



Policy 103

Independent Audit Policy

Section: 100 – General Administration

Responsible Executive: Chief Executive Officer

Responsible Department: Business and Finance Office

First Effective Date: December 19, 1985

Updated: October 27, 2017

Last Reviewed: March 2018

Next Scheduled Review: June 2022

1.0 PURPOSE

- 1.1. To provide management with the requirements and guidelines to be used by the Cal Poly Corporation (“CPC”) in the screening, engaging, and monitoring of the independent auditor, and in reviewing CPC’s audited financials.

2.0 BACKGROUND

- 2.1. The governing body of each auxiliary organization is responsible for selection and monitoring of its independent auditor pursuant to Cal. Education Code §89900(a) and Title 5 CCR §42408. The California State University Chancellor's Office has developed basic guidelines, or best practices, to assist and strengthen auxiliary governing board interaction in the audit process. In 2004, the California Nonprofit Integrity Act required that all nonprofit (charities) with more than \$2 million in gross revenues must prepare audited financial statements, and must have an audit committee to confer with the auditor to affirm that the financial affairs of the nonprofit organization are in order. This policy statement implements these requirements and guides.

3.0 POLICY

- 3.1. Standing Committee. The Board shall have a standing Audit Committee whose role will be to select qualified accountant firms for audit purposes, monitor audit performance, and recommend audit policy to the Board. This policy shall be implemented by the Board, the Audit Committee, and by management using the processes herein.
- 3.2. Engagement of Auditors. The Audit Committee will follow a Request-for-Proposal process in seeking and screening of prospective audit firms, and making engagement recommendations to the Board.
 - 3.2.1. RFP Screening. A formal Request-for-Proposal (“RFP”) process shall be used to seek qualified accountant firms for independent audit services. The content of the RFP shall include, but not limited to, the following components:
 - 3.2.1.1. Preface and invitation. A description of the CPC and scope of audit services sought, together with a request to submit engagement proposal;
 - 3.2.1.2. Qualifications. A statement of the minimum qualifications required from proposing firms, together with a requirement for a list by name and experience of the audit team members to be assigned to the engagement.
 - 3.2.1.3. Service Rendered. An itemization of the audit services sought by Period of audit and detailed specifications of the required examination sought.
 - 3.2.1.3.1. Reports Required
 - 3.2.1.3.2. Schedule of Reports
 - 3.2.1.3.3. Meeting and Timing
 - 3.2.1.3.4. Method and Basis of Compensation
 - 3.2.1.3.5. Additional Services Sought

- 3.2.1.3.6. Proposal Format
- 3.2.1.3.7. Information on CPC

3.2.2. Selection Criteria.

- 3.2.2.1. The fundamental criteria to be used in selecting an independent audit firm should be reputation, capability, and service cost.
- 3.2.2.2. 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.

3.2.3. 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.

3.2.4. Post-performance review. Following the report of independent 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:

- 3.2.4.1. Did the firm meet all the requirements, including the instructions, procedures, and format called for by the CSU auxiliary auditing and reporting system?
- 3.2.4.2. Did the firm maintain an audit schedule, which met specification requirements?
- 3.2.4.3. Were reports and recommendations timely, clear, complete, and fair?
- 3.2.4.4. Were firm personnel assigned to the audit those identified in the proposal? Did they perform their duties in a professional manner?
- 3.2.4.5. 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?
- 3.2.4.6. Was the firm responsive to special audit service needs during the year?

3.2.5. Continued Engagement.

- 3.2.5.1. Based upon a favorable performance evaluation by the Board of the audit services rendered for each year, the Board may consider continued engagement of the accounting firm. The requirements of the RFP, as may be modified by the Audit Committee, shall be observed for such continued engagements.
- 3.2.5.2. 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.

3.3. Audit Committee.

3.3.1. Membership. A standing Audit Committee shall be established, with membership to include no fewer than three members of the Board of Directors. At least one member of the Audit Committee should have professional accounting or financial experience.

- 3.3.1.1. The Audit Committee cannot include staff members of CPC.
- 3.3.1.2. The Board of Directors will approve the members of the Committee and the Committee Chair.
- 3.3.1.3. The Committee Chair may invite non-Board members to the Committee meetings to advise the Committee and attend Committee meetings. These persons should have professional accounting or financial experience.

3.3.2. Term. The Term of the members of the Audit Committee will be three (3) years, or until the member's term as a Board director expires, whichever is less.

3.3.3. Duties. The Audit Committee's charge is to:

- 3.3.3.1. Develop and send audit services RFP's when required;
- 3.3.3.2. Screen and recommend the engagement of audit firms to the Board;
- 3.3.3.3. Monitor and evaluate audit performance, reporting findings to the Board;
- 3.3.3.4. Develop and recommend audit-related policy/process to the Board, and
- 3.3.3.5. Other related duties as requested from time to time by the Board.

3.4. University review. The President of the University is responsible for ensuring that auxiliaries operate in conformance with CSU Board of Trustees' and campus policy. The President has delegated fiscal oversight of the auxiliary organizations at the University to the Vice President of Administration and Finance, who shall review programs, budgets and audited financials to ensure such compliance. The Vice President of Administration and Finance may participate as an ex-officio member of the Audit Committee to the fullest extent allowed by law, including CSU and independent audits, entrance and exit conferences and follow-up meetings related to previous audit findings.

4.0 DEFINITIONS

4.1. None.

5.0 PROCEDURES, GUIDELINES AND FORMS

- 5.1. The Chief Executive Officer shall provide appropriate staff support to the Audit Committee to carry out the above policy.
- 5.2. The Audit Committee is authorized to establish, procedures, guidelines and forms consistent with and in implementation of this policy.

6.0 COMPLIANCE

6.1. All CPC units, departments and personnel and must comply with this policy.

7.0 REFERENCES AND RELATED POLICY

- 7.1. Government Code §§12586(e)(1)-(2)- Nonprofit Integrity Act
- 7.2. Education Code §89900(a); Title 5 CCR §42408 Fiscal Audits
- 7.3. Compilation of Policies and Procedures for California State University Auxiliary Organizations
- 7.4. ("Compilation"), September 2002, <http://www.calstate.edu/FT/AuxOrg/PDF0800/Compilation.shtml>
- 7.5. Other CSU fiscal standards and policies
- 7.6. Generally Accepted Accounting Principles (*GAAP*)
- 7.7. Education Code §89900(b)-(c)
- 7.8. Title 5 CCR §42402
- 7.9. CSU Executive Order 698 Board of Trustees Policy for Auxiliary Organizations, March 3, 1999

7.10. CSU Executive Order 731 Designation of Chief Financial Officer, February 29, 2000

7.11. University Campus Administrative Policies §§302.1-302.1.2 [Administration and Finance] Division Policies

Technical and administrative change updates
7-26-12 for title and organization structure changes.