AGENDA

COMMITTEE ON AUDIT

Meeting: **4:00 p.m., Tuesday, November 19, 2019**
Glenn S. Dumke Auditorium

Jack McGrory, Chair
Hugo N. Morales, Vice Chair
Silas H. Abrego
Jane W. Carney
Douglas Faigin
Jean P. Firstenberg
Wenda Fong
Lateefah Simon

Consent   1. Approval of Minutes of the Meeting of September 25, 2019, *Action*

2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

Discussion   3. Status Report on Consideration of Opportunities for Continued Program
Enhancement of the Institutional Control Environment, *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**

September 25, 2019

Members Present

Jack McGrory, Chair
Hugo N. Morales, Vice Chair
Silas Abrego
Jane W. Carney
Douglas Faigin
Jean P. Firstenberg
Wenda Fong
Adam Day, Chairman of the Board

Trustee Jack McGrory called the meeting to order.

Approval of Minutes

The minutes of July 23, 2019, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

With the concurrence of the committee, Trustee McGrory presented agenda item 2 as a consent information item.

Status Report on the California State Auditor Report on Accounts Outside the State Treasury and Campus Parking Programs

Mr. Larry Mandel, vice chancellor and chief audit officer, introduced the item and noted that the California State Auditor issued its report on the California State University's financial accounts held outside the state treasury and campus parking programs in June 2019. The CSU committed to implementing all eight recommendations in the report. The State Auditor requires follow-up responses 60 days, six months, and one year after the report is issued. The system's 60-day follow up response was submitted to the State Auditor on August 19. In the 60-day response, the CSU asserted full implementation of one of the eight recommendations and, although the State Auditor

acknowledged the examples provided were sufficient, they want to see more repetition. As a result, additional examples will be provided as they become available. Work on the remaining seven recommendations is currently in process. The next follow up response—the six-month response— will be due to the State Auditor in December.

Mr. Mandel also discussed the recent Joint Legislative Audit Committee hearing in Sacramento to discuss the audit report. Chancellor White, Trustee McGrory, and CSU executives participated in the hearing and dispelled any notion that the CSU concealed funds from stakeholders. Trustee McGrory also emphasized that maintaining adequate reserves is an essential fiscal practice while also noting that the CSU should revisit its reserve policy using the audit report as guidance. The need for the CSU to maintain sufficient designated reserve funds was affirmed and legislators appreciated the system's commitment to implementing all of the audit report recommendations. It was also acknowledged during the hearing that the CSU needs to conduct a more comprehensive analysis of parking and alternative transportation programs.

Status Report on Consideration of Opportunities for Continued Program Enhancement of the Institutional Control Environment

Mr. Mandel provided a summary of the four observations and recommendations for continued program enhancement related to the institutional control environment contained in the January 2019 Report on the Results of the Quality Assessment Review (QAR) of the California State University System Internal Audit Program. While the primary objective of the QAR was to provide reasonable assurance that the internal auditing program at the California State University System complied with the International Professional Practices Framework promulgated by the Institute of Internal Auditors, observations and recommendations for continued program enhancement related to the institutional control environment were also noted. The review team was cognizant of the control environment at the institution because of the effect it can have on audit work.

While the review team did not detect weaknesses in the control environment, various opportunities were presented for consideration by senior leadership to further enhance the institution's efforts to set a strong tone at the top related to compliance and ethical behavior. Mr. Mandel provided a status update on management's consideration of each of the four opportunities for continued program enhancement and Trustee McGrory indicated that the item should be brought back at the next meeting for further consideration.

Trustee McGrory adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

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

Summary

This item includes both a status report on the 2019 audit plan and follow-up on past assignments. For the 2019 year, assignments were made to develop and execute individual campus audit plans; conduct audits of Information Technology (IT), Sponsored Programs and Construction; use continuous auditing techniques; provide advisory services and investigation reviews; and continue implementation activities for the redesign of Audit and Advisory Services. Follow-up on current and past assignments was also being conducted on approximately 46 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

AUDITS

General Audits

The organizational redesign for Audit and Advisory Services provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks and systemwide goals and strategies. Risk assessments and initial audit plans have been completed for all campuses. Audit plans include a Health and Safety audit at each campus as a follow-up to the health and safety audits performed by the California State Auditor in 2018. Twenty-four campus reports have been completed, fieldwork is being conducted at six campuses, report writing is being completed for four campuses, and five reports are awaiting a campus response prior to finalization.

Information Technology Audits

The initial audit plan indicated that reviews of Information Security, IT Disaster Recovery, Cloud Computing, and Accessible Technology would be performed at those campuses where a greater degree of risk was perceived for each topic. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues. Four campus reports have been completed, fieldwork is being completed at two campuses, report writing is being completed for three campuses, and one report is awaiting a campus response prior to finalization.

Sponsored Programs

The initial audit plan indicated that reviews of both post-award and pre-award activities would be performed. Post-award reviews emphasize review of operational, administrative, and financial controls to determine whether processes and expenditures are in accordance with both sponsor terms and conditions, and applicable policies, procedures, and regulations. Pre-award reviews emphasize compliance with conflict-of-interest and training requirements. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Three campus reports have been completed, fieldwork is being conducted at one campus, and report writing is being completed for one campus.

Construction

The initial audit plan indicated that reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors would be performed. Areas to be reviewed include, but are not limited to approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting. Three campus reports have been completed and one report is awaiting a campus response prior to finalization.

ADVISORY SERVICES

Audit and Advisory Services partners with management to identify solutions for business issues, offer opportunities to improve the efficiency and effectiveness of operating areas, and assist 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. Reviews are ongoing.

INVESTIGATIONS

Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations or conflicts of interest. Further, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the CSU Chancellor's Office. In addition, the investigations unit tracks external audits being conducted by state and federal agencies, acts as a liaison for the system throughout the audit process, and offers assistance to campuses undergoing such audits.

CONTINUOUS AUDITING TECHNIQUES

The initial audit plan indicated that continuous auditing techniques would be used to review credit card data for the 12 campuses not reviewed in 2018 to identify potential risks and to evaluate compliance with policies and procedures. Continuous auditing uses data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing risk assessment process. Reviews are ongoing.

COMMITTEES/SPECIAL PROJECTS

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.

AUDIT SUPPORT

Annual Risk Assessment

Audit and Advisory Services annually performs individual campus risk assessments, using management interviews, surveys, audit history, and other factors to score an audit universe of topics in order to determine the topics of highest risk to each campus and the system. Periodically, other audit topics are selected for review due to their high profile nature in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system.

Administration

Day-to-day administration of the Audit and Advisory Services division includes such tasks as scheduling, personnel administration, maintenance of department standards and protocols, administration of the department's automated workpaper system and SharePoint website, and department quality assurance and improvement.

**Status Report on Current and Past
Audit Assignments
(as of 11/14/2019)**

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Sponsored Programs - Post Award	2018	AC	5/5	-
	Const. - Humanities Office Bldg. & Humanities Classrooms	2019	AC	4/4	-
	Health and Safety	2019	AC	2/10	2
	Student Union	2019	FW		
Channel Islands	Health and Safety	2019	RW		
	Release Time and Additional Employment	2019	FW		
Chico	Centers and Institutes	2018	AC	5/5	-
	Special Investigation - Misuse of Campus Resources and Improper Reim. Claims	2018	AC	0/7	1
	Health and Safety	2019	AC	0/11	2
	Housing and Residential Services	2019	AC	0/11	1
Dominguez Hills	International Activities	2018	AC	8/9	13 [1]
	Health and Safety	2019	AI		
East Bay	Educational Foundation	2019	AC	3/3	-
	Health and Safety	2019	AC	0/13	1
Fresno	Information Security	2019	AC	**4/10**	2
	Health and Safety	2019	AC	0/12	2
	Associated Students, Inc.	2019	FW		
Fullerton	Sponsored Programs	2019	AC	4/4	-
	Health and Safety	2019	AC	0/9	4
	Associated Students, Inc.	2019	AI		
	Accessible Technology	2019	FW		
Humboldt	Health and Safety	2019	AC	4/17	5
Long Beach	The Forty-Niner Shops, Inc.	2018	AC	14/18	8
	Information Security	2019	AC	2/4	5
	Health and Safety	2019	AC	0/15	3
	Emergency Management	2019	AI		
Los Angeles	Health and Safety	2019	AC	10/10	-
	Const. - Rongxiang Xu Bioscience Inn. Cntr.	2019	AI		
	Foundation	2019	AI		
Maritime Academy	Health and Safety	2019	AC	7/7	-
	IT Disaster Recovery	2019	FW		
Monterey Bay	University Corporation	2019	AC	7/9	5
	Sponsored Programs - Post Award	2019	AC	3/4	5
	Health and Safety	2019	FW		
Northridge	Health and Safety	2019	AC	7/11	5
	Cloud Computing	2019	RW		
Pomona	Const. - Student Services Building	2019	AC	0/5	2
	Professional & Continuing Education	2019	AI		
	Health and Safety	2019	FW		

Status Report on Current and Past
Audit Assignments
(as of 11/14/2019)

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Sacramento	Sponsored Programs - Post Award	2018	AC	3/3	-
	Associated Students of CSU, Sacramento	2018	AC	**8/10**	9
	Cashiering	2019	AC	4/7	7
	Emergency Management	2019	AC	0/7	2
	Health and Safety	2019	FW		
San Bernardino	Health and Safety	2019	AC	**16/17**	6
	Information Security	2019	AC	0/4	1
San Diego	Decentralized Computing	2018	AC	7/11	11 [2]
	The Campanile Foundation	2019	AC	4/4	-
	Health and Safety	2019	AC	0/6	3
	Sponsored Programs - Pre Award	2019	AC	0/1	3
San Francisco	Student Organizations	2018	AC	**7/7**	**-**
	Health and Safety	2019	AC	**9/11**	6
	Information Security	2019	RW		
	Emergency Management	2019	RW		
San Jose	The Student Union of San Jose State Univ.	2018	AC	7/7	-
	Health and Safety	2019	AC	9/12	6
	Const. - Spartan Golf Complex, Phase I	2019	AC	1/5	4
	Information Security	2019	AI		
	Facilities Management	2019	RW		
San Luis Obispo	Health and Safety	2019	AC	9/9	-
	Sponsored Programs	2019	RW		
San Marcos	Health and Safety	2019	AC	3/9	3
	IT Disaster Recovery	2019	**AI**		
Sonoma	Health and Safety	2019	RW		
Stanislaus	Health and Safety	2019	AC	1/11	3
	Foundation	2019	AC	5/7	2
	Sponsored Programs - Post Award	2019	FW		
Chancellor's Office	Emergency Management	2018	AC	4/4	-
	Accessible Technology	2019	AC	0/7	4
Systemwide	Student Organizations	2017	AC	0/1	20 [3]

Status
FW - Field Work In Progress
RW - Report Writing in Progress
AI - Audit Incomplete (awaiting formal exit conference and/or campus response)
AC - Audit Complete
Follow-Up
* 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.
[1] Approved extended completion date of 4/30/20.
[2] Approved extended completion date of 8/31/19 and 12/31/19.
[3] Approved extended completion date of 12/31/18.

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

COMMITTEE ON AUDIT

Status Report on Consideration of Opportunities for Continued Program Enhancement of the Institutional Control Environment

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer

Summary

At the July 2019 meeting of the Committee on Audit, the Report on the Results of Quality Assessment Review (QAR) of the California State University System Internal Audit Program was presented. While the primary objective of the QAR was to provide reasonable assurance that the internal auditing program at the California State University System complied with the *International Professional Practices Framework* promulgated by the Institute of Internal Auditors, observations and suggestions for continued program enhancement related to the institutional control environment were also noted. The review team was cognizant of the strong control environment at the institution because of the effect it can have on audit work. While the review team did not detect weaknesses in the control environment, the below opportunities were presented for consideration by senior leadership to further enhance the institution's efforts to set a strong tone at the top related to compliance and ethical behavior.

Code of Ethics

Opportunity for Consideration:

While some individual departments and divisions, including Audit and Advisory Services, have adopted or subscribe to codes of ethics specific to their offices, the CSU does not have a systemwide code of ethics. A code of ethics helps define baseline expectations for behavior and promote an environment that supports ethical decision making, respect for all persons, and other desirable notions. A code of ethics would provide overarching support for existing policies related to human resources, financial matters, academic integrity, and the like, and we encourage the development of one.

Status:

The CSU senior leadership is in the process of developing a systemwide statement on ethical values and expectations. A draft ethics statement is anticipated to be available by the January 2020 meeting of the Committee on Audit.

Whistleblower Hotline

Opportunity for Consideration:

We recommend the institution consider implementing a third party whistleblower hotline. Whistleblower hotlines provide a mechanism for complaints, anonymous or otherwise, to be made through one central communication channel. A third party hotline could also provide complainants with greater assurance that their identity (whether or not it is disclosed to the third party hotline) will be protected and limit the possibility of retaliation.

Status:

While the CSU does not have a systemwide reporting hotline to receive whistleblower complaints/allegations of improper governmental activity, both systemwide policies and procedures and the California State Auditor's (CSA's) Whistleblower Hotline provide mechanisms for complaints, anonymous or otherwise.

In September 2018, the chancellor issued Executive Order (EO) 1115, *Complaint Procedures for Protected Disclosure of Improper Governmental Activities and/or Significant Threats to Health or Safety*. This EO revised the procedures for making protected disclosures (whistleblower complaints) and, among other things, allowed third-party and anonymous complaints. The procedure is available to anyone (employees, students, and third parties) wishing to make a verbal or written complaint and applies systemwide to all campuses and the Chancellor's Office. The identity of complainants is protected. The EO process is accessible and widely used and Systemwide Human Resources is the office responsible for overseeing and administering the whistleblower policy. It is the campuses' responsibility to adopt and implement the procedures set out in the EO instead of establishing their own procedures.

Additionally, the state auditor maintains a whistleblower hotline where complaints pertaining to the CSU may be made. State agencies, including the CSU, are also required to inform employees about the CSA's Whistleblower Hotline. This occurs through posting of a notice from the CSA and an annual email notification. The California Government Code requires state agencies to post the CSA notice in locations where other employee notices are maintained. Complainants may file with the CSA via their toll-free hotline, online complaint form, or by mail.

Senior leadership has determined that in consideration of the CSU internal reporting procedures and California State Auditor hotline, there is a sufficient structure in place to ensure that employees or others that suspect or know about fraud or other wrongdoing have a way to report it anonymously.

Institutional Compliance Function

Opportunity for Consideration:

Compliance efforts at CSU are currently decentralized to many responsible offices such as athletics, research, human resources, and the like on each campus. While some institutions operate successfully in exactly such a decentralized environment, CSU's magnitude and complexity increases its compliance risk posture. Compliance efforts at CSU may be further improved through development of a systemwide compliance function. While we do not advocate one office taking responsibility for all compliance efforts, a leading practice we recommend is to designate an institutional compliance officer to support coordination, communication, training, and risk monitoring across the campuses.

Status:

The CSU has a robust decentralized compliance function in which each disparate area of compliance is managed by specialized subject-matter experts. The compliance function for the system is dispersed throughout the various divisions at the Office of the Chancellor. For example, Business and Finance has oversight of Clery compliance and Systemwide Human Resources has oversight of compliance areas such as Title IX and Whistleblower and Equal Employment Opportunity. Additionally, the systemwide internal audit function periodically audits most major compliance functions throughout the system.

Senior leadership has determined that there is a sufficient structure in place to ensure that significant compliance areas have adequate systemwide coverage in addition to the campus compliance responsibility.

Prosecution for Wrongdoing

Opportunity for Consideration:

CSU operates 23 institutions throughout the state of California. Decisions of whether to refer cases involving employees suspected of criminal wrongdoing for prosecution are currently impacted by whether the jurisdiction is likely to take the case, which may result in the appearance of uneven treatment of individuals. We recommend development of a systemwide policy with guidelines for referring cases for prosecution so similar cases will be handled the same regardless of jurisdiction.

Status:

The Committee on Audit and Board of Trustees approved a resolution at the May 2019 meeting containing guidelines and requirements for referring cases for prosecution.