

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**     **9:45 a.m., Tuesday, July 22, 2014**  
                  **Glenn S. Dumke Auditorium**

Lupe C. Garcia, Chair  
Adam Day, Vice Chair  
Steven M. Glazer  
Rebecca D. Eisen  
Hugo N. Morales

#### **Consent Items**

Approval of Minutes of Meeting of May 21, 2014

#### **Discussion Items**

1. Status Report on Current and Follow-Up Internal Audit Assignments, *Information*
2. Implementation Plan for the Quality Assurance Review, *Information*
3. Review and Approval of the California State University External Auditor, *Action*

# **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**

**May 21, 2014**

## **Members Present**

Lupe C. Garcia, Chair  
Adam Day  
Rebecca D. Eisen  
Hugo N. Morales  
Bob Linscheid, Chair of the Board  
Timothy P. White, Chancellor

Chair Garcia called the meeting to order.

## **Approval of Minutes**

The minutes of the meeting of March 26, 2014, were approved as submitted.

## **Quality Assurance Review for the Office of Audit and Advisory Services**

Mr. Larry Mandel, vice chancellor and chief audit officer, stated that all California state agencies with an audit function are required to follow the practices put forth by the Institute of Internal Auditors (IIA), an international organization based in Florida. He stated that as a best practice, the IIA recommends that a quality assurance review (QAR) of the audit function be conducted once every five years. In January 2014, the Office of Audit and Advisory Services (OAAS) underwent a QAR by an external review team comprised of Toni Stephens, executive director of audit and compliance at The University of Texas at Dallas; Beth Buse, executive director of internal audit for the Minnesota State Colleges and Universities; and Sheryl Vacca, senior vice president and chief compliance and audit officer for the University of California. Mr. Mandel indicated that Ms. Vacca would be presenting the QAR report to the board and that he would be providing a plan of action addressing each of the recommendations for enhancements at a future board meeting.

Ms. Sheryl Vacca provided an overview of the quality assurance review. She noted that the principal objectives of the QAR were to assess the audit division's conformity to the IIA *International Professional Practices Framework*, which includes the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the *Code of Ethics*; evaluate the audit division's effectiveness in carrying out its mission as defined in its charter; and identify opportunities to enhance internal audit management and work processes, as well as its value to the California State University System.

Ms. Vacca stated that based on the opinion of the QAR team, the OAAS generally conforms to the *Standards* in all material respects during the period under review, except for Standard 1312, *External Assessments*, which was rated as partially conforms. She noted that Standard 1312 requires external assessments be conducted at least once every five years, and the last full QAR of the OAAS was performed over five years ago in November 2006 with an additional review of audit coverage performed in October 2007. She explained that “generally conforms” is the highest rating and “partially conforms” means deficiencies, while they might impair, did not prohibit internal audit from carrying out its responsibilities. Ms. Vacca commented that it is very important to note that even though the external assessment was not done within the five-year time period, it did not prevent the internal auditor from providing good outcomes related to their services.

Trustee Morales asked how the issue of untimely external assessments could be addressed.

Mr. Mandel assured Trustee Morales that future external assessment reviews would be conducted within the five-year requirement. He explained that the delay was deemed necessary in order that the review address both the addition of an advisory services function to the audit office and an attempt to implement a systemwide compliance function.

Ms. Vacca continued by emphasizing that the external review team observed a number of best practices demonstrated by the OAAS. She noted that one of these best practices is that the vice chancellor and chief audit officer reports directly to the Board of Trustees through the chair of the Committee on Audit. She stated that it is the team’s opinion that this is the optimum reporting arrangement and very, very important for the audit function. In addition, she indicated that because the audit charter was being updated by the audit committee at the time of the QAR, it had not been available for review; however, the team recognized there was work being done on the charter and believed that it was moving in the right direction.

Ms. Vacca stated that based on feedback from surveys sent to internal constituents both by the external review team and by the OAAS as well as from interviews held with some board members, the constituency at the California State University System feels very positive towards the internal audit services that are provided. She noted that there is quite a bit of expertise in the internal audit arena (approximately 15 years of experience/team member, which is to be commended), as well as being certified and professionally recognized in our industry. In addition, Ms. Vacca stated that the new advisory services function has also been viewed as a very positive element. She commented that the board should be very proud of the audit team and the services that it offers.

Chair Garcia thanked Ms. Vacca for the thorough quality assurance review and noted that Mr. Mandel will provide a plan of action to address the recommendations provided in the report at a future board meeting.

Chancellor White also thanked Ms. Vacca and the other members of the QAR team, adding that it is satisfying to know that the overall external assessment was very positive. He then asked for more discussion on Standard 2000 – Management of the Internal Activity, which notes that

some of the campuses have internal audit positions that organizationally report to campus presidents or finance officers rather than to the vice chancellor and chief audit officer. Chancellor White asked where this observation ranks on a level of issues to be focused on in the future. In addition, he asked for the advantages and disadvantages of the way the system is currently conducting audit business at the campuses.

Ms. Vacca responded that from the external review team's perspective derived from reviewing documentation and workpapers, as well as through interviews, there are many different functions that are occurring at the campus level that appear under the auspice of audit. She noted her understanding that there are individuals who have the title of auditor at the campus level. She stated that while the external review team is not purporting that there has to be a full-on centralized function of internal audit for the whole system, it is important that there be a centralized communication, at least, and that these auditors if they are performing internal audit activities should at least be following the *Standards* according to the profession. She added that the external review team could not ascertain one way or another whether that was the case. In addition, Ms. Vacca indicated that from a board perspective, it is very, very difficult to know the risk process in a decentralized arena and whether or not their approach has completely remediated the issues of risk identified through audits, without it flowing up in a centralized communication. She stated that the team would advocate that there absolutely has to be some kind of centralized reporting or communication to be able to bring those issues forward to the senior leadership as well as to the board.

Chancellor White stated that even though there may be lack of awareness of a risk, the trustees as fiduciaries bear that risk.

Trustee Garcia stated that the next steps will be for Mr. Mandel to identify the prioritization of the recommendations noted in the QAR report. She further stated that there will be a lot of assessment and evaluation for this process because we want to ensure that the board is able to identify appropriately all of the risks from a system perspective.

Trustee Garcia again thanked Ms. Vacca for making the time to come and present the results of the QAR to the board and thanked Mr. Mandel and his audit team for all the work they do for the system and for the state.

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

Mr. Mandel presented the Status Report on Current and Follow-up Internal Audit Assignments. He stated that the 2014 audit assignments are currently being conducted and are progressing in a timely manner for completion by the end of the calendar year. He then reminded everyone that updates to the status report are displayed in green numerals and indicate progress toward or completion of recommendations since the distribution of the agenda. Mr. Mandel stated that the campuses continue to do an excellent job in the completion of the recommendations on a timely basis. He noted that since the distribution of the current status report, additional recommendations had been completed. In addition, he reported that the one recommendation outstanding for 11 months pertaining to International Programs at California State University,

Sacramento and the four recommendations outstanding for seven months pertaining to Centers and Institutes at California State University, San Marcos have now been completed. Mr. Mandel added that although no recommendations have been completed at the 6-month benchmark period for Credit Cards, Systemwide and Sensitive Data Security and Protection at the CSU Chancellor's Office, he indicated that he was assured by management that good progress is being made toward completing them all within a reasonable time period.

The meeting adjourned.

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Larry Mandel  
Vice Chancellor  
and Chief Audit Officer

#### **Summary**

This item includes both a status report on the 2014 audit plan and follow-up on past assignments. For the 2014 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Accessible Technology, and Conflict of Interest), high profile areas (Sponsored Programs – Post Awards, Continuing Education, and Executive Travel), core financial area (Lottery Funds), and Construction. In addition, follow-up on current/past assignments (Auxiliary Organizations, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, Student Health Services, Conflict of Interest, and Lottery Funds) was 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**

#### *Auxiliary Organizations*

The initial audit plan indicated that approximately 273 staff weeks of activity (26.6 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Two campus/eight auxiliaries reports are awaiting a campus response prior to finalization, report writing is being completed for one campus/three auxiliaries, and fieldwork is being conducted at one campus/six auxiliaries.

#### *High-Risk Areas*

##### Information Security

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of the systems and managerial/technical measures for ongoing evaluation of data/information collected; identifying confidential, private or sensitive information; authorizing access; securing information; detecting security breaches; and security

incident reporting and response. Six campuses will be reviewed. Report writing is being completed at one campus.

#### Accessible Technology

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of compliance with laws and regulations specific to the Americans with Disabilities Act of 1990 as it applies to accessible technology requirements and program access. Six campuses will be reviewed. Three reports are awaiting a campus response prior to finalization, and report writing is being completed for three campuses.

#### Conflict of Interest

The initial audit plan indicated that approximately 53 staff weeks of activity (5.1 percent of the plan) would be devoted to a review of the process for identification of designated positions; monitoring, tracking, and review of disclosures relating to conflicts of interest, such as research disclosures; faculty and CSU-designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer. Six campuses will be reviewed. Three reports have been completed, two reports are awaiting a campus response prior to finalization, and report writing is being completed for one campus.

#### *High Profile Areas*

##### Sponsored Programs – Post Awards

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of contract/grant budgeting and financial planning; indirect cost administration including cost allocation, cost sharing/matching, and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems. Six campuses will be reviewed. Report writing is being completed for two campuses.

##### Continuing Education

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a 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. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

### Executive Travel

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus travel policies and procedures to ensure alignment and compliance with CSU requirements; review of internal campus processes for monitoring, reviewing, and approving travel expense claims; and examination of senior management travel and travel expense claims for proper approvals and compliance with campus and CSU travel policy. Six campuses will be reviewed. Report writing is being completed for two campuses, and fieldwork is being conducted at one campus.

### *Core Financial Area*

#### Lottery Funds

The initial audit plan indicated that approximately 51 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus lottery fund allocation and expenditure policies and procedures to ensure compliance with CSU and state requirements; review of internal campus processes for monitoring, reviewing, and approving campus discretionary allocations to specific programs; and examination of specific programs receiving lottery funding to confirm the expenditures are in conformance with state and CSU restrictions. Six campuses will be reviewed. Three reports have been completed, and three reports are awaiting a campus response prior to finalization.

### *Construction*

The initial audit plan indicated that approximately 39 staff weeks of activity (3.8 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. Five projects will be reviewed. One report has been completed, and report writing is being completed for one project.

### *Advisory Services*

The initial audit plan indicated that approximately 209 staff weeks of activity (20.3 percent of the plan) would be devoted to partnering with management to identify solutions for business issues, offering opportunities to improve the efficiency and effectiveness of operating areas, and assisting with special requests, while ensuring the consideration of related internal control issues. Reviews are ongoing.

### *Information Systems*

The initial audit plan indicated that approximately 13 staff weeks of activity (1.3 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 Audit and Advisory Services 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 CSU Chancellor's Office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.2 percent of the audit plan.

### *Committees/Special Projects*

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the chancellor. Twenty-nine staff weeks have been set aside for this purpose, representing approximately 2.8 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 Audit and Advisory Services is currently tracking approximately 30 current/past assignments (Auxiliary Organizations, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, Student Health Services, Conflict of Interest and Lottery Funds) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

### *Annual Risk Assessment*

The Office of Audit and Advisory Services annually conducts a risk assessment to determine the areas of highest risk to the system. Five staff weeks have been set aside for this purpose, representing approximately 0.5 percent of the audit plan.

### *Administration*

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.1 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments  
(as of 7/18/2014)

2014 ASSIGNMENTS										FOLLOW-UP PAST/CURRENT ASSIGNMENTS					
Aux Orgs	Conflict of Interest	Lottery Funds	Access Tech	Exec Travel	Spon Prog-Post	Info Security	Cont Educ	Auxiliary Organizations		International Programs		Credit Cards			
								●No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	
BAK	RW	AC						4					6/6	-	
CHI	AI							4	25/25	-	6/6	-			
CI	RW							3							
DH			AI					3	19/19	-					
EB	AC	AC						3	13/31	1			6/6	-	
FRE	FW	AI						6					4/4	-	
FUL	AC							4	28/28	-	4/4	-			
HUM		AI				RW		4	21/30	6	7/7	-			
LB				RW				3	27/27	-	8/8	-			
LA			RW					4	18/18	-	4/4	-			
MA								2	4/4	-					
MB	AC							3	16/16	-					
NOR							FW	5	22/22	-	8/8	-	4/4	-	
POM			AI		RW			2	11/11	-					
SAC	RW							5	2/41	2	5/5	-			
SB								4	28/28	-	13/13	-			
SD			AI	FW				4	11/21	3	1/1	-			
SF			RW					5	19/19	-	8/8	-	4/4	-	
SJ				RW				5	26/26	-					
SLO								3	12/12	-					
SM			RW					4	22/22	-					
SON		AC						3	5/5	-	3/3	-			
STA					RW			4	14/14	-	5/5	-	4/4	-	
CO	AI	AI						2	3/5	5					
SYS											0/8	4	5/5	-	

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.

\*\* The number of months recommendations have been outstanding.

● The number of auxiliary organizations reviewed.

Numbers/letters in green are updates since the agenda mailout.

Status Report on Current and Follow-Up Internal Audit Assignments  
(as of 7/18/2014)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS														
	Sen. Data Sec./Protect.		Centers and Institutes		Hazardous Mat. Mgmt.		Sponsored Programs		Student Health Svcs.		Conflict of Interest		Lottery Funds	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK					7/7	-							0/2	2
CHI							6/6	-						
CI	8/8	-			5/5	-								
DH	9/9	-			4/4	-								
EB			8/8	-									1/2	3
FRE											0/1	2		
FUL							10/10	-			1/2	1		
HUM														
LB	6/6	-								3/6	5			
LA			4/4	-										
MA														
MB								0/3	5		1/1	-		
NOR			5/5	-				5/8	5					
POM					10/10	-								
SAC										5/9	4			
SB	14/14	-	5/7	9										
SD										14/14	-			
SF	10/10	-			9/9	-								
SJ										17/17	-			
SLO			7/7	-				7/7	-					
SM			7/7	-										
SON					6/6	-				6/7	5		0/1	2
STA										4/6	4			
CO	12/12	-												
YS			0/3	5										

\* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.

\*\* The number of months recommendations have been outstanding.

• The number of auxiliary organizations reviewed.

Numbers/letters in green are updates since the agenda mailout.

[illegible]

## **COMMITTEE ON AUDIT**

### **Implementation Plan for the Quality Assurance Review**

#### **Presentation By**

Larry Mandel  
Vice Chancellor and Chief Audit Officer

#### **Summary**

At the May 2014 meeting of the Committee on Audit, the results of a quality assurance review of the Office of Audit and Advisory services were presented. An implementation plan for the recommendations put forth in that review will be presented and are attached.

**Office of Audit and Advisory Services (OAAS)**  
**Recommendations for Enhancement - Implementation Plan**  
**2014 Quality Assurance Review**

**Observation #1:** The last full quality assurance review was performed over five years ago in November 2006 with an additional review of audit coverage performed in October 2007.

**Recommendation for Enhancement #1:** External assessments should be performed every five years as required by the Standards.

**OAAS Management Response:**

We concur. Audit management delayed performance of an external assessment as it explored development of a systemwide compliance function in 2011-2012 and subsequently redirected efforts towards the addition of advisory services in 2012-2013. In the future, external assessments will be performed every five years.

**OAAS Implementation Plan for Enhancement #1:**

The OAAS will complete its next external assessment in 2019 consistent with the *International Standards for the Professional Practice of Internal Auditing*.

**Observation #2:** Some of the campuses have internal audit positions that organizationally report to campus presidents or finance officers rather than the vice chancellor and chief audit officer (VCCAO). These positions do not have a reporting line to the VCCAO. The campus auditors are also responsible for matters other than traditional internal auditing, and they do not follow all auditing standards.

As a result of the current structure, ambiguity of the roles and duplication of efforts can occur, and the VCCAO may not be aware of issues and risks occurring at the campus level.

**Recommendation for Enhancement #2:** The current organization structure should be reviewed to determine if a reporting relationship should be established between campus auditors and the VCCAO in order to strengthen the effectiveness of the audit function and provide increased assurance to the chancellor and the Board of Trustees that significant risks of the system are sufficiently understood and assessed and are receiving appropriate audit coverage.

**OAAS Management Response:**

We concur. A review will be conducted to determine the optimum organization structure (within existing resources) to strengthen the effectiveness of the audit function and provide increased assurance to the chancellor and the Board of Trustees that significant risks of the system are sufficiently understood and assessed and are receiving appropriate audit coverage.

## **Attachment A**

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### **OAAS Implementation Plan for Enhancement #2:**

Our initial review determined that this recommendation could not be effectively implemented within the existing organizational structure. It was also determined that the implementation of this recommendation impacts our ability to effectively implement other recommendations included in the quality assurance review. Therefore, further review is needed to identify alternative organizational structures to support the system. We propose to bring the results of this review to the September 2014 meeting of the Committee on Audit.

**Observation #3:** Information technology is an integral part of the university's operations, and these activities are typically considered one of the highest risk areas in an organization. In preparing the risk assessment for the annual internal audit plan, a detailed information technology (IT) risk assessment is not currently being conducted.

Given the size of the CSU and the number of individual campuses with unique IT environments, limited IT activities are audited. It is important to identify IT risks and controls as part of an overall risk assessment process that includes identifying the entire IT audit universe. A more comprehensive IT audit risk assessment should be performed to ensure an effective audit plan is prepared and IT risks receive adequate coverage. The IIA's Global Technology Audit Guide (GTAG) 11, *Developing the IT Audit Plan*, is an excellent resource to follow in developing a more formalized IT audit plan.

**Recommendation for Enhancement #3:** A separate IT audit risk assessment should be prepared as part of the annual audit plan risk assessment process. IT audits should be performed based on this risk assessment. Staff resources should be allocated and the need for additional resources should be identified as part of the planning effort.

### **OAAS Management Response:**

We concur. In conjunction with the evaluation of the current risk assessment process (noted below), we will evaluate the benefits of conducting an independent IT risk assessment.

### **OAAS Implementation Plan for Enhancement #3:**

Effective September 2014, the OAAS will perform a separate IT audit risk assessment independent of our annual risk assessment process. In the short term, the new IT risk assessment will be based upon a refined version of the existing risk assessment model.

Should a new organizational structure be approved in response to recommendation #2, the IT audit risk assessment model will be further refined to include a more detailed assessment of the IT environments of each CSU campus. This in-depth approach cannot be implemented without additional resources.

**Observation #4:** Currently, the annual audit risk assessment process for performing the campus audits consists of meeting with the executive vice chancellors/vice chancellors to obtain their input on risks in their areas and for the system; sending a quantitative survey to the assistant vice chancellors and any others that the executives indicated should be included in the risk assessment process; and meeting with the audit committee chair to discuss systemwide risks and concerns. At the campus level, input is gained via the use of an audit universe/questionnaire and a supplemental survey that is sent to the campus presidents for distribution to their vice presidents.

While input is gained from high-level managers, not all managers and staff within the enterprise are involved. After the input is received, the results are reviewed by OAAS senior management including the VCCAO, and the audit subjects are selected and presented to the audit committee and the Board of Trustees. Using factors such as campus risk rankings, the collective knowledge of the OAAS senior directors and the VCCAO, and the VCCAO's own judgment of risks after consideration of input from senior and executive management and the audit committee chair, an audit plan is prepared.

In developing the annual audit plan, a large percentage of audit resources are utilized on auxiliary enterprise audits that are required per a 1999 board policy, Executive Order 698. These audits have been performed on a cyclical basis at all campuses for the past 15 years, and the value of these audits as well as the risks may have changed since the policy began.

**Recommendation for Enhancement #4:** The current risk assessment and audit planning approach should be re-evaluated.

**OAAS Management Response:**

We concur. The current risk assessment and audit planning approach for the campus audits will be re-evaluated to determine if the current format provides the necessary input to ascertain the highest risks to the system. We currently have plans to meet with auxiliary executive leadership to determine how we might add more value to the auxiliary organizations while still providing the Board of Trustees the assurances they require.

**OAAS Implementation Plan for Enhancement #4:**

The implementation plan for this item is tied to the results of the review performed for recommendation #2. Should the status quo prevail, we plan to make incremental changes to the current format for obtaining input to ascertain the highest risks to the system. More specifically, the current risk assessment model will incorporate auxiliary enterprises to ensure that we are considering current risks in these areas on a more frequent basis and if necessary, perform audits of specific high-risk areas that are identified by the systemwide risk assessment. In response to recommendation #3, we also plan to remove IT-related areas from the risk universe and conduct an independent IT risk assessment. Should a new organizational structure be approved providing more audit coverage at the campuses, individual campus risk assessments will be performed

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which will include auxiliary enterprises. A separate, systemwide risk assessment will be performed for IT-related areas.

**Observation #5:** The manager of investigations, reporting to a senior director, is responsible for managing investigations when requested; however, investigations are also being performed by staff at the campus level without communication to the OAAS.

Campuses each have their own method of reporting potential fraudulent activity, such as the use of individual hotlines; however, there is no centralized hotline process in place at the system level. Without adequate communication, including the use of a central hotline, or identification of fraud contacts at the campus level, the OAAS cannot effectively evaluate the potential for the occurrence of fraud.

**Recommendation for Enhancement #5:** The evaluation and communication of fraud risks should be reviewed on a systemwide basis.

### **OAAS Management Response:**

We concur. During 2013, executive management considered the implementation of a systemwide hotline, but concluded that the existing reporting structure for the filing of whistleblower complaints was sufficient. In addition, under Executive Order 813, *Reporting of Fiscal Improprieties*, campuses are required to notify the CSU Chancellor's Office of all cases of actual or suspected theft, defalcation, or fraud within 24 hours. Nevertheless, in an effort to improve the evaluation and communication of fraud risks at the systemwide level, we plan to incorporate an assessment of fraud risk into our existing annual risk assessment process. Moreover in alignment with recommendation #2 above, this evaluation and communication process may be further improved if a reporting relationship should be established between campus auditors and the VCCAO in order to strengthen the effectiveness of the audit function.

### **OAAS Implementation Plan for Enhancement #5:**

In order to determine the current fraud management climate and how best to incorporate an assessment of fraud risk into our existing annual risk assessment process, we plan to deploy a fraud survey to each campus during 2014. The survey will focus on identifying campus specific fraud prevention, detection, and response controls. The survey will also re-evaluate the implementation of a systemwide hotline, as a recent study by the Association of Certified Fraud Examiners showed that more than 40 percent of the cases included in the study were detected through a hotline tip. Survey results will be analyzed and summarized for presentation to executive management and the Board of Trustees. This approach will provide timely and initial information on the potential for the occurrence of fraud, while our existing annual risk assessment process is re-evaluated in response to recommendations #2, #3 and #4.

**Observation #6:** The use of an automated working paper system as well as more use of data analytics would enhance the efficiency of the audit process. Currently, the staff is using

Microsoft Office products and printing out all working papers. Although they are exploring the use of SharePoint, it is not geared toward auditing. Although some costs of implementation and maintenance would be necessary, the benefits would outweigh the cost savings in time, supplies, sustainability, efficiencies, and storage.

**Recommendation for Enhancement #6:** The VCCAO should consider implementing an automated working paper system and further evaluate enhancing the use of data analytical software.

**OAAS Management Response:**

We concur. The division had previously assessed the feasibility of using an automated working paper system, but it was determined that converting to an automated solution was not practical at the time due to budgetary constraints and the lack of trained resources needed to administer and support the system.

Price structures and system support models for these systems have changed dramatically since our initial assessment. This is due in part to changes in how the products are licensed and to the introduction of hosted/cloud offerings. The division is currently re-evaluating the feasibility of using such technology. We will assess the cost/benefits of implementing such a solution at the conclusion of our review.

**OAAS Implementation Plan for Enhancement #6:**

Upon funding approval, the OAAS will implement an automated working paper system. The use of an automated working paper system would greatly enhance the efficiency of the department and would be necessary if the campus-based auditor model in response to recommendation #2 is implemented.

The initial cost estimate for a subscription-based fully hosted model is approximately \$1,800 to \$2,000 per user per year. There would also be a one-time first year installation and set-up cost of approximately \$30,000 to \$40,000.

The estimated time frame to implement a pilot solution would be approximately three months after purchase, with full conversion occurring as early as six to nine months after purchase.

**Observation #7:** A survey of audit employees indicated that the majority of employees did not have sufficient access to computer-assisted audit techniques/tools (CAATS) or other data analysis tools. These tools are considered common place in today's internal audit repertoire. Their use enhances audits by simplifying the analysis of large volumes of data. Given the size of the university system and the limited resources, the use of audit software could result in enhanced efficiencies as well as additional tools for not only the audit staff but university managers.

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**Recommendation for Enhancement #7:** The VCCAO should explore options to incorporate the use of CAATS in audits. In addition, the VCCAO should look for ways to train staff in the use of these techniques or tools.

**OAAS Management Response:**

We concur. As a general practice, all staff members currently utilize Microsoft Excel and Microsoft Access for data mining and analysis. While these applications have been sufficient to support the current needs of the division, we will review the costs and benefits of using other data analysis tools to determine if they would enhance efficiencies within the division.

**OAAS Implementation Plan for Enhancement #7:**

Previous experience using data analysis software tools did not prove to be value added. As a result, we will provide training to each of our staff in the use of Microsoft Excel and Microsoft Access for data mining and analysis as these applications are sufficient to support the current needs of the department.

## **COMMITTEE ON AUDIT**

### **Review and Approval of the California State University External Auditor**

#### **Presentation By**

George V. Ashkar  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

This item requests the California State University Board of Trustees to approve the selection of KPMG as the audit firm to provide a variety of audit functions for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years, and to authorize the chancellor, or his designees, to finalize negotiations for a master service contract with said firm.

#### **Background**

In January, the California State University posted a Request for Proposal (RFP) to solicit proposals from qualified independent public accounting firms for the purposes of establishing a CSU master service contract for the performance of a variety of audit functions for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years. The firm or firms awarded would also perform optional tasks or optional services for individual campuses on an as-requested basis in accordance with the provisions of the RFP and any subsequent contract.

Three audit firms (Grant Thornton, KPMG, and PricewaterhouseCoopers) submitted proposals in response to the RFP, which were carefully analyzed in Phase I of the process by the evaluation team based on the criteria specified in the RFP, consisting of:

- the firm's experience, organizational resources, and sustainability;
- qualification and experience of the proposer's project team;
- work plan and methodology;
- technical experience;
- overall capability, stability, size, and structure of the firm.

All three firms were then advanced from the first phase of the review to the second phase for final evaluation based on total five year pricing for required tasks. Based on the second phase criteria of price, KPMG was chosen with the lowest bid submitted.

The following resolution is presented for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the Trustees:

1. Acknowledge their review of the Request for Proposal (RFP 4422) process in soliciting proposals from qualified independent public accounting firms for the purposes of performing financial statements and other audits for the CSU system, beginning with the 2014-2015 fiscal year audit.
2. Authorize the chancellor, or his designees, to finalize negotiations for the master service contract with KPMG for the performance of a variety of audit tasks for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years.