

# **AMENDED**

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**      **12:00 p.m., Tuesday, March 24, 2020**  
**Virtually via Teleconference**

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 January 28, 2020, *Action*
  2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
  3. Status Report on the California State Auditor Report on Accounts Outside the State Treasury and Campus Parking Programs, *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**

**January 28, 2020**

**Members Present**

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

Trustee Jack McGrory called the meeting to order.

**Public Comments**

Tessy Reese, chair of CSUEU bargaining unit 2, yielded comment in the interest of time.

**Approval of Minutes**

The minutes of November 19, 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.

**Calendar Year 2020 Audit Plan**

With the concurrence of the committee, Trustee McGrory presented agenda item 3 as a consent action item.

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

With the concurrence of the committee, Trustee McGrory presented agenda item 4 as a consent information item.

### **Audited Financial Statements and Single Audit Report**

Mary Ek, assistant vice chancellor and controller, presented a summary of revenues, expenses, and total net financial position for fiscal year (FY) 2018-2019. Revenue for FY 2018-2019 decreased by \$145 million due to a financial statement entry to reflect the one-time supplemental pension payment made to CalPERS for the CSU. The CSU's liabilities exceeded assets by \$14.5 billion due to other post-employment benefits (OPEB), as well as pension obligations causing a negative net position. Prior to the change in accounting policy, the net position was positive.

Ms. Ek highlighted the operating fund balances and reserves. The operating fund balances and reserves at the end of 2018-2019 totaled approximately \$1.7 billion. Balances are shown in three designations: short term obligations, capital needs, and catastrophic events with reserves for economic uncertainty separately identified. This is in accordance with the updated reserve policy which was published last year as a result of the California State Auditor recommendations. With regard to reserves specifically, the amount set aside for economic uncertainty was roughly \$500 million, or about one month of expenses.

Ms. Ek also discussed the systemwide financial statements audit findings. KPMG identified a significant deficiency related to the accuracy of the State Controller's Office (SCO) and CalPERS employee census data used in the actuarial valuation of net OPEB liability, resulting in an overstatement of the liability. The Chancellor's Office has identified the discrepancies and continues to work with the SCO and CalPERS to improve data sharing across the three entities and develop a sustainable process for the future. Each auxiliary organization also conducts their own external audits. Of the 90 auxiliaries, 17 had a mix of material weaknesses and significant deficiencies. The Chancellor's Office is following up with each organizations' Board of Directors to ensure appropriate corrective actions are taken. Additionally, as required by the Office of Management and Budget a separate audit is conducted annually for federal funds received. The findings overall were of minor financial materiality. Systemwide, there was one repeat finding related to reporting of student enrollment status. Additionally, there was a new finding related to the reporting of Pell disbursement records. Corrective actions are in progress and a status update will be provided to the board at a future meeting.

Mark Thomas of KPMG reported that the results of the CSU audit include an unmodified (clean) opinion on the financial statements. Mr. Thomas highlighted that the OPEB liability is likely overstated by about two percent due to the issues with the employee census data previously discussed by Ms. Ek, but noted that this issue did not affect the overall report on the financial statements for the system. The single audit also included an unmodified opinion. There were two findings, also previously discussed by Ms. Ek, that are considered reportable findings which did not affect the overall opinion.

Following the presentation the trustees discussed the CSU's operating fund reserves, the auxiliary organization audits and follow up on corrective action, and the CSU's net position and OPEB liability.

The committee recessed and reconvened the following day to address the remaining agenda items.

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 2020 audit plan and follow-up on past assignments. For the 2020 year, assignments were made to execute individual campus audit plans; conduct audits of information technology (IT), sponsored programs and construction; use continuous auditing techniques; and provide advisory services and investigation reviews. Follow-up on current and past assignments is being conducted on approximately 46 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

### **AUDITS**

As part of the annual audit planning process, customized individual campus audit plans are developed and are aligned with campus and auxiliary organization risks and systemwide goals and strategies. Initial audit plans have been completed for all campuses. The 2020 plan provides audit coverage in seven distinct organizational areas: academic administration; finance and administration; information technology; student activities and services; human resources; risk management; and auxiliary organizations.

#### **General Audits**

The initial audit plan indicated that reviews would be performed for audit topics including, but not limited to, auxiliary organizations, emergency management, facilities management, housing and residential services, minors on campus, and professional and continuing education. Fieldwork is being conducted at four campuses and report writing is being completed for nine campuses.

#### **Information Technology Audits**

The initial audit plan indicated that reviews of accessible technology, cloud computing, IT disaster recovery, and information security 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. Fieldwork is being conducted at one campus and report writing is being completed for three campuses.

### Sponsored Programs

The initial audit plan indicated that reviews of post-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. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. 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. Fieldwork is being conducted at one campus.

### Continuous Auditing

The initial audit plan indicated that continuous auditing techniques would be used to build upon the reviews of credit card data that took place in 2018 and 2019. Credit card information management tools (dashboards) are being created and finalized in the first half of the audit year, which will be used to provide periodic updates and information to campus management on campus credit card programs. Additionally, continuous audit tests will be piloted on human resources and payroll data to identify potential risks and anomalies. Reviews in this area will be performed on a limited number of campuses during the latter half of the year. Continuous auditing uses data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing audit process.

## 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.

## 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 Audit Planning Process

Audit and Advisory Services performs an annual audit planning process using risk questionnaires and other surveys, management interviews, audit history, and other factors. 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 3/12/2020)**

**Attachment A**  
Aud Item 2  
March 22-24, 2020  
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Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Health and Safety	2019	AC	9/10	6
	Student Union	2019	AC	2/6	2
	Housing and Residential Services	2020	FW		
Channel Islands	Health and Safety	2019	AC	0/6	3
	Faculty Reassigned Time & Addtl. Employ.	2019	AI		
	Information Security	2020	RW		
Chico	Special Investigation - Misuse of Campus Resources and Improper Reim. Claims	2018	AC	0/7	4
	Health and Safety	2019	AC	11/11	-
	Housing and Residential Services	2019	AC	0/11	5
Dominguez Hills	International Activities	2018	AC	8/9	17 <sup>1</sup>
	Health and Safety	2019	AC	0/15	4
	Sponsored Programs - Post Award	2020	FW		
	Foundation	2020	FW		
East Bay	Health and Safety	2019	AC	10/13	5
	IT Disaster Recovery	2019	AI		
	Facilities Management	2020	FW		
Fresno	Information Security	2019	AC	10/10	-
	Health and Safety	2019	AC	11/12	6
	Associated Students, Inc.	2019	AC	0/9	2
	Professional and Continuing Education	2020	FW		
Fullerton	Associated Students, Inc.	2019	AC	2/11	2
	Accessible Technology	2019	AI		
Humboldt	Health and Safety	2019	AC	17/17	-
	Facilities Management	2020	RW		
Long Beach	Information Security	2019	AC	4/4	-
	Health and Safety	2019	AC	13/15	7
	Emergency Management	2019	AC	1/6	5
	Special Investigation - Inaccuracies in Time Reporting for Grant Program	2019	AC	0/5	3
	Const. - College of Continuing Professional Education Classroom Bldg.	2019	RW		
Los Angeles	49er Foundation	2020	RW		
	Const. - Rongxiang Xu Bioscience Inn. Cntr.	2019	AC	0/2	3
	Foundation	2019	AC	3/3	-
Maritime Academy	Information Security	2020	FW		
	IT Disaster Recovery	2019	AI		
Monterey Bay	Foundation	2020	RW		
	Health and Safety	2019	AC	3/13	2
Northridge	Information Security	2020	RW		
	Health and Safety	2019	AC	11/11	-
	Cloud Computing	2019	AC	0/3	1
	Emergency Management	2019	AI		
Pomona	Professional and Continuing Education	2019	AC	3/7	4
	Health and Safety	2019	AC	0/7	1



**Status Report on Current and Past  
Audit Assignments  
(as of 3/12/2020)**

Attachment A  
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Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Sacramento	Associated Students of CSU, Sacramento	2018	AC	9/10	13 <sup>2</sup>
	Cashiering	2019	AC	7/7	-
	Emergency Management	2019	AC	5/7	7
	Health and Safety	2019	AC	3/5	2
San Bernardino	Information Security	2019	AC	2/4	5
	Sponsored Programs - Post Award	2020	RW		
San Diego	Health and Safety	2019	AC	5/6	7
	Emergency Management	2020	RW		
San Francisco	Information Security	2019	AC	0/9	2
	Emergency Management	2019	AC	0/11	2
	Minors on Campus	2020	RW		
San Jose	Health and Safety	2019	AC	12/12	-
	Const. - Spartan Golf Complex, Phase I	2019	AC	5/5	-
	Information Security	2019	AC	1/4	4
	Facilities Management	2019	AI		
	Professional and Continuing Education	2020	RW		
	Const. - Student Rec. and Aquatics Center	2020	FW		
San Luis Obispo	Sponsored Programs	2019	AC	0/5	3
	Housing and Residential Services	2020	RW		
San Marcos	Health and Safety	2019	AC	9/9	-
	IT Disaster Recovery	2019	AC	0/4	4
	Special Investigation - Fraudulent Reim. Claims and Excessive Spending	2019	AC	0/6	1
	Emergency Management	2020	RW		
Sonoma	Health and Safety	2019	AC	0/11	1
	Accessible Technology	2020	RW		
Stanislaus	Health and Safety	2019	AC	11/11	-
	Sponsored Programs - Post Award	2019	AC	0/4	1
	Emergency Management	2020	RW		
Chancellor's Office	Accessible Technology	2019	AC	4/7	9
	Health and Safety	2019	AC	0/5	1
<b>Status</b> FW - Field Work In Progress RW - Report Writing in Progress AI - Audit Incomplete (awaiting formal exit conference and/or campus response) AC - Audit Complete <b>Follow-Up</b> * 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.  <sup>1</sup> Approved extended completion date of 4/30/20. <sup>2</sup> Approved extended completion date of 5/1/20.					

## **COMMITTEE ON AUDIT**

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

#### **Presentation By**

Larry Mandel

Vice Chancellor and Chief Audit Officer

#### **Summary**

In June 2019, the California State Auditor (State Auditor) issued its report on the California State University's (CSU's) financial accounts invested outside the state treasury and campus parking programs. The State Auditor requires follow-up responses 60 days, six months, and one year after the report is issued.

The 60-day response was submitted to the State Auditor on August 19, 2019, and was included in the board packet at the September 2019 meeting of the Committee on Audit. The CSU asserted full implementation of one of the eight recommendations. While the State Auditor confirmed that the two examples provided in support of the CSU's assertion were exactly what they were looking for, they want to see more repetition. Additional examples will be provided to the State Auditor as they become available. The State Auditor considers this recommendation to be partially implemented.

The six-month response was submitted to the State Auditor on December 20, 2019, and was included in the board packet at the January 2020 meeting of the Committee on Audit. The CSU asserted full implementation of two additional recommendations. The State Auditor concurred with one of the responses and assessed the second as "partially implemented," noting that they want the Chancellor's Office to make additional policy revisions. The one-year response is due in June 2020.