include:

- inadequate facilities;
- excessive costs and project delays;
- increased exposure to enforcement actions by regulatory agencies; and
- inability to meet program needs and achieve institutional objectives and goals.

Proposed audit scope would include review of compliance with federal and state laws and regulations and Trustee policies and procedures, economical and efficient use of resources; and the accomplishment of objectives and goals.

### **14. Risk Management and Insurance**

Risk management and insurance includes risk evaluation and asset protection, mitigation of liabilities and claims, and administration of related programs such as workers' compensation.

Potential impacts include:

- unnecessary risk exposures;
- excessive claims and costs; and
- fraudulent losses.

Proposed audit scope would include review of risk and liability assessments; self insurance; selection of insurance coverage and carriers; risk mitigation and loss prevention programs; claims review and processing; and operations of the California State University Risk Management Authority.

### **15. Continuing Education/Extended Learning**

Continuing education/extended learning includes special sessions, extension programs, and other self-supporting instructional programs and operation of the Continuing Education Revenue Fund (CERF) and related trust accounts.

Potential impacts include:

- loss of budgetary control;
- inappropriate subsidies;
- inaccurate reporting; and
- increased exposure to enforcement actions by regulatory agencies.

Proposed audit scope would include review 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.

### **16. Student Activities/Organizations**

Student activities/organizations include the CSU activities relating to social and co-curricular programs, recreational sports, clubs, and organizations, and student judicial review.

Potential impacts include:

- inappropriate activities;
- personal injury;
- litigation.

Proposed audit scope would include review of systems and procedures for controlling and monitoring student activities and organizations.

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 10 of 12

### **17. Human Relations/Personnel Services**

Human relations/personnel services include the CSU activities in recruiting, hiring, and retaining employees.

Potential impacts include:

- unnecessary costs;
- unequal employment opportunities;
- inappropriate disclosure of confidential employee data;
- inadequate benefit programs;
- excessive employee turnover; and
- inability to hire and retain best employees.

Proposed audit scope would include review of compliance with employment laws and regulations; position classification/compensation; advertising for prospective employees; employee training; and programs for employee benefit administration.

### **18. Ancillary Activities**

As part of academic support, ancillary activities includes the CSU functions in establishing and operating various facilities and specialized programs such as off-campus centers, institutes, marine science laboratories, college farms, museums, galleries, and observatories.

Potential impacts include:

- commitments not in the best interest of the CSU;
- excessive costs/misuse of funds; and
- inability to meet program needs and achieve institutional objectives and goals.

Proposed audit scope would include review of compliance with federal and state laws and regulations and Trustee policies and procedures, economical and efficient use of resources; and the accomplishment of objectives and goals.

### **19. Housing/Residential Services**

Housing/residential services includes the support activities afforded students in locating suitable housing, operation of the on-campus residence halls, and programming of activities for residential students.

Potential impacts include:

- non-compliance with bond requirements;

- unaffordable, unattractive and unsafe residence halls;
- low occupancy and loss of revenue; and
- excessive costs and property damage.

Proposed audit scope would include review of Dormitory Revenue Fund operations, residence hall costs, processes for establishing housing fees, maintenance of residence halls, and activity programs.

### **23. Financial Management/Reporting**

Financial reporting includes all forms of financial reports and the systems and procedures in use to provide constituent groups with accurate, timely, and useful financial information.

Potential impacts include:

- excessive costs incurred in reporting of financial information;
- inaccurate and/or untimely financial reports;
- unauthorized access to financial data;
- reporting of financial data that does not meet user needs; and
- publication of misleading financial statements.

Proposed audit scope would include review of existing financial reporting procedures and processes for compliance with state law, Trustee policy and Chancellor's Office directives; establishment and maintenance of a financial reporting system commensurate with user needs; efficiency and effectiveness of operations; and attainment of objectives and goals.

### **25. Financial Aid**

Granting financial aid includes identification of financial aid resources, establishing student budgets, packaging financial aid awards, coordinating financial aid benefits, managing financial aid funds, complying with federal and state program requirements, securing financial aid applicant information, and preparing financial aid reports.

Potential impacts include:

- inappropriate financial aid packaging due to student aid from various sources not controlled and coordinated;
- financial aid not provided to the neediest students;
- over-awarding beyond need and funding availability;
- awarding aid to ineligible students;

## **Attachment B**

Audit Item 2

January 31-February 1, 2006

Page 12 of 12

- financially needy students not being apprised of available financial aid resources;
- excessive costs;
- students not receiving timely award/denial notices, or awards to ineligible students;
- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit scope would include review of funding arrangements; compliance with federal and state laws, Trustee policy, and Chancellor's Office directives; reliability, confidentiality and integrity of information; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

### **26. Travel/Hospitality**

Travel/hospitality includes all travel activities; the provision of meals/refreshments at meetings, conferences, and events; expenses for official guests of the university; and activities that promote the university to the public or benefit employee morale, including the provision of gifts, awards, and promotional materials.

Potential impacts include:

- excessive costs;
- inappropriate activities;
- unsubstantiated expenses;
- misuse of funding sources;
- adverse publicity;
- non-compliance with Internal Revenue Service regulations; and
- use of funds inconsistent with the CSU mission.

Proposed audit scope would include review of compliance with federal and state laws, Trustee and campus policy, and Chancellor's Office directives; authorization for and acquisition of travel/hospitality services and materials; payment and reimbursement of travel/hospitality expenses; and economical and efficient use of resources.

**OFFICE OF THE UNIVERSITY AUDITOR  
FUNCTIONS AUDITED DURING PAST TEN YEARS**

**YearFunction**

- 2005 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
  - Auxiliary Organizations
  - Continuing Education
  - Housing/Residential Services
  - Construction
  
- 2004 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
  - Auxiliary Organizations
  - Admissions
  - Human Relations
  - Student Activities
  - Construction
  
- 2003 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
  - Auxiliary Organizations
  - Employee Relations
  - Risk Management and Insurance
  - Disaster/Contingency Planning
  - Construction
  
- 2002 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
  - Auxiliary Organizations
  - Development
  - Financial Aid
  - Disability Support and Accommodations
  - Construction
  
- 2001 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)
  - Auxiliary Organizations
  - Delegations of Authority (Procurement, Motor Vehicles, Agreements, and Leases)
  - Development
  - Contracts and Grants
  - Construction

2000 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Auxiliary Organizations  
Hazardous Materials Management  
Public Safety  
Student Health Centers  
Construction

1999 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Auxiliary Organizations  
Continuing Education/Extended Education  
Operation and Maintenance of Plant  
Student Records and Registration  
Construction

1998 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Risk Management and Insurance  
Continuing Education/Extended Education  
Construction

1997 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Occupational Health  
Seismic Safety and Disaster Readiness  
Construction

1996 Financial Integrity and State Manager's Accountability Act (Financial Internal Controls)  
Delegations of Authority (Procurement, Motor Vehicles, Agreements, and Leases)  
Development  
Construction

**COMMITTEE ON AUDIT**

**Report on Construction Auditing in the California State University, 2004-2005**

**Presentation By**

Larry Mandel  
University Auditor

Mark Thomas  
Systemwide Coordinating Partner  
KPMG

**Summary**

For the 2004/05 fiscal year, construction auditing was performed for the CSU under a contract with KPMG. The contract called for six construction projects to be reviewed with coordination from the Office of the University Auditor. Areas under review included construction bid process, change orders, project management services, contractor compliance, liquidated damages, and cost verification of major equipment and construction components. Representatives from KPMG, the external audit firm hired by the California State University to conduct the audit, will make a presentation and respond to questions.

**COMMITTEE ON AUDIT**

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

**Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

**Summary**

The systemwide audit in accordance with generally accepted accounting principles and the report to management will be discussed. Representatives from KPMG, LLP, the external audit firm hired by the California State University to conduct the audit, will be available to respond to questions. A copy of the report is enclosed for your review.