AGENDA

COMMITTEE ON AUDIT

Meeting: **2:00 p.m., Tuesday, January 26, 2016**
Glenn S. Dumke Auditorium

Lupe C. Garcia, Chair
Douglas Faigin, Vice Chair
Adam Day
Hugo N. Morales
Peter J. Taylor

Consent Item

Approval of Minutes of the Meeting of November 17, 2015

Discussion Items

1. Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2016, *Action*
2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
3. 2014 Quality Assurance Review – Status Report, *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 17, 2015

Members Present

Lupe C. Garcia, Chair
Douglas Faigin, Vice Chair
Hugo N. Morales
Peter J. Taylor
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Chair Garcia called the meeting to order.

Approval of Minutes

The minutes of the meeting of September 8, 2015, were approved as submitted.

Status Report on Current and Follow-Up Internal Audit Assignments

Mr. Larry Mandel, vice chancellor and chief audit officer, provided a status on the 2015 audit plan and follow-up on past audit assignments.

Mr. Mandel reported that almost all of the 2015 audit assignments have been completed or are currently in process. He stated that due to resource constraints, three Student Activities audits will be completed in the first quarter of 2016, while the audit of Cloud Computing will be carried forward to the 2016 audit plan. Mr. Mandel commented that the campuses and the CSU Chancellor's Office continue to do a good job completing recommendations on a timely basis. He 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 added that both the reviews and associated recommendations pertaining to the construction projects are also being completed timely.

The meeting adjourned.

COMMITTEE ON AUDIT

Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2016

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services

Summary

Each year, the Office of Audit and Advisory Services performs a risk assessment in the last quarter of the year in order to develop its audit plan for the next year. At the January meeting of the Board of Trustees, the Committee on Audit selects the audit assignments for the new year. The following is an audit plan for calendar year 2016.

MANDATED

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. This bill was expanded by Assembly Bill (AB) 1191 in 1993 and added Section 89045(d), which states *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.*

This audit will be performed at selected campuses. This represents 48 staff weeks of audit effort, which is approximately 5 percent of the audit plan.

OPERATIONAL/FINANCIAL

Academic Department Fiscal Review

Proposed audit scope will include review of college/department administrative and financial controls.

Emergency Management

Proposed audit scope will include review of campus emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements.

International Activities

Proposed audit scope will include a review of campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements.

Construction

The audit scope includes 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.

Carryover

Due to resource constraints, we were unable to complete three Student Activities audits in 2015. These audits will be completed in the first quarter of 2016. The audit scope includes review of oversight for student organizations and activities; chartering and/or formal recognition of student organizations; processes to ensure advisors and student leadership meet minimum qualifications and receive appropriate orientation and training; compliance with alcohol usage and substance-abuse prevention and awareness programs and student travel policies; administration and oversight of on- and off-campus student activities and events; security of systems utilized to administer student organizations and activities; and administration of student organization funds.

These audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 219 staff weeks of audit effort, which is approximately 21 percent of the audit plan.

INFORMATION TECHNOLOGY AND SUPPORT

Information Security

Proposed audit scope will include review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information.

Cloud Computing

Proposed audit scope will include review of activities pertaining to the use of third-party cloud computing/internet service providers, including a review of contractual provisions related to service availability, data ownership, backup and recovery, and protection of sensitive and/or proprietary information.

Information Technology Disaster Recovery Planning

Proposed audit scope will include review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event.

Information technology audits will be performed at those campuses where a greater degree of risk was perceived for each of these areas. This represents 98 staff weeks of audit effort, which is approximately 9 percent of the audit plan.

Technology Support

Technology support will be provided for non-information technology specific audits and advisory services reviews. Seventeen staff weeks are planned during calendar year 2016, which is approximately 2 percent of the audit plan.

AUXILIARY ORGANIZATIONS

In order to provide assurance to the Board of Trustees that adequate oversight is being maintained over auxiliaries, the Office of Audit and Advisory Services administers an audit program covering internal compliance/internal controls. It is estimated that 29 auxiliary reviews will take place during calendar year 2016. This represents 267 staff weeks of audit effort, which is approximately 26 percent of the audit plan.

ADVISORY SERVICES

The Office of Audit and Advisory Services will partner with management to identify solutions for business issues, offers opportunities to improve the efficiency and effectiveness of operating areas, and assists with special requests, while ensuring the consideration of related internal control issues. Advisory services are more consultative in nature than traditional audits and are performed in response to requests from campus management. The goal is to enhance awareness of risk, control and compliance issues and to provide a proactive independent review and appraisal of specifically identified concerns. Two hundred twenty staff weeks have been set aside for this purpose, representing approximately 22 percent of the audit plan.

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 chancellor's office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4 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 participate on committees, and to perform special projects. Thirty-eight staff weeks have been set aside for this purpose, representing approximately 4 percent of the audit plan.

AUDIT SUPPORT

Audit Follow-up

The purpose of this category is to follow up on prior audit recommendations. The Office of Audit and Advisory Services 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.

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.

Administration

Day-to-day administration of the Office of Audit and Advisory Services includes such tasks as scheduling, personnel administration, maintenance of department standards and protocols, and department quality assurance and improvement.

Seventy-one staff weeks have been set aside for audit support, representing approximately 7 percent of the audit plan.

The following resolution is recommended for approval:

> **RESOLVED,** By the Committee on Audit of the California State University Board of Trustees that the 2016 internal audit plan, as detailed in Agenda Item 1 of the Committee on Audit at the January 25-27, 2016 meeting, be approved.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services

Summary

This item includes both a status report on the 2015 audit plan and follow-up on past assignments. For the 2015 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Clery Act, Information Technology (IT) Procurement, Payment Card Industry (PCI) Data Security Standards, Admissions, Cloud Computing, Scholarships, and Student Activities), a high profile area (College Reviews), and Construction. In addition, follow-up on current/past assignments (Auxiliary Organizations, Accessible Technology, Executive Travel, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, and Scholarships) was being conducted on approximately 34 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 267 staff weeks of activity (25.8 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/31 auxiliaries. Four campus/sixteen auxiliary reports have been completed, three campus/ten auxiliary reports are awaiting a campus response prior to finalization, and report writing is being completed for one campus/three auxiliaries.

High-Risk Areas

Information Security

The initial audit plan indicated that approximately 37 staff weeks of activity (3.7 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. Five campuses will be reviewed. Three campus reports have been completed, one campus report is awaiting a campus response prior to finalization, and report writing is being completed for one campus.

Clery Act

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus Clery Act policies and procedures to ensure compliance with CSU and federal requirements; review and testing of processes to compile required disclosures and statistics for the Annual Security Report (ASR); verification of the availability of educational programs for security awareness, and the prevention and reporting of crime; review and testing of ASR dissemination to required parties; review of campus good-faith efforts to comply with changes to the Clery Act imposed by the Violence Against Women Reauthorization Act (VAWA) for the 2014 ASR and progress in meeting the changes by the July 2015 deadline; and review of content and delivery of training. Six campuses will be reviewed. Six campus reports have been completed.

Information Technology Procurement

The initial audit plan indicated that approximately 34 staff weeks of activity (3.3 percent of the plan) would be devoted to a review of policies and practices related to information technology procurement. Specific goals will include determining whether administration and management of information technology procurement activities provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy. Five campuses were initially scheduled to be reviewed; due to additional information technology staff resources, six campuses will be visited. Five campus reports have been completed, and report writing is being completed for one campus.

Payment Card Industry Data Security Standards

The initial audit plan indicated that approximately 14 staff weeks of activity (1.4 percent of the plan) would be devoted to a review of campus and auxiliary compliance with regulations specific to Payment Card Industry (PCI) Data Security Standards related to the security and protection of credit cards systems and data. The review would specifically include compliance with the new PCI 3.0 standard. Two campuses will be reviewed. One campus report has been completed, and one campus report is awaiting a campus response prior to finalization.

Admissions

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of the evaluation of student records, including residency determination; processing admission applications, including use of supplemental admission criteria for impacted majors or campuses, transfer students, and redirection of eligible applicants; security of applicant data; application fee processing and granting of fee waivers; and compliance with state legislation and CSU requirements. Six campuses will be reviewed. Six campus reports have been completed.

Cloud Computing

The initial audit plan indicated that approximately 11 staff weeks of activity (1.1 percent of the plan) would be devoted to a review of campus and/or auxiliary activities pertaining to cloud computing, including review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and oversight including but not limited to service availability, data ownership and backup and recovery, establishing contractual relationships with third-party service providers, and if sensitive data is maintained by a third party, review of 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. Resource restrictions will not allow for an audit of Cloud Computing during 2015; it will be reviewed as part of the 2016 audit plan.

Scholarships

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of campus and/or auxiliary activities pertaining to scholarships, including establishing student eligibility, awarding, and recordkeeping and protection of sensitive information; coordination between the financial aid department and awarding departments; and review of disbursement procedures for awarded scholarships. Six campuses will be reviewed. Two campus reports have been completed, and four campus reports are awaiting a campus response prior to finalization.

Student Activities

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of activities relating to social and co-curricular programs, recreational sports, student clubs and organizations; review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and

oversight of student activities; review and appropriate testing for compliance with charters, bylaws and/or other governing documents for selected student organizations, clubs and other programs; review and testing to ensure appropriate staffing of student programs by qualified individuals and volunteers, including student leaders; and assessment to determine that required policies regarding non-discrimination, alcohol and drugs, and hazing are monitored and enforced. Six campuses will be reviewed. Due to resource constraints, audits at three of the campuses will be completed in the first quarter of 2016. Report writing is being completed for three campuses, and fieldwork is being conducted at three campuses.

High Profile Area

College Reviews

The initial audit plan indicated that approximately 49 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of college/department administrative and financial controls, such as handling of cash and cash equivalents, expenditure processing, contracting activities, acquisition and tagging of sensitive equipment, and use of trust funds; and review of faculty assigned time, release time and special payments. Six campuses were initially scheduled to be reviewed; due to resource constraints, only five were visited. Five campus reports have been completed.

Construction

The initial audit plan indicated that approximately 47 staff weeks of activity (4.6 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. Six projects were initially scheduled to be reviewed; due to resource constraints, only five were reviewed. Four campus reports have been completed, and one campus report is awaiting a campus response prior to finalization.

Advisory Services

The initial audit plan indicated that approximately 216 staff weeks of activity (20.8 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.

Technology Support

The initial audit plan indicated that approximately 14 staff weeks of activity (1.3 percent of the plan) would be devoted to technology support for non-information technology specific audits and advisory services reviews. The provision of support is 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 participate on committees such as those related to information systems implementation and policy development, and to perform special projects. Special projects for 2015 included the implementation of automated working papers in the Office of Audit and Advisory Services. Forty staff weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

Follow-ups

The audit plan indicated that approximately 15 staff weeks of activity (1.5 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 34 current/past assignments (Auxiliary Organizations, Accessible Technology, Executive Travel, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, and Scholarships) 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. Eight staff weeks have been set aside for this purpose, representing approximately 0.8 percent of the audit plan.

Administration

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.3 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 1/19/2016)

	2015 ASSIGNMENTS										FOLLOW-UP PAST/CURRENT ASSIGNMENTS						
	Aux Orgs	Info Security	Clery Act	College Reviews	IT Procure	PCI	Adm	Cloud Comptg	Scholar	Student Activity	Auxiliary Organizations			Accessible Technology		Executive Travel	
											•No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK						AC			AI		4	35/35	-				
CHI	RW			AC							3						
CI							AC			FW	3	32/32	-			6/6	-
DH	AI								AC		3			6/6	-		
EB			AC		RW						3	31/31	-				
FRE		AC					AC				6	36/36	-				
FUL	AI				AC					RW	4						
HUM			AC								4	30/30	-				
LB	AC					AI	AC				4	**17/18**	5			3/3	-
LA			AC	AC					AI		4	18/18	-	5/5	-		
MA			AC								2	9/13	9				
MB							AC				2	23/23	-				
NOR	AC			AC					AI	FW	5	6/19	2				
POM				AC	AC					FW	2	11/11	-	7/7	-	4/4	-
SAC				AC						RW	5	41/41	-				
SB	AC				AC		AC				4	22/23	8				
SD		RW	AC								4	21/21	-	7/7	-	6/6	-
SF	AC	AI									3	**16/17**	7	1/1	-		
SJ		AC					AC		AI		5	26/26	-			9/9	-
SLO			AC						AC		3	11/11	-				
SM										RW	4	22/22	-	4/4	-		
SON	AI				AC						3						
STA		AC									4	14/14	-				
CO					AC						2	5/5	-			3/3	-
SYS				AC			AI							1/1	-	3/3	-

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 from date of report.
• 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 1/19/2016)

	FOLLOW-UP PAST/CURRENT ASSIGNMENTS													
	Information Security		IT Procurement		College Reviews		Clery Act		Admissions		PCI		Scholarships	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	10/10	-									0/1	3		
CHI	21/21	-			4/5	6								
CI									0/7	3				
DH													0/3	2
EB							6/6	-						
FRE	11/11	-							1/8	4				
FUL			0/0	-										
HUM	4/4	-					0/3	5						
LB	5/6	10							0/0	-				
LA					4/4	-	3/3	-						
MA	7/7	-					2/3	4						
MB									0/6	4				
NOR					4/4	-								
POM			0/0	-	3/3	-								
SAC					8/8	-								
SB	10/10	-	0/2	4					5/5	-				
SD							0/4	5						
SF														
SJ	9/17	4							3/7	4				
SLO							3/3	-					1/1	-
SM														
SON			0/0	-										
STA	0/21	2												
CO			0/1	4										
SYS					0/1	4								

***** The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.
****** The number of months recommendations have been outstanding from date of report.
● The number of auxiliary organizations reviewed.

Status Report on Current and Follow-Up Construction Audit Assignments
(as of 1/19/2016)

	Project	Project	Contractor	Construction	Start	Comp.	Managed	Current	Campus Follow-Up		CPDC Follow-Up	
	No.			Cost	Date	Date	By	*	**RECS	***MO.	**RECS	***MO.
2015	BAK-230	Art Center and Satellite Plant	Rudolph and Sletten	$14,290,932	5/27/2013	May-14	Campus	AC	1/1	-		
	POM-1039	Recreation Center	C W Driver	$43,135,626	8/20/2012	Jan-15	Campus	AC	0/0	-		
	SD-623	Storm/Nasatir Halls Renovation	C W Driver	$52,972,562	6/27/2012	Sep-14	Campus	AC	1/1	-		
	MA-235	Physical Education Replacement	Gilbane Building Co.	$27,540,143	3/27/2013	Jan-15	CO	AC	0/1	3		
	BAK-816	Student Housing Northeast, Ph I	Bernards Brothers, Inc.	$32,479,629	6/10/2013	Jan-15	Campus	AI				
	*FW = Field Work in Progress; RW = Report Writing in Progress; AI = Audit Incomplete (awaiting formal exit conference and/or response); AC = Audit Complete											
	**The number of recommendations satisfactorily addressed followed by the number of recommedations in the original report.											
	***The number of months that recommendations have been outstanding from date of report.											

COMMITTEE ON AUDIT

2014 Quality Assurance Review – Status Report

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services

Summary

At the July 2014 meeting of the Committee on Audit, an implementation plan for the recommendations put forth in the quality assurance review of the Office of Audit and Advisory Services was presented. A status report for the implementation of the recommendations will be presented and is attached.

Office of Audit and Advisory Services (OAAS)

2014 Quality Assurance Review – Status Report

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.

Status for Recommendation #1:
This recommendation is closed. The OAAS is committed to 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.

Status for Recommendation #2:
Our initial review determined that this recommendation could not be effectively implemented within the existing organizational structure. OAAS management continues to review alternative organization structures to support the system and will bring the results of this review to a future 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.

Status for Recommendation #3:
This recommendation is closed. Effective September 2014, the OAAS implemented and performed a separate IT audit risk assessment and will continue to do so going forward. An additional information technology staff resource has also been added.

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.

Status for Recommendation #4:
In response to recommendations #3 and #5, the format for the 2015 risk assessment was incrementally changed to include a separate IT and fraud risk assessment, as well as questions related to auxiliary enterprises. Further changes to the risk assessment will be considered in conjunction with our evaluation of alternative organizational models referenced in the status for recommendation #2, which will also consider alternative approaches to audits of auxiliary enterprises.

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.

Status for Recommendation #5:
This recommendation is closed. We deployed a fraud survey to each campus during 2014. As presented at the January 2015 Board of Trustees meeting, the results of that survey were utilized, along with other risk assessment data, in the development of the 2015 audit plan. We will continue to include fraud-related questions and issues in our ongoing annual risk assessment process. With respect to the implementation of a systemwide hotline, executive management continues to believe the existing reporting structure for the filing of whistleblower complaints is sufficient.

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.

Status for Recommendation #6:
This recommendation is closed. Effective January 2015, the OAAS implemented the TeamMate Electronic Work Paper system. The system was fully implemented in production on July 1, 2015.

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.

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.

Status for Recommendation #7:
This recommendation is closed. Microsoft Excel and Microsoft Access have been sufficient to support the current needs of the division for data mining and analysis. Most of the audit staff demonstrated adequate proficiency with Microsoft Excel and we have determined that Microsoft Access will not be used. Where necessary, department staff have requested and received advanced training for Microsoft Excel. We will continue to evaluate this need as we assess our staff training plans for the upcoming year.