

<u>Subject: (Policy Name)</u> CSU Foundation External Audit Policy	<u>Department Name:</u> Business & Finance New Policy	<u>Effective Date:</u> <u>Issue Date:</u> <u>Approval:</u> Hamid Shirvani
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A. Purpose

The California State University (CSU) and its universities and auxiliaries are subject to a variety of audits including annual and periodic audits in compliance with Government Auditing Standards. The most common audit is a financial audit in accordance with Generally Accepted Accounting Principles and Standards set by the Federal Office of Management & Budget. Each campus performs auxiliary audit fieldwork directed by an external audit team.

Audits ensure compliance with Federal and State regulations, confirm appropriate application of accounting rules and principles; verify existence of adequate internal controls, and attest whether financial statements are relevant, accurate, complete, and fairly represent the position and performance of the Foundation to interested parties. This policy establishes the Audit Committee's role in appointing external auditors and provides the requirements and guidelines to be used in screening, engaging and monitoring of the external auditor.

B. Scope of Policy

1. A comprehensive itemization of the audit, tax and consulting services sought shall be provided.
2. Additional services available by the proposer are to be listed and candidate firms are to furnish timetables for completing work. Services included, but not limited to:
 - a. Schedules for conducting interim and final fieldwork.
 - b. Required financial statements and reports.
 - c. Federal, State and other regulatory body tax and information returns.
 - d. Subject matter expertise on nonprofits and charitable contributions.

C. Definitions

1. Audit – independent and objective appraisal to examine or review the fair presentation of financial statements, economy and efficiency of operations, effectiveness of achieving program results, compliance with laws and regulations and/or the detection of fraudulent activities. Audits include reviews, site visits, desk audits, and fraud investigations.
2. External Audit – independent and objective appraisal performed by a non-University or Foundation audit entity of the Foundation's financial and administrative performance as a custodian of private funds.
3. Request for Proposal - is an invitation for service providers to submit a proposal to perform audit activities for a specific fiscal period or an entity. The request for proposal (RFP) process brings structure to the procurement decision and is meant to allow the risks and benefits to be identified clearly upfront.

D. Policy

Auditor Engagement Process

1. Request-for-Proposal (RFP) - A formal RFP process shall be used to seek qualified accounting firms for independent audit services. Content of the RFP shall include, but not limited to, the following:
 - a. Preface and Invitation. A description of the Foundation operations and the range of audit services sought, together with a request to submit engagement proposal.

- b. **Qualifications.** The RFP is to contain a statement identifying the minimum qualifications required from proposing firms and shall require the accounting firms to list by name and experience the audit team members to be assigned to the engagement.
- c. **References.** Proposers are to provide a list of contacts with any current and/or former nonprofits and auxiliary organization they have performed financial audits.
- d. **Compensation.** The RFP is to request information on the method and basis of compensation for services. Basic audit and tax services are to be quoted as a not-to-exceed fixed fee. Fees for consulting services shall be identified by an hourly rate. Submitted proposals must contain an estimated number of hours to complete the audit and tax work.

E. Responsibilities

The Audit Committee is a standing committee whose role includes, but is not limited to:

1. In conjunction with management, develop an Audit Services RFP when required.
2. Screen and recommend for appointment by the Board of Directors a qualified accounting firm to conduct independent external audits of Foundation financial records.
3. Oversee, monitor and evaluate audit firm performance and report findings to the Board.
4. Ensure management implements financial controls, corrective actions and/or any other changes recommended through the audit process.
5. Develop and recommend audit related policies to the Board.
6. Other related duties as requested by the Board.

F. Procedure

1. **Selection Criteria**
 - a. The fundamental criteria to be used in selecting the external audit firm should be reputation, capability, and cost of services.
 - b. The audit firm selected should have demonstrated through the RFP evaluation process that the engagement proposal is complete, responsible, and responsive to the audit specifications and request proposals.
 - c. Where possible, the Foundation shall work with the University Financial and Business Services organization personnel and the other University auxiliaries to evaluate and consider an audit organization who could perform the work on the four auxiliaries, thereby providing economies of scale pricing and improve the utilization of University accounting and auditing staff.
2. **Engagement** - The acceptance of an independent audit services proposal shall be by formal minute action of the Board of Directors and confirmed in writing to the accounting firm selected. The engagement relationship is such that the audit firm is hired by and reports results to the Audit Committee, which then reports the results to the Board, while working closely with management to achieve desired improvements.
3. **Post Audit Performance Review** - Following the report of external audit results for each fiscal year, the Audit Committee will evaluate the performance of the audit firm. The performance evaluation should consider the following factors:
 - a. Did the firm meet all the requirements, including the instructions, procedures, and format called for by the California State University auxiliary auditing and reporting system?

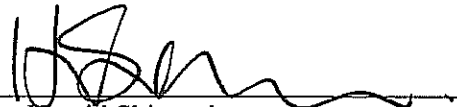
- b. Did the firm maintain an audit schedule, which met specification requirements?
- c. Were reports and recommendations timely, clear, complete, and fair?
- d. Were firm personnel assigned to the audit those identified in the proposal? Did they perform their duties in a professional manner?
- e. Has the audit firm assigned different, yet fully qualified personnel to perform the audit on a cyclical basis in order to ensure new audit perspectives are continually brought forward?
- f. Was the firm responsive to special audit service needs during the year?

4. Continued Engagement

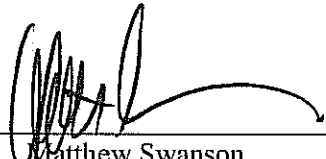
- a. Based upon a favorable post audit performance review by the Audit Committee of the audit services rendered for each year, the Board may consider continued engagement of the accounting firm. The requirements of the RFP, may be modified by the Audit Committee, shall be observed for such continued engagements.
- b. It shall be the general policy of the Board that an engagement term be limited to a total of four (4) years. A fifth year extension may be considered by the Audit Committee for subsequent recommendation to the Board based upon exemplary performance by the engaged audit firm. An audit firm engaged in a prior term is eligible to respond to an RFP for a subsequent term.

G. Laws, State Codes, Regulations and Mandates:

The California Nonprofit Integrity Act of 2004 required all nonprofits (charities) with more than \$2 million in gross revenues to prepare audited financial statements; and the nonprofits must have an Audit Committee to confer with the auditor to affirm that the financial affairs of the nonprofit organization are in order. Furthermore, pursuant to California Education Code §89900(a) and Title 5 CCR §42408, each California State University system auxiliary organization shall have an annual financial audit performed by a certified public accountant. The external auditor is selected and appointed by the auxiliary's governing board, and the board is responsible for monitoring of auditors progress and performance.

By: 
Hamid Shirvani
California State University Stanislaus
Foundation Chairperson

Date: September 28, 2011

By: 
Matthew Swanson
California State University Stanislaus
Foundation President

Date: September 28, 2011