

AGENDA

COMMITTEE ON AUDIT

Meeting: **1:20 p.m., Tuesday, September 13, 2022**
Glenn S. Dumke Auditorium

Lateefah Simon, Chair
Yammilette Rodriguez, Vice Chair
Diana Aguilar-Cruz
Jack Clarke, Jr.
Adam Day
Lillian Kimbell
Jack McGrory

Consent 1. Approval of Minutes of the Meeting of July 12, 2022, *Action*
2. Status Report on Audit and Advisory Services Activities, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Auditorium
401 Golden Shore
Long Beach, California**

July 12, 2022

Members Present

Lateefah Simon, Chair
Yammilette Rodriguez, Vice Chair
Jack Clarke, Jr.
Adam Day
Lillian Kimbell
Jack McGrory
Wenda Fong, Chair of the Board

Trustee Lateefah Simon called the meeting to order.

Approval of the Consent Agenda

The minutes of the May 24, 2022, meeting of the Committee on Audit were approved as submitted.

Item number two, Status Report on Audit and Advisory Services Activities, was an information item.

Audited Financial Statements and Single Audit Report

Tracey Richardson, assistant vice chancellor and controller, presented the fiscal year (FY) 2020-2021 CSU Financial Statements, Single Audit Report, and results of the annual external audit performed by KPMG. There was a delay in the FY 2020-2021 audit due to a reporting delay at the State Controller's Office.

Ms. Richardson shared a summary of the revenues for the year ended June 30, 2021, in comparison with the 2019-2020 fiscal year (not including auxiliaries). Total revenues from all sources were \$10.2 billion for fiscal year 2020-2021. The \$10.2 billion total represents a decrease in revenues of \$122 million from the previous year. This includes a \$698 million decrease in the appropriation due to the \$299 million base reduction and removal of \$315 million in one-time funding from the prior year, and \$323 million reduction in revenues from sales and services due to the pandemic.

These are offset by \$678 million increase in grants, contracts and gifts which is mainly from the Higher Education Emergency Relief Fund (HEERF). The largest source of revenue was state appropriations at approximately 40 percent, while net tuition and fees represents approximately 22 percent of total revenues. The gross student tuition and fee revenue reflected an increase in due to implementation of a new governmental accounting standard where fee-based student programs are now presented as part of the University's student tuition and fees. Grants, contracts and gifts represent approximately 31 percent of the total revenue. This was made up primarily of the HEERF grants.

A comparative summary of the expenditures for FY 2020-2021 in comparison with the 2019-2020 fiscal year was also presented. The operating and nonoperating expenses totaled \$10.6 billion for the fiscal year. The majority of the expenses are operating expenses which went down by \$227 million mainly in instruction and educational support and operations and maintenance of plant. This is due to reduction in staffing in response to the COVID-19 pandemic and decrease in pension benefit expenses as a result of changes in assumptions and higher pension plan investment earnings which offset the increase in the service costs.

Ms. Richardson reported on the net position. The CSU's total negative net position of \$15 billion increased by \$402 million from the prior year. While the CSU has a strong financial position, the negative net position is an indication of the long term challenges the state faces with funding pension obligations. Government entities are required to report long-term post-employment and pension benefit obligations and these are reflected in the unrestricted net position.

Ms. Richardson also discussed the systemwide financial statements audit. There were no systemwide audit findings. Of the 92 auxiliary organizations, eleven had a mix of material weaknesses and significant deficiencies for FY 2020-2021. As of date, all the audit findings on the auxiliary organizations have been corrected and remediated.

Additionally, federal funds were audited as part of the Single Audit and included approximately \$928 million of HEERF grants. During the audit, an allowable cost was charged twice. The amount is not financially material; however, it is required to be reported. The corrective action has been completed.

Chris Ray of KPMG highlighted the scope and enormity of the audit. Mr. Ray reported that the results of the CSU audit include an unmodified (clean) opinion on the financial statements. There are a range of footnotes related to accounting policies and standards that are included in the financial statements. A footnote related to new and upcoming GASB standards that will impact the CSU was included in the financial statements, most notably a requirement related to the accounting of leases that will affect the 2022-2023 financial statements. Mr. Ray also reported on a \$42 million past adjustment related to a change in accounting for CSU's proportionate share of pension liability to follow how the state reports it. This was not deemed material by management or KPMG.

The report on government auditing standards and internal controls related to financial reporting had no findings. The Single Audit also included an unmodified opinion. There was one finding—an expense that was claimed twice.

Following the presentation, the trustees discussed the definitions of accounting terms, the level of dependence on state support, pension liability, schedules that are not required to be audited, and how CSU compares to other universities in expenditure percentages.

Review and Approval of the California State University External Auditor

Steve Relyea, executive vice chancellor and chief financial officer, and Tracey Richardson, assistant vice chancellor and controller, presented information on a request for proposal (RFP) process to solicit from qualified independent public accounting firms for the purposes of establishing a CSU master service contract for the performance of a variety of audit and tax functions. The firm awarded would also perform optional tasks or services for individual campuses on an as-requested basis in accordance with the provisions of the RFP and any subsequent contract.

Ms. Richardson noted that the item requests the CSU Board of Trustees to approve the selection of KPMG as the audit firm to provide a variety of audit and tax functions including the annual financial audit, according to generally accepted accounting principles (GAAP) for five fiscal years starting with the audit of fiscal year ending June 30, 2023 plus 2 additional two-year options, and 1 one-year option, and to authorize the chancellor, or her designees, to finalize negotiations for a master service contract with said firm. Three audit firms (CliftonLarsenAllen LLP, Crowe LLP, and KPMG) submitted proposals in response to the RFP. The proposals were analyzed in the first step of the review process by the evaluation team based on the criteria specified in the RFP, consisting of: technical expertise & scope of work compliance; qualifications and experience; work plan methodology; organizational resources; interview/presentation; and contract compliance. The evaluation team was made up of financial experts in the Chancellor's Office, financial experts on the campuses, and representation from CSU's internal audit office. Based on the scoring of critical criteria by the team, the initial recommendation was to recommend KPMG for selection.

The annual cost components of the bids were reviewed, which ranged from \$1.8 million for the lowest bidder to \$2.2 million for the highest bidder. The KPMG cost component was in the middle which was approximately \$2.1 million per year. Given the evaluation team's scoring of critical elements of the bids including experience with similarly complex universities and organizational resources, KPMG was recommended to be awarded the contract. The recommendation was reviewed with the chair and vice chair of the board's audit committee. Each firm not selected was provided an opportunity to file a bid protest, which was not done.

Trustees discussed the history of the contract, the RFP and bid protest process, complaints or requests/communication with firms not selected, best practices related to changing audit firms,

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CSU's practice of rotating audit partners, the involvement of the CSU internal audit office in the process, and a timeline to bring a process review for the overall selection process back to the audit committee for discussion.

The item was approved.

Trustee Simon adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Audit and Advisory Services Activities

Presentation By

Vlad Marinescu
Vice Chancellor and Chief Audit Officer
Audit and Advisory Services

Summary

This item provides an update on internal audit activities and initiatives. It also includes a status report on the 2021-22 and 2022-23 audit plans. All 2021-22 audits have been completed and a comprehensive presentation on the 2021-22 audit plan will be provided at the November Board of Trustees meeting.

Follow-up on current and past assignments is being conducted on approximately 43 completed campus reviews. Attachment A summarizes the status of audit assignments by campus. Additionally, Attachment B illustrates key activities and milestones.

For the current year audit plan, assignments were made to execute individual campus audit plans and conduct financial, operational, compliance, and information technology audits; use continuous auditing techniques and data analytics tools; and provide advisory services and investigation reviews.

ASSURANCE AUDITS AND DATA ANALYTICS

Status of In-Process and Completed Audits

Audit and Advisory Services has completed all 2021-22 audits and is working to complete the first set of 2022-23 audits. Forty-nine audits have been completed as part of the 2021-22 audit plan. Fourteen campus audits are currently in process as part of the 2022-23 audit plan. Completed audit reports are posted on the California State University website at <https://www2.calstate.edu/csu-system/transparency-accountability/audit-reports>.

The status of campus progress toward implementing recommendations for completed audits is included in Attachment A. Prior year audits that have open recommendations are also included in Attachment A and are removed from the report once all recommendations are completed.

Both campus management and audit management are responsible for tracking the implementation/completion status of audit recommendations contained in campus audit reports.

During the audit process, campus management identifies a target completion date for addressing each audit recommendation. Target completion dates are subject to approval by audit management prior to the audit report being finalized. Implementation timelines are reviewed for appropriateness, reasonableness, and timeliness, which also includes evaluating the nature and level of risk and whether any mitigating controls can or should be put in place on an interim basis while audit recommendations are being implemented.

If there are difficulties or unexpected delays in addressing/completing audit recommendations within the agreed upon timeframes, escalation processes for resolution are followed by audit management. Audit management first contacts the campus senior leadership team (president and/or VP/CFO) to resolve any delays. In rare instances in which delays cannot be resolved during discussions between campus and audit management, the chancellor and audit committee chair and/or vice chair may help resolve delays, as needed.

Data Analytics

As part of the continued effort to utilize data analytics in the planning stage of every audit, the data analytics team has created customized dashboards for a recent audit of vendor management. The dashboards streamlined the audit process allowing the assurance team to work efficiently with the large data sets.

We continue to monitor campus credit card data and an analytical review of human resources/payroll data is currently in progress at two campuses.

Additionally, the data analytics team is finalizing dashboards and visualizations for Concur travel data and continues its efforts to automate the annual audit risk assessment 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 AND INTERGOVERNMENTAL AUDITS

Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations or conflicts of interest. Investigations are

performed on an ongoing basis, both at the request of an individual campus or the chancellor's office and by referral from the state auditor.

Additionally, Audit and Advisory Services assists with tracking external audits being conducted by state and federal agencies, offers assistance to campuses undergoing such audits, and acts as a liaison for the California State University system throughout the audit process when appropriate. The Joint Legislative Audit Committee (JLAC) held a hearing on June 27, 2022, to consider audit requests from legislators. At the hearing, JLAC approved two audits of the California State University: 1) an audit of California State University's handling of sexual harassment complaints; 2) an audit of the California State University's compliance with the Native American Graves Protection and Repatriation Act. Both audits will be conducted by the California State Auditor and are expected to commence in November 2022. The scope and objectives of the audits are available on the California State Auditor's website (<https://www.auditor.ca.gov/bsa/recent>).

OUTREACH AND ENGAGEMENT

Audit and Advisory Services continues to partner and work with our campus and system stakeholders beyond what would be the usual course of business for an audit or advisory review in order to find opportunities to add value to the organization when possible. This includes partnering activities such as participating and leading affinity groups, providing support to campus and chancellor's office management, sharing information and common themes across campuses, and acknowledging feedback and insights provided by management. Each year Audit and Advisory Services hosts a roundtable meeting designed to facilitate communication and collaboration between Audit and Advisory Services and CSU campus audit representatives. This year's event will be held September 20-22 and will include a variety of informational sessions on topics such as fraud prevention, information security, recent trends in audit, and data analytics.

STATUS REPORT ON CURRENT AND PAST AUDIT ASSIGNMENTS

Campus	Category	Audit Topic	Audit Plan Year	Total # of Recommendations	*Status
Bakersfield	Audits Currently in Progress	Academic Department Fiscal Review	2022		
	Status of Recommendations	Information Security	2021	6	<div><div>6</div></div>
Chancellor's Office	Status of Recommendations	Information Security	2021	7	<div><div>6</div><div>1</div></div>
Channel Islands	Audits Currently in Progress	IT Disaster Recovery	2022		
	Status of Recommendations	Sponsored Programs	2021	2	<div><div>2</div></div>
Chico	Audits Currently in Progress	Academic Department Fiscal Review	2022		
	Status of Recommendations	Chico State Enterprises	2021	4	<div><div>4</div></div>
Dominguez Hills	Status of Recommendations	Construction Management	2021	3	<div><div>3</div></div>
		Endowment Management	2021	3	<div><div>3</div></div>
East Bay	Status of Recommendations	Procurement	2021	3	<div><div>3</div></div>
Fresno	Status of Recommendations	Counseling and Psychological Services	2021	6	<div><div>3</div><div>3</div></div>
		IT Disaster Recovery	2021	7	<div><div>7</div></div>
Fullerton	Audits Currently in Progress	Procurement	2022		
	Status of Recommendations	Corporation	2021	7	<div><div>7</div></div>
		Information Security	2021	6	<div><div>2</div><div>4</div></div>
Humboldt	Status of Recommendations	Information Security	2021	5	<div><div>4</div><div>1</div></div>
		Police Services	2021	7	<div><div>2</div><div>5</div></div>
		Decentralized Computing	2021	13	<div><div>13</div></div>
Long Beach	Status of Recommendations	Sponsored Programs	2021	4	<div><div>3</div><div>1</div></div>
		Student Fee Administration	2021	2	<div><div>2</div></div>
		Computer Security Incident Response	2022		
Los Angeles	Audits Currently in Progress	Associated Students, Inc.	2021	4	<div><div>4</div></div>
	Status of Recommendations	Vendor Administration and Payments	2022		
Maritime Academy	Status of Recommendations	Service Learning and Internships	2020	5	<div><div>2</div><div>3</div></div>
		Information Security	2021	10	<div><div>10</div></div>
		Construction Management	2021	2	<div><div>2</div></div>
Monterey Bay	Audits Currently in Progress	Vendor Administration and Payments	2022		
	Status of Recommendations	Construction Management	2021	2	<div><div>2</div></div>
Northridge	Status of Recommendations	Counseling and Psychological Services	2021	1	<div><div>1</div></div>
		Information Security	2021	5	<div><div>5</div></div>
Pomona	Audits Currently in Progress	Academic Department Fiscal Review	2022		
	Status of Recommendations	Decentralized Computing	2020	11	<div><div>11</div></div>
		Auxiliary-Owned Housing	2021	7	<div><div>4</div><div>3</div></div>
		Facilities Management	2021	10	<div><div>10</div></div>
Sacramento	Audits Currently in Progress	Athletics Fiscal Administration	2022		
	Status of Recommendations	Information Security	2020	10	<div><div>9</div><div>1</div></div>
		Endowment Management	2021	3	<div><div>3</div></div>
San Bernardino	Audits Currently in Progress	Information Security	2022		
	Status of Recommendations	Centers and Institutes	2021	5	<div><div>5</div></div>
		Human Resources	2021	13	<div><div>13</div></div>
San Diego	Audits Currently in Progress	Student Organizations	2022		
	Status of Recommendations	Information Security	2020	9	<div><div>7</div><div>2</div></div>
		Student Fee Administration	2021	2	<div><div>2</div></div>
	No Reportable Recommendations	Admissions	2021	n/a	
San Francisco	Audits Currently in Progress	Construction Management	2022		
	Status of Recommendations	Associated Students, Inc.	2021	8	<div><div>8</div></div>
		Decentralized Computing	2021	6	<div><div>6</div></div>
San Jose	Audits Currently in Progress	Vendor Administration and Payments	2022		
	Status of Recommendations	Counseling and Psychological Services	2021	3	<div><div>3</div></div>
		Decentralized Computing	2021	9	<div><div>9</div></div>
		Student Health Services	2021	6	<div><div>4</div><div>2</div></div>
San Luis Obispo	Status of Recommendations	Information Security	2020	12	<div><div>11</div><div>1</div></div>
		Endowment Management	2021	1	<div><div>1</div></div>
San Marcos	Status of Recommendations	Corporation	2021	1	<div><div>1</div></div>
		Faculty Assigned Time and Additional Employment	2021	3	<div><div>3</div></div>
Sonoma	Audits Currently in Progress	Academic Department Fiscal Review	2022		
	Status of Recommendations	Information Security	2021	16	<div><div>16</div></div>
Stanislaus	Status of Recommendations	Construction Management	2021	5	<div><div>5</div></div>
		Police Services	2021	4	<div><div>4</div></div>

*Status
Closed (green) - Recommendations have been satisfactorily implemented
Open (blue) - Implementation of recommendations is in progress and within the agreed upon timeframe
Exceeds Agreed Upon Timeframe (red) - Recommendations have not been implemented within the agreed upon timeframe

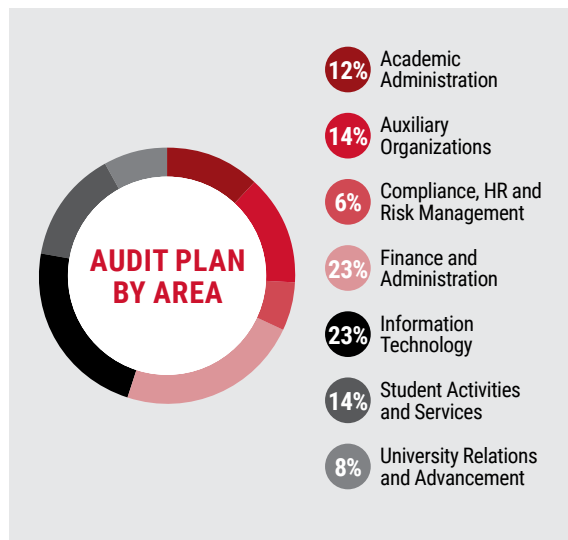
Report as of August 23, 2022

AUDIT HIGHLIGHTS

2021-22 ASSURANCE AUDITS



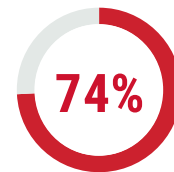
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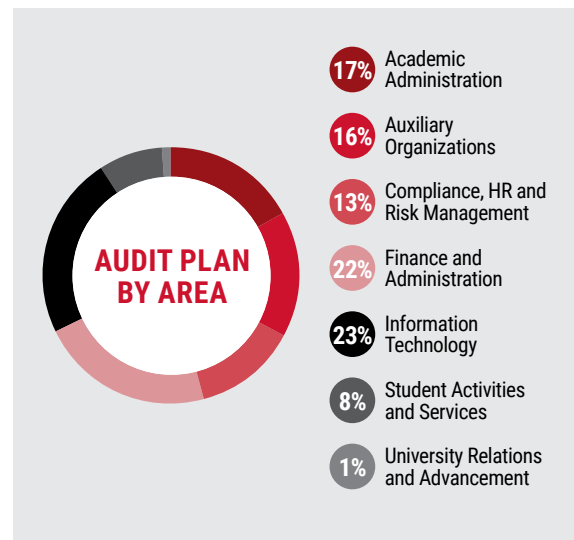
2022-23 ASSURANCE AUDITS



IN-PROGRESS



PLANNED



2021-22 RECOMMENDATIONS

49
AUDITS

237
TOTAL RECS

72
CLOSED

DATA ANALYTICS



CREATED CUSTOM ANALYTICS
DASHBOARD FOR CONCUR
TRAVEL SYSTEM.

KEY MILESTONES



COMPLETED
2021-22 AUDIT PLAN



WRAPPING UP FIRST
SET OF 2022-23
AUDITS



HOSTING 6TH ANNUAL
AUDIT LIAISON
ROUNDTABLE