

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:** 3:45 p.m., Tuesday, January 25, 2011  
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 November 9, 2010

#### 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 2011, *Action*
3. Report of the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management, *Information*
4. Single Audit Report of Federal Funds, *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, 2010**

**Members Present**

Henry Mendoza, Chair  
Nicole M. Anderson  
George G. Gowgani  
Melinda Guzman  
Charles B. Reed, Chancellor  
Herbert L. Carter, Chair of the Board

Chair Mendoza called the meeting to order.

**Approval of Minutes**

The minutes of September 21, 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 November 9-10, 2010 Board of Trustees agenda.

Mr. Mandel reminded everyone that updates to the status report are now displayed in green color to indicate progress towards or completion of outstanding recommendations. He reported that the status report reflects approximately 15 changes since the distribution of the agenda, indicating that many of the campuses are continuing to make very good progress in the closing of outstanding recommendations. He noted that four campuses have long-outstanding recommendations: Fullerton, San Luis Obispo, East Bay, and Pomona. The outstanding recommendations at the Fullerton and San Luis Obispo campuses pertain to the audits of auxiliary organizations, specifically the accounting of trust/custodial funds being held in the auxiliaries. Mr. Mandel stated that these particular recommendations are being held in abeyance pending the report of the Review Committee on the Status of Auxiliaries, which is being chaired by Richard P. West, executive vice chancellor emeritus.

Chancellor Reed informed the trustees that the Review Committee on the Status of Auxiliaries had met in October 2010 and that two additional meetings were scheduled to be completed by the first of December. Chancellor Reed anticipated the receipt of Mr. West's report in late December and making his recommendations to the board at the January 2011 meeting.

Mr. Mandel further reported that the one outstanding recommendation at CSU East Bay pertaining to information security was a result of miscommunication between the Office of the University Auditor and the campus, which has now been resolved and will be completed by the next board meeting. In addition, he stated that the two outstanding recommendations at the Pomona campus pertained to off-campus activities, and he deferred to President J. Michael Ortiz for comment. President Ortiz stated that the campus is currently in the process of finalizing the agreements with community partners for academic internships and anticipated completion by the end of December 2010.

Mr. Mandel noted the completion of all FISMA (financial internal control) recommendations as shown on the status report. He reminded the trustees that, as per discussions with the Office of State Audits and Evaluations of the Department of Finance (DOF), specific FISMA reviews would no longer be conducted and therefore would no longer be included on future status reports. Instead, the DOF requested a different auditing approach that would address all high-risk areas at the campuses, not just those which are financial in nature. As a result, eight areas for 2010 were selected based on an annual risk assessment. Mr. Mandel stated that most of the audit assignments from the 2010 audit plan, including auxiliary organizations and construction reviews, are in various stages of completion, and added that all assignments would be completed by the January 2011 board meeting.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Larry Mandel  
University Auditor

#### **Summary**

This item includes both a status report on the 2010 audit plan and follow-up on past assignments. For the current year, assignments have been made to conduct reviews of Auxiliary Organizations, high-risk areas (Main and Satellite Cashiering, Post Award process, IT Disaster Recovery, Financial Aid, Intercollegiate Athletics, HIPPA Compliance, 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 Compliance, 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. Four campuses/16 auxiliaries have been completed, two campuses/eight auxiliary reports await a campus response prior to finalization, and report writing is being completed at one campus/four 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, subrecipient monitoring, and management and security of information systems. Six campuses will be reviewed. All six audits have been completed.

#### 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. Three audits have been completed, and three reports await a campus response prior to finalization.

#### 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. All six audits have been completed.

#### 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. Four reports await a campus response prior to finalization, and report writing is being completed at two 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. Five campuses will be reviewed. All five audits have been completed.

#### 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. Two audits have been completed, two reports await a campus response prior to finalization, and report writing is currently taking place at one campus.

#### 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. Two reports await a campus response prior to finalization, and report writing is taking place at four campuses.

#### *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 closeout process and liquidated damages; and overall project accounting and reporting. Ten projects will be reviewed. Seven reviews have been completed, two reviews await campus responses prior to finalization, and report writing is being completed 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 1/6/2011)

|     | 2010 ASSIGNMENTS |                             |               |              |     |                |          |      |         | FOLLOW-UP PAST/CURRENT ASSIGNMENTS |       |       |                         |       |                           |       |                          |       |
|-----|------------------|-----------------------------|---------------|--------------|-----|----------------|----------|------|---------|------------------------------------|-------|-------|-------------------------|-------|---------------------------|-------|--------------------------|-------|
|     | Aux<br>Orgs      | Main &<br>Satellite<br>Cash | Post<br>Award | IT           | Fin | Inter          | HIPAA    | Bus  | Fund    | Auxiliary<br>Organizations         |       |       | Information<br>Security |       | Emergency<br>Preparedness |       | Off Campus<br>Activities |       |
|     |                  |                             |               | Dis<br>Recov | Aid | Colleg<br>Athl | Security | Cont | Raising | •No.                               | *Recs | **Mo. | *Recs                   | **Mo. | *Recs                     | **Mo. | *Recs                    | **Mo. |
| BAK |                  |                             |               | AI           |     |                |          | AI   |         | 3                                  | 19/19 | -     |                         |       |                           |       | 5/5                      | -     |
| CHI |                  |                             |               |              |     |                |          |      |         | 3                                  | 11/20 | 8     | 28/28                   | -     | 10/10                     | -     |                          |       |
| CI  |                  |                             |               |              |     |                | AC       | AC   |         | 3                                  | 10/10 | -     | 15/15                   | -     |                           |       |                          |       |
| DH  |                  |                             |               |              |     |                | AC       |      |         | 3                                  | 22/22 | -     | 19/19                   | -     |                           |       |                          |       |
| EB  |                  |                             |               | AC           |     | AI             | AC       |      |         | 4                                  | 30/30 | -     | 11/12                   | 12    | 6/8                       | 11    |                          |       |
| FRE |                  |                             | AC            |              |     | RW             | AC       |      |         | 6                                  | 25/25 | -     | 22/22                   | -     |                           |       |                          |       |
| FUL |                  |                             |               |              | AC  |                |          | AI   |         | 4                                  | 31/32 | 18    | 16/16                   | -     | 2/2                       | -     | 8/8                      | -     |
| HUM | RW               |                             | AC            |              | AC  |                |          |      | RW      | 4                                  |       |       |                         |       | 8/8                       | -     | 6/6                      | -     |
| LB  |                  |                             |               |              |     | AI             |          |      |         | 3                                  | 34/34 | -     | 21/21                   | -     |                           |       |                          |       |
| LA  | AI               |                             |               |              |     | AI             | AC       | RW   |         | 4                                  |       |       | 7/7                     | -     |                           |       | 6/6                      | -     |
| MA  |                  |                             |               | AI           |     |                |          |      | RW      | 2                                  | 15/15 | -     |                         |       | 6/6                       | -     |                          |       |
| MB  |                  |                             |               | AC           |     |                |          |      |         | 2                                  | 15/15 | -     | 22/22                   | -     |                           |       |                          |       |
| NOR |                  | AC                          |               | AI           | AC  | RW             |          |      |         | 5                                  | 27/27 | -     | 16/16                   | -     |                           |       | 6/6                      | -     |
| POM | AC               |                             |               | AC           |     |                |          |      |         | 3                                  | 0/12  | 2     | 16/16                   | -     | 7/7                       | -     | 3/5                      | 12    |
| SAC |                  | AC                          |               |              |     |                |          |      |         | 6                                  | 28/28 | -     | 23/23                   | -     |                           |       | 9/9                      | -     |
| SB  |                  | AC                          |               |              | AC  |                |          |      |         | 3                                  | 30/30 | -     |                         |       |                           |       |                          |       |
| SD  | AC               |                             | AC            |              | AC  |                |          | AC   |         | 4                                  | 13/24 | 6     | 14/14                   | -     |                           |       | 6/6                      | -     |
| SF  |                  | AC                          | AC            |              |     |                |          |      |         | 5                                  | 26/30 | 11    | 19/19                   | -     | 3/3                       | -     |                          |       |
| SJ  | AC               |                             | AC            |              |     |                |          | AI   |         | 5                                  | 0/47  | 3     | 25/25                   | -     | 7/7                       | -     | 6/6                      | -     |
| SLO |                  |                             |               |              |     |                |          |      |         | 4                                  | 23/24 | 24    | 27/27                   | -     |                           |       |                          |       |
| SM  | AC               | AC                          |               |              |     | AI             |          |      |         | 3                                  | 0/13  | 3     | 7/7                     | -     | 2/2                       | -     |                          |       |
| SON |                  |                             |               |              | AC  |                |          |      | RW      | 4                                  | 12/12 | -     | 20/20                   | -     |                           |       |                          |       |
| STA | AI               | AC                          |               |              |     |                |          |      | RW      | 4                                  |       |       | 27/27                   | -     | 6/6                       | -     |                          |       |
| CO  |                  |                             | AC            |              |     |                |          |      | AI      | 2                                  | 4/4   | -     | 16/19                   | 11    |                           |       |                          |       |
| SYS |                  | AC                          | AI            |              |     |                |          |      |         |                                    |       |       | 0/9                     | 5     | 5/6                       | 8     | 0/11                     | 7     |

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**

### **Assignment of Functions to be Reviewed by the Office of the University Auditor for Calendar Year 2011**

#### **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 2011.

### **DELEGATIONS OF AUTHORITY**

In 1986, Senate Bill (SB) 1828 extended indefinitely certain California State University (CSU) delegations of authority concerning purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. The bill's intent was to promote greater economy and efficiency in CSU operations and was expanded by Assembly Bill (AB) 1191 in 1993. The bill also added section 89045(d) to the Education Code:

(d) In addition, the internal audit staff shall perform audits, at least once every five years, of the activities of the CSU pursuant to Sections 89031.5, 89036, 89046, and 89048 of the Education Code and Section 11007.7 of the Government Code.

Delegations of authority includes the proper transference of authority within the CSU and campus organizational structure to allow individuals to perform business transactions on behalf of the CSU in an approved, appropriate and compliant manner.

Of primary concern are certain purchasing and contracting issues; commodity, information technology resources and services acquisitions; consultant contracts; service orders; small business and other special purchasing issues; motor vehicle inspections and use; agreements and leases; leases of real property as either lessor or lessee, easements right-of-way and quitclaim transactions; and the sale or exchange of real and personal property.

Audits will be performed at those campuses not reviewed in 2006. This represents 89 staff weeks of audit effort, which is approximately 9.1 percent of the audit plan.

## HIGH RISK AREAS

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2010. The results of that risk assessment indicated the following six areas of highest risk to the system:

Sensitive Data and Third-Party Systems Security and Protection  
Information Technology Disaster Recovery Planning  
Financial Aid  
Academic Personnel  
Americans with Disabilities Act  
Cashiering

Audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 259 staff weeks of audit effort, which is approximately 26.4 percent of the audit plan.

## AUDITS OF AUXILIARY ORGANIZATIONS

In order to provide assurance to the Board of Trustees 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 32 auxiliary reviews will take place during calendar year 2011. This represents 314 staff weeks of audit effort, which is approximately 31.9 percent of the audit plan.

## CONSTRUCTION

Areas under review include 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 closeout process and liquidated damages; and overall project accounting and reporting. It is estimated that seven construction projects will be reviewed during calendar year 2011. This represents 52 staff weeks of audit effort, which is approximately 5.3 percent of the audit plan.

## COMPLIANCE

In order to leverage audit resources and take a proactive approach to reduce the potential number of audit issues, the Office of the University Auditor will reallocate resources to develop a compliance function. It is anticipated that the compliance program structure, an initial inventory of compliance activities and owners, and a determination of major areas of compliance risk will take place during calendar year 2011. Eighty-six staff weeks have been set aside for this purpose, representing approximately 8.7 percent of the audit plan.

## INFORMATION SYSTEMS

Technology support will be provided in the area of financial internal controls for both campus and auxiliary organization audits, in addition to subject area reviews. Forty-five staff weeks are planned during calendar year 2011, which is approximately 4.6 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. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.3 percent of the audit plan.

## CONSULTATIONS//COMMITTEES

The Office of the University Auditor is periodically called upon to provide consultation to the campuses and/or to participate on committees. Twenty-four staff weeks have been set aside for this purpose, representing approximately 2.4 percent of the audit plan.

## SPECIAL PROJECTS

The Office of the University Auditor is periodically called upon to perform special projects. Fifty-seven staff weeks have been set aside for this purpose, representing approximately 5.8 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. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 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.

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 2011 internal audit plan, as detailed in Agenda Item 2 of the Committee on Audit at the January 25-26, 2011 meeting, be approved.

## **HIGH RISK AREAS**

The Office of the University Auditor performed a risk assessment of the CSU in the last quarter of 2010. The results of that risk assessment indicated the following six areas are of highest risk to the system:

Sensitive Data and Third-Party Systems Security and Protection  
Information Technology Disaster Recovery Planning  
Financial Aid  
Academic Personnel  
Americans with Disabilities Act  
Cashiering

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 may change after audit survey/work commences.

### **Sensitive Data and Third-Party Systems Security and Protection**

The CSU recently issued guidance on data classification and protection which includes compliance with federal security and confidentiality of records maintained by the campus. In addition, the campuses have identified sensitive and confidential information that must be protected by all parties that are involved with the storage and use of such data, including contractual provisions for protecting data by third-party vendors. Sensitive data can include, but is not limited to, personnel records, credit card information, red flag monitoring and medical records.

Potential impacts include:

- financial exposures;
- legal exposures;
- failure to ensure compliance with all rules and regulations;
- inadvertent/inappropriate disclosure of sensitive data; and
- vendor performance not meeting with contractual expectations.

Proposed audit scope would include review and compliance with trustee policy, federal and state directives, and campus policies and procedures; procedures for handling confidential information; communication and employee training; encryption; tracking and monitoring access to sensitive data; and retention practices of key records. If the sensitive data is maintained by a third party, we would review the involvement of campus information security personnel in the

decision process; documentation of campus expectations for handling and securing the data; contract language covering security expectations; and monitoring third-party performance.

### **Information Technology Disaster Recovery Planning**

IT disaster recovery includes program and facility readiness and resource planning for the recovery of data processing services, within a predetermined time, from any catastrophic event, be it natural or man-made. IT disaster recovery assumes that the business operations and facilities are intact but data processing services are interrupted, adversely affecting routine business processes.

Potential impacts include:

- disruption of campus or systemwide programs and services;
- financial exposures;
- adverse impact to institutional objectives and goals; and
- damage to the CSU reputation.

Proposed audit scope would include review of trustee policy, systemwide directives, and campus policies and procedures; a study of the planned data processing recovery functions following a catastrophic event; disaster recovery plans; testing and exercising of plans; plan maintenance, communications, and training; and data recovery and necessary retention of key records.

### **Financial Aid**

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;
- financial aid not provided to the neediest students;
- overawarding beyond need and funding availability or failing to maximize available funds;
- awarding aid to ineligible students;
- high default rates on student loans;
- excessive costs;
- students not receiving timely award/denial notices;

- reduced service levels; and
- inappropriate disclosure of student personal information.

Proposed audit procedures would include review of 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.

### **Academic Personnel**

Academic personnel includes activities involved in recruiting, hiring, evaluation, and retention of employees who are directly involved with the academic operations of the CSU and the individual campuses.

Potential impacts include:

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

Proposed audit scope would include review of recruitment and hiring processes for compliance with employment laws and regulations; evaluation of employees as required per collective bargaining agreements; administration of the family medical leave and other employee programs; and protection of sensitive and confidential information.

### **Americans with Disabilities Act**

Americans with Disabilities Act (ADA) includes compliance with federal, state and local rules and regulations which relate to the Americans with Disabilities Act of 1990 (Title 42). Of primary concern is appropriateness of systemwide guidance; management culture; facility specifications and accommodations; program access considerations; and compliance with reporting standards and requirements.

Potential impacts include:

- legal exposures;
- financial exposures;
- discouragement of qualified individuals from seeking CSU services or employment; and
- damage to the CSU reputation.

Proposed audit scope would include review of trustee policy, systemwide directives, and campus policies and procedures; examination of management compliance efforts; review of facility initial or modification design processes; analysis of reported campus and systemwide statistics; and testing of reasonable accommodation efforts.

### **Cashiering**

Main and satellite cashiering includes business unit cashiering procedures, cash receipts processes, change and purchase funds, and the overall accountability for cash.

Potential impacts include:

- inadequate segregation of duties;
- the opportunity for fraud or misappropriation of funds;
- weak accountability and failure to assign responsibility;
- noncompliance with state regulations; and
- accounting errors and inefficient operations.

Proposed audit scope would include review of trustee policy, systemwide directives, state regulations, and campus policies and procedures for controlling cash receipts; accountability for cash; safeguarding of cash; timely deposits; and accurate record keeping.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Benjamin F. Quillian  
Executive Vice Chancellor and  
Chief Financial Officer

George V. Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

State law and federal requirements mandate the California State University (CSU) be subject to financial statement and compliance audits. Annually, financial statement audits are performed for at least 10 of the CSU campuses on a stand-alone basis, all 92 of the recognized auxiliary organizations, and the CSU system as a whole. Separate audits are also performed each year on the financial statements of the CSU Risk Management Authority and the CSU Systemwide Revenue Bond Program. All of these financial statement audits are performed by approximately 30 CPA firms across the state.

The systemwide financial statements were issued on schedule with an unqualified (i.e., clean) opinion. There were no audit findings related to the financial statements. Highlights of the financial statements will be presented, including the impact of state appropriation shortfall, student fees increase, federal ARRA funds, designated and undesignated unrestricted resources, and future uncertainties of the state budget impact on the CSU appropriations.

In summary, the fiscal year ending June 30, 2010, was a successful year. All reports were completed on schedule and received clean opinions. Representatives from KPMG, the systemwide audit firm, will be present to answer questions.

## **COMMITTEE ON AUDIT**

### **Single Audit Report of Federal Funds**

#### **Presentation By**

Benjamin F. Quillian  
Executive Vice Chancellor and  
Chief Financial Officer

George Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Federal awards received by the California State University (CSU), including student financial aid are subject to both compliance and internal control audit procedures as required by Office of Management and Budget Circular A-133. All of these audits are performed by approximately 30 CPA firms across the state.

The CSU A-133 Single Audit Reports were issued on schedule with an unqualified (i.e., clean) opinion. There were five findings for the federal awards received by the CSU. None of the findings were material weaknesses. The first four findings were issues related to the federal student financial aid programs. The last finding was an issue related to a non-financial aid program (College Cost Reduction and Access Act). There were no specific compliance issues identified in KPMG's test work. KPMG did draw attention to a couple of campus-specific procedural issues.

In summary, the fiscal year ending June 30, 2010 was a successful year. All reports received clean opinions and were completed on schedule. Representatives from KPMG, the systemwide audit firm, will be present to answer questions.