

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**     **3:30 p.m., Tuesday, November 14, 2006**  
Glenn S. Dumke Auditorium

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Herbert L. Carter  
Carol R. Chandler  
George G. Gowgani  
William Hauck  
Glen O. Toney

#### **Consent Items**

Approval of Minutes of Meeting of September 20, 2006

#### **Discussion Items**

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on the Year-End Audited Financial Closing Process, *Information*
3. Information Security in the California State University, *Information*

**MINUTES OF THE MEETING OF THE  
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 20, 2006**

**Members Present**

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Roberta Achtenberg, Chair of the Board  
Herbert L. Carter  
Carol R. Chandler  
George G. Gowgani  
William Hauck  
Glen O. Toney  
Charles B. Reed, Chancellor

Chair Holdsworth called the meeting to order.

**Approval of Minutes**

The minutes of the meeting of July 19, 2006, 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 19-20, 2006, Board of Trustees agenda.

Mr. Mandel stated that the campuses continue to make good progress in completing the recommendations. He reported that as per the campus, the one outstanding recommendation pertaining to Auxiliary Organizations at California State University (CSU), Fresno would be completed by September 30, 2006.

Mr. Mandel then reported on the progress of the 2006 assignments. He reminded the Trustees that at the May 2006 Board meeting, the initial audit plan was amended to decrease the number of Athletics Administration reviews from ten to six because the pilot audit determined that additional areas required review. He added that due to unexpected leave time necessitated by a staff member, the number of projected reviews of Athletics Administration would be reduced to

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five for the year. He stated that perhaps consideration would be given to performing additional reviews of this subject next year and would be discussed at the January 2007 Board meeting.

Chair Holdsworth stated that because this was the first time Athletics Administration was reviewed at the campuses and because of its visibility to the public, a strong effort should be given to this subject area when preparing next year's audit plan.

Chair Holdsworth commented on the outstanding recommendations pertaining to Continuing Education at the California Maritime Academy, and reminded Dr. William B. Eisenhardt, president, of the urgency for completion in a timely manner.

Trustee Hauck noted that the current status report indicated four reviews of Athletics Administration and asked at which campus the fifth review would be conducted.

Mr. Mandel responded that the fifth review of Athletics Administration would be performed at CSU, Fresno.

### **Status Report on the Year-End Audited Financial Closing Process**

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented the item. He reported that the corrective action plan for the remaining outstanding finding related to the Single Audit Report of federal funds for the year ended June 30, 2005, had been completed with validation from the university auditor. He reminded the Trustees that this finding pertained to the reconciliation process for the Direct Loan Program for student financial aid at CSU, San Bernardino.

Mr. Hordyk recalled the finding in the audit report that was the result of 14 campuses' inability to complete accurate financial reporting packages on a timely basis. He noted that the resolution of this finding would only be accomplished through the closing of the campus books and the preparation of the CSU consolidated financial statements this fall. He then provided a progress report stating that audit work had begun at all campuses for this year's financial statement preparation process and preliminary reports from the campuses indicate that the closing process would be completed on a timely basis. Mr. Hordyk stated that another progress report would be provided at the November Board meeting.

Chair Holdsworth addressed the presidents, especially the newer presidents, stating that they should evaluate the current status of the financial statement preparation process at their respective campuses to determine if any assistance is needed from the chancellor's office in order to ensure a timely completion. He stated that any requests for assistance should be addressed now in order to ensure that the proper resources are obtained if needed.

### **Appointment of an External Audit Firm – Status Report on Contract Award Protest**

Chair Holdsworth reported on the information item regarding the protest received regarding the CSU's intent to award a contract for independent financial audit services. At the July 2006 Board meeting, a recommendation was made to the Committee on Audit to award the contract to KPMG. The Committee on Audit further recommended to the full Board that such action be taken; the Board approved the action at the meeting.

Chair Holdsworth further reported that subsequently, on August 4, 2006, the firm of Macias Gini filed a protest to the decision to award the contract to KPMG. A copy of the protest was mailed to the Board on August 4, 2006.

In accordance with CSU policy governing procurement of goods and services, an evaluator who was not involved in the selection process, was asked to review the protest and issue a decision. Chair Holdsworth indicated that he and Vice Chair Farar then reviewed the protest evaluation with both the evaluator and other CSU staff, including Chancellor Charles B. Reed.

A copy of Chair Holdsworth and Vice Chair Farar's letter regarding their review of the protest was included in the Board's material and was mailed on September 15, 2006. The letter to Mr. Macias regarding Chair Holdsworth and Vice Chair Farar's review was mailed to Mr. Macias on September 14, 2006, and was also included in the Board's material that was mailed on September 15, 2006.

Chair Holdsworth stated that there were several allegations made in the protest letter from Mr. Macias; however, only those assertions directly linked to the proposal RFP process were an appropriate basis for protest. It was found that the RFP and its processes met all legal and policy requirements and was conducted in accordance with the conditions of the RFP document. Also, the basis upon which both proposals to the RFP were evaluated was determined to be fair and without prejudice.

Chair Holdsworth indicated that there were further allegations made about information presented to the Committee and how the processes work. While these matters are not relevant as a protest topic according to CSU policy, nevertheless Chair Holdsworth and Vice Chair Farar believed it was important to review what had transpired at the Board meeting on July 19, 2006. They both concluded that the representations by CSU management were consistent with the findings of the evaluation committee and were not misleading, and more importantly did not factor into the proposal evaluation.

Chair Holdsworth stated that after reviewing all aspects of the protest, he and Vice Chair Farar had concluded that the process employed in evaluating the RFP met all legal and policy requirements, and were conducted in accordance with the conditions and rules outlined in the bid solicitation.

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Chair Holdsworth further stated that any questions from the Board members regarding the RFP process and the protest review should be referred to Ms. Christine Helwick, General Counsel.

The Committee heard comments on the contract award protest from Dr. Kenneth A. Macias, founder and partner, and Mr. James V. Godsey, partner, of Macias Gini. Both partners spoke of the experience and quality of their firm and their belief that Macias Gini's participation in the RFP process improved the competitiveness of the process, which provided a benefit to the CSU.

Trustee Holdsworth thanked both Dr. Macias and Mr. Godsey for their comments and for submitting a proposal to the California State University system.

## **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 2006 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, Delegations of Authority, Disaster and Emergency Preparedness, Athletics Administration, and Construction. In addition, follow-up on past assignments (FISMA, Auxiliary Organizations, Continuing Education, and Housing and Residential Services) is currently being conducted on approximately 25 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 2006 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, Delegations of Authority, Disaster and Emergency Preparedness, Athletics Administration, and Construction.

#### *FISMA*

The initial audit plan indicated that approximately 144 staff weeks of activity (17 percent of the plan) would be devoted to auditing financial internal controls on 12 campuses. Two audits have been completed, three audits awaits a campus response prior to finalization, and report writing is being completed on two campuses.

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 257 staff weeks of activity (31 percent of the plan) would be devoted to auditing internal compliance/internal control at 8 campuses/29 auxiliaries. Two campus/seven auxiliary reports await a campus response prior to finalization, and report writing is currently taking place at five campuses/nineteen auxiliaries.

#### *Delegations of Authority*

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 purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Three audits have been completed, and report writing is being completed at three campuses.

*Disaster and Emergency Preparedness*

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 and/or compliance with 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. One audit has been completed, and report writing is being completed at eight campuses.

*Athletics Administration*

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/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. An increase in the amount of time required for fieldwork has reduced the number of campus reviews to five. Report writing is being completed at four campuses, while fieldwork is currently taking place at one campus.

*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 26 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 25 prior audits (FISMA, Auxiliary Organizations, Continuing Education, and Housing and Residential Services) 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. 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*

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 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. Four audits are complete, while two audits await a response prior to completion.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 12/12/2006)

	<b>2006 ASSIGNMENTS</b>					<b>FOLLOW-UP ON PAST/CURRENT ASSIGNMENTS</b>										
	FISMA	Aux Orgs	Deleg of Authority	Disaster and Emerg Prep	Athletics Admin	Special Investigations		FISMA		Auxiliary Organizations			Continuing Education		Housing & Residential Svcs	
						*Recs	**Mo.	*Recs	**Mo.	•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK			RW					10/12	5	3	22/22	-				
CHI	AC	RW						4/7	2	3	32/32	-	9/9	-		
CI				RW				11/13	4	2	26/26	-				
DH				RW				5/5	-	3	36/36	-				
EB	AI									4	29/40	6				
FRE				RW	FW			5/7	6	6	47/47	-				
FUL		AI			RW	31/55	1	7/7	-	4			5/5	-		
HUM				RW				10/10	-	3	25/25	-				
LB		RW	AC					13/13	-	3		-	5/5	-	10/10	-
LA	AI		RW							4	42/42	-	2/2	-		
MA								7/7	-	2	0/14	6	1/12	9		
MB			RW					7/8	4	2	17/17	-				
NOR	AC	RW						8/8	-	5					9/9	-
POM	RW			RW				11/11	-	3	24/24	-	6/7	9	11/11	-
SAC					RW			13/13	-	5	36/36	-				
SB		AI		RW				9/9	-	3						
SD				AC	RW			7/7	-	4	21/21	-			10/10	-
SF		RW	RW					6/6	-	4					7/7	-
SJ			AC		RW			16/16	-	4	42/42	-				
SLO	AI									2	6/13	5			4/4	-
SM	RW		RW							3	34/34	-	5/5	-		
SON		RW		RW				6/6	-	4	21/21	-			10/10	-
STA			AC					0/7	3	4	27/27	-				
CO			RW	RW				4/4	-	2	11/11	-				
SYS													0/6	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.

\*\*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 Year-End Audited Financial Closing Process**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

In January 2006, the University's audited financial statements for the year ending June 30, 2005, were presented to the Board. The external auditors identified a reportable material weakness in internal controls for the system and made recommendations to correct this condition. The Trustees asked at that time, and at subsequent meetings, for regular updates on corrective actions that have been implemented to correct the material weakness and the impact on the closing process for year ending June 30, 2006.

#### **Background**

During the audit process last year, KPMG noted several substantial issues that hindered the campuses' abilities to complete accurate financial reporting packages in accordance with GAAP. As a result only nine campuses met the reporting timeline of October 18, 2005, and the remaining fourteen campuses continued to submit required financial information to the Chancellor's Office through December 23, 2005. The auditors recommended that the University evaluate the current process, as well as consider the skill-set, training and time-availability of the individuals performing this function.

#### **Management Response**

Chancellor's Office staff worked with the campus vice presidents for business and administration, and their staff, to develop a plan to assure there are adequate controls in place for the financial statement preparation process into the future. The plan included an increase in staff training in this area throughout the system, establishing guidelines for adequate staffing levels with knowledgeable professionals with GAAP expertise and competitive compensation for recruitment and retention of these staff.

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**Current Status**

The closing process is in progress throughout the system, with audit fieldwork being finished at the campuses. While it will take a few years to fully implement all the corrective actions, and even though campuses continue to have difficulty hiring qualified staff in this area, there is every expectation that the plans put in place this past year will result in a timely closing process for the University's financial statements. A status report will be provided to the Board at the meeting.

## **COMMITTEE ON AUDIT**

### **Information Security in the California State University**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

David Ernst  
Assistant Vice Chancellor  
Information Technology Services

#### **Background**

In early 2004, the California State University contracted with Cedric Bennett and Associates to do an overview of information security within the CSU. Mr. Bennett had recently retired from Stanford University as Information Security Officer. The consulting arrangement involved analysis of efforts at the Office of the Chancellor as well as sample campuses.

The report, presented in March 2004, identified deficiencies at both campus and system levels, and recommended three major corrective actions:

1. Hire an Information Security Director to lead systemwide efforts to raise CSU information security awareness and oversee information security management for the CSU.
2. Develop a CSU systemwide information security plan and move rapidly to implement it.
3. Require every campus to designate an individual with campus-wide responsibility and authority for information security.

CSU has responded to the recommendations as follows.

#### **Leadership and Awareness**

- Once the report was submitted, CSU vetted it with Presidents, the Technology Steering Committee (TSC) and the Information Technology Advisory Committee (ITAC), then conducted a personnel search for a Senior Director of Information Security Management. The process was time consuming and challenging since information security is a highly competitive field.

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- A Senior Director was hired in early 2005 and reports to Chief Information Officer for the CSU with dotted line responsibilities to the Associate Vice Chancellor, Academic Affairs and to the Vice Chancellor for Human Resources.
- A Committee of Information Security Officers (ISO) has been established and meets regularly.
- ISO sub-committees have begun drafting policies associated with information security, such as data retention, acceptable use and privacy, and the Office of the Chancellor is considering a consultant engagement to assist in this work and provide guidance in the implementation process for systemwide security policies.
- The Senior Director has conducted campus visits to heighten awareness of, and identify common concerns regarding the information security process, and has worked with ISO and ITAC members to address critical/immediate security issues.
- The Information Technology Services unit within the Chancellor's Office has developed a plan to ensure campus compliance relating to Executive Order 796: Privacy and Personal Information Management for Student Records Administration.
- One campus sponsored, and other campuses participated in, the first SANS EDU training in summer 2006, on securing Windows; SANS (System Administration, Audit, Network, Security) is a large and trusted provider of security training and certification.
- A minimum baseline for a Computer Security Incident Response (CSIRT) approach is being developed with Carnegie Mellon –a higher education leader in this area. When completed this framework will provide guidance for campus implementation.
- ISOs are working with the Network Technology Alliance (NTA) and System Technology Alliance or STA (working committees of the Information Technology Advisory Committee comprised of campus technical managers) to address network security issues such as implementing systemwide firewalls and Intrusion Detection/Prevention Systems .
- Recommendations from the Cap Gemini Ernst & Young (CGE&Y) *Security Review of the Common Management Systems (CMS)* project, conducted in 2003 have been implemented, and deficiencies identified therein have been corrected.

### **Technical Improvements**

- CSU has improved network security through provision of standardized hardware.
- The data center for CMS was outsourced to Unisys. With the core of sensitive data being centrally stored and managed, the physical security and control of this data has been enhanced.
- The recent renewal of the contract with Unisys to provide consolidated data center services included enhanced network connectivity and security features.

## **Systemwide Security Plan**

The CSU Information Technology Services office has awarded a contract to the security consulting arm of Unisys Corporation to provide assistance in developing an enterprise-wide security framework based on an internationally recognized security standard, ISO 17799:2005, Code of Practice for Information Security Management. The framework will be used as a foundation for a CSU-wide information security program that will improve the University's security posture and address the security challenges of the future.

Developing this CSU information security framework begins with a review of existing security operations and management practices. Unisys has designed a campus security survey instrument to collect information from campuses about their current security controls. The following nine campuses have been -selected to participate in this survey:

- **Large Campuses:** Northridge; Long Beach; San Francisco
- **Medium Campuses:** East Bay; Fresno; San Luis Obispo
- **Small Campuses:** San Marcos; Stanislaus; Sonoma

Unisys Corporation representatives are visiting each of the nine campuses and the Chancellor's Office during October, November and December to interview a variety of management, staff, faculty and technical personnel. Auxiliary organizations also will be asked to participate in the survey. The campus visits will provide Unisys with an understanding of the operational and environmental controls governing information security. Each campus that participates in the survey will receive a report that provides an analysis and comparison of its security program controls with the ISO 17799 security standard. The campus visits will last from 3-5 days depending on the size of the campus. This evaluation will *not* include the development of security policies or the establishment of security requirements that are necessary to implement the ISO security standard. It will provide a baseline of information on current security practices across the CSU from which improvements can be made and progress measured.

## **Campus Responsibility for Information Security**

- Campuses have been notified that they must designate a person responsible for campus-wide information security. These individuals meet as the ISO committee.
- Presidents have been surveyed each of the past two years as to the status of this individual on campus (who and the reporting structure).
- The Senior Director—Information Security Management has developed Information Security Function and Information Security job description templates for use by campuses.

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### **Information Technology Services and Audit**

ITS will rely on the Systemwide Security Plan results from the Unisys Security Consulting to develop a systemwide security framework to address minimum security best practices. Implementation of these practices will be tested as the CSU Office of the University Auditor completes its review of the information security function.