AGENDA

COMMITTEE ON AUDIT

Meeting: **11:00 a.m., Tuesday, May 24, 2016**
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of the Meeting of March 8, 2016

1. Status Report on Corrective Actions for the Findings in the California State University Single Audit Reports of Federal Funds for the Fiscal Year Ended June 30, 2015, *Information*

Discussion Items

2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
3. 2014 Quality Assurance Review – Status Report, *Information*

Trustee Garcia called the meeting to order.

Approval of Minutes

The minutes of January 26, 2016, were approved as submitted.

Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting

With the concurrence of the committee, Trustee Garcia presented agenda item 1 as a consent information item.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Larry Mandel, vice chancellor and chief audit officer, presented a brief status report on the 2016 audit plan and follow-up on past assignments. The report noted reviews for 2016 that included Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology Disaster Recovery Planning. In addition, follow-up on current/past assignments were being conducted on approximately 40 prior campus/auxiliary reviews.

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

Mr. Steve Relyea, executive vice chancellor and chief financial officer, introduced the information item noting that the board was receiving this update in March as opposed to January due to a change to the Governmental Accounting Standards in regard to pensions, called GASB 68.

Ms. Mary Ek, assistant vice chancellor and controller, presented an overview of the report on the financial statement period ending June 30, 2015, which included an overview and discussion of revenues and expenses from fiscal year 2014-2015. Ms. Ek explained the impact of the change to GASB in regard to pensions and stated that this would be the first year the CSU would reflect this data in the financial statements.

Single Audit Reports of Federal Funds

Ms. Mary Ek presented an overview of the Single Audit Reports of Federal Funds for fiscal year ended June 30, 2015. She reported that there were four audit findings identified in the A-133 Single Audit Reports. Three findings were related to internal controls over administration of federal financial aid funds at several campuses, and one related to internal controls over federal procurement and suspension and debarment requirements at one campus. Corrective actions are underway and a status update will be provided at the May 2016 board meeting.

Mr. Mark Thomas of KPMG provided a brief report on the status of the CSU systemwide audit and reiterated the auditors' unqualified opinion of the CSU financial statements.

Trustee Garcia adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Corrective Actions for the Findings in the California State University Single Audit Reports of Federal Funds for the Fiscal Year Ended June 30, 2015

Presentation By

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

There were four audit findings from the California State University's system wide Single Audit Reports of federal funds, for the fiscal year ended June 30, 2015, presented at the March 2016 Board of Trustees meeting.

Three audit findings related to financial aid programs as summarized below:
- Item 2015-001: Notifications regarding loan disbursements did not meet the requirements at six campuses;
- Item 2015-002: Internal controls in place were not effective to ensure timely and accurate reporting of student enrollment status changes at seven campuses;
- Item 2015-003: Internal controls in place were not effective to ensure timely and accurate return of Title IV funds at seven campuses.

One audit finding related to non-financial aid federal awards at a campus:
- Item 2015-004: Internal controls in place were not effective to ensure compliance with the federal procurement, suspension, and debarment requirements at one campus.

Corrective actions have been implemented to strengthen internal controls and remedy weaknesses identified in the audit findings. The Chancellor's Office will review the documentary evidence submitted by the campuses to confirm completion of the corrective actions. Corrective actions at campuses include:
- Dedicated staff/management positions have been hired to ensure that compliance is met in all reporting and compliance, to create and lead staff training, and to ensure quality control.
- New technical systems have been developed to assist in reconciliation and tracking.
- New technical systems have been created for the purposes of employee training. Additionally, more comprehensive training will be conducted at a greater frequency.

- New communication methods have been created to notify students, including increasing the frequency of written and mailed notifications and the addition of e-mail notifications. These notifications will convey more information to students in a timelier manner.
- Development of a new program to capture student loan information that will allow students to search, view, and confirm their own data.
- Changes to policies and procedures that increase the frequency of reconciliations and running of system reports to verify reporting accuracy and compliance with policies. Additionally, campuses have either added an additional management approval or initiation step to reporting and notification policies.
- An increase in random sampling of data to ensure accuracy and compliance.

In addition to the specific corrective actions taken by the campuses to address the audit findings above, there has been systemwide effort to avoid repeat findings, including the following:
- Importance of internal controls is discussed as an on-going issue with campus staff in monthly meetings and in annual workshops for all campus financial aid directors.
- KPMG annually conducts a webcast training for all campus financial aid directors for the following year.
- The Chancellor's Office communicates the audit findings not only to those campuses cited in the audit report but to all campuses at multiple levels (i.e., controllers and directors, associate vice presidents, and vice presidents) to create awareness and emphasize the need for proper controls.

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 2016 audit plan and follow-up on past assignments. For the 2016 year, assignments were made to conduct reviews of Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology (IT) Disaster Recovery Planning. In addition, follow-up on current/past assignments (Special Investigation, Auxiliary Organizations, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, Scholarships, and Student Activities) 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 267 staff weeks of activity (26.1 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. One campus/four auxiliary reports are awaiting a campus response prior to finalization, report writing is being completed for two campuses/four auxiliaries, and fieldwork is being conducted for one campus/four auxiliaries.

Delegations of Authority

The initial audit plan indicated that approximately 48 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of the management of processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Six campuses will be reviewed. Report writing is being completed for one campus, and fieldwork is being conducted at one campus.

Operational/Financial Reviews

Academic Department Fiscal Review

The initial audit plan indicated that approximately 47 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of college/department administrative and financial controls. Six campuses will be reviewed. Report writing is being completed for four campuses, and fieldwork is being conducted at one campus.

Emergency Management

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 emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements. Six campuses will be reviewed.

International 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 campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements. Six campuses will be reviewed.

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 will be reviewed. Report writing is being completed for two projects, and fieldwork is being conducted for one project.

Student Activities

Due to resource constraints, we were unable to complete three Student Activities audits in 2015. The 2016 audit plan indicated that approximately 25 staff weeks of activity (2.5 percent of the plan) would be devoted to completion of these reviews that ensure compliance with CSU policies and other regulatory requirements. Three campuses will be reviewed. Two campus reports are awaiting a campus response prior to finalization, and fieldwork is being conducted at one campus.

Information Technology Reviews and Support

Information Security

The initial audit plan indicated that approximately 46 staff weeks of activity (4.5 percent of the plan) would be devoted to a review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information. Six campuses will be reviewed. Report writing is being completed for one campus, and fieldwork is being conducted at one campus.

Cloud Computing

The initial audit plan indicated that approximately 26 staff weeks of activity (2.5 percent of the plan) would be devoted to a 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. Four campuses will be reviewed. Report writing is being completed for two campuses.

Information Technology Disaster Recovery Planning

The initial audit plan indicated that approximately 26 staff weeks of activity (2.6 percent of the plan) would be devoted to a review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event. Four campuses will be reviewed.

Technology Support

The initial audit plan indicated that approximately 17 staff weeks of activity (1.6 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.

Advisory Services

The initial audit plan indicated that approximately 220 staff weeks of activity (21.6 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.

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. Thirty-eight weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

Audit Support

Audit Follow-up

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 (Special Investigation, Auxiliary Organizations, Information Security, IT Procurement, College Reviews, Clery Act, Admissions, PCI, Scholarships, and Student Activities) 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. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 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 5/16/2016)

| | 2016 ASSIGNMENTS | | | | | | | | | FOLLOW-UP PAST/CURRENT ASSIGNMENTS | | | | | | |
| | Aux Orgs | Info Security | Student Activities | Cloud Comptg | Acad Dept Fiscal Review | Deleg of Auth | Intl Activities | IT Dis Recov | Emerg Mgmt | Special Investigation | | Auxiliary Organizations | | | Information Security | |
										*Recs	**Mo.	●No.	*Recs	**Mo.	*Recs	**Mo.
BAK			FW									4	35/35	-	10/10	-
CHI				RW								3	0/32	2	21/21	-
CI			AI		RW							3	32/32	-		
DH					RW							3	0/36	2		
EB		FW									-	3	31/31	-		
FRE					RW					5/5		6	36/36	-	11/11	-
FUL				RW								4	4/27	3		
HUM					RW							4	30/30	-	4/4	-
LB					RW							4	18/18	-	6/6	-
LA												4	18/18	-		
MA												2	13/13	-	7/7	-
MB												2	23/23	-		
NOR		RW									-	5	19/19	-		
POM	RW		AI									2				
SAC												5	41/41	-		
SB	FW											4	23/23	-	10/10	-
SD	FW											4				
SF						RW						3	17/17	-	0/9	4
SJ												5	26/26	-	17/17	-
SLO												3	11/11	-		
SM	AI											4				
SON					RW							3	3/4	5		
STA					FW							4	14/14	-	12/21	6
CO	RW					FW						2				
SYS																

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 5/16/2016)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS

	IT Procurement		College Reviews		Clery Act		Admissions		PCI		Scholarships		Student Activities	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK									1/1	-	**3/3**	**-**		
CHI			5/5	-										
CI							**7/7**	**-**						
DH											3/3	-		
EB	3/3	-			6/6	-								
FRE							8/8	-						
FUL	0/0	-											1/5	2
HUM					3/3	-								
LB							0/0	-	1/1	-				
LA			4/4	-	3/3	-					2/2	-		
MA					**3/3**	**-**								
MB							**6/6**	**-**						
NOR			4/4	-							0/3	3		
POM	0/0	-	3/3	-										
SAC			8/8	-									1/1	-
SB	2/2	-					5/5	-						
SD					3/4	9								
SF														
SJ							7/7	-			1/3	5		
SLO					3/3	-					1/1	-		
SM													0/2	3
SON	0/0	-												
STA														
CO	3/3	-												
SYS	1/1	-	1/1	-										

* 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 grren are updates since the agenda mailout.

Status Report on Current and Follow-Up Construction Audit Assignments
(as of 5/16/2016)

Project No.	Project	Contractor	Construction Cost	Start Date	Comp. Date	Managed By	Current *	Campus Follow-Up **RECS	Campus Follow-Up ***MO.	CPDC Follow-Up **RECS	CPDC Follow-Up ***MO.
2016 SJ-875	Student Health & Counseling Ctr.	Blach Construction Co.	$27,243,613	3/5/2013	Apr-15	Campus	AI				
EB-001	Warren Hall Replacement	Sundt Construction, Inc.	$25,940,384	3/10/2014	Oct-15	Campus	RW				
SD-1275	Zura Hall Renovation	Balfour Beatty Const. Co.	$38,958,025	5/15/2014	Nov-15	Campus	FW				

*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.

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

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 January 2016 meeting of the Committee on Audit, a status report for the implementation of the recommendations put forth in the quality assurance review of the Office of Audit and Advisory Services (OAAS) was presented. The report showed that five of the seven recommendations for enhancement had been completed. This status report shows that the two remaining recommendations have been closed.

It should also be noted that as a result of the quality assurance review, the OAAS has increased advisory services resulting in the reduction/avoidance of potential risks, improvements to operations, and enhanced awareness or risk, control and compliance issues; implemented a more risk based focus looking for efficiency and effectiveness; and improved communication with campuses. To go further, a plan has been developed that will be put in place in 2017. The plan for functional and organizational changes improves the capacity of OAAS to identify risk in a more targeted fashion, provide advisory services, and implement an alternative approach to audits of auxiliary organizations.

Quality Assurance Review Observations and Recommendations #2 and #4

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 #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

This recommendation is closed. OAAS management has developed a new organization structure that sufficiently addresses quality assurance review team concerns. This organization structure will be put in place in 2017.

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 #4

The current risk assessment and audit planning approach should be re-evaluated.

Status for Recommendation #4

This recommendation is closed. The new organization structure, which will be introduced in 2017, sufficiently addresses quality assurance review team concerns with respect to risk assessment and provides an alternative approach to audits of auxiliary organizations.