

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:15 a.m., Wednesday, March 26, 2014
Glenn S. Dumke Auditorium

Lupe C. Garcia, Chair
Steven M. Glazer, Vice Chair
Rebecca D. Eisen
Hugo N. Morales

Consent Items

Approval of Minutes of Meeting of January 29, 2014

Discussion Items

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
2. Status Report on Corrective Action for the Findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the Fiscal Year Ended June 30, 2013, *Information*
3. Report on Compliance with National Collegiate Athletic Association Requirements for Reporting Financial Data, *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 29, 2014

Members Present

Lupe C. Garcia, Chair
Steven M. Glazer, Vice Chair
Rebecca D. Eisen
William Hauck
Bob Linscheid, Chair of the Board
Hugo N. Morales
Timothy P. White, Chancellor

Chair Garcia called the meeting to order.

Approval of Minutes

The minutes of the meeting of November 5, 2013, were approved as submitted.

Audit Committee Charter

Mr. Larry Mandel, university auditor, presented the amended Audit Committee Charter to the committee for approval, including clarification on certain items as discussed at the November meeting. He stated that the first substantive change included under the heading of Composition and Meetings pertains to a requirement that one member of the committee must have accounting or financial expertise. He reminded the trustees that at the last meeting, the difference between “must” and “should” and other variations were discussed pertaining to the requirement of accounting or financial expertise. He indicated that after subsequent discussion with both the chair and vice chair of the audit committee, the language (which is also used in the University of California’s Audit Committee Charter), was amended as follows: Members will have access to financial expertise, either collectively among committee members or from a financial expert appointed to advise them.

Mr. Mandel stated that the next substantive change included under the heading of Responsibility and Authority separates item 7 into three parts. Item 7 now pertains to organizational structure, adequacy of staffing, and budget of the internal audit function. Item 8 requires an evaluation of the university auditor not less than once every three years, and at its discretion, the committee may retain outside consultants to assist with the review. Item 9 states that the audit committee

can make recommendations to the Board of Trustees for the appointment, dismissal, and compensation of the university auditor.

Trustee Eisen asked why the wording “of Procedure” was stricken from the charter under the heading of Responsibility and Authority.

Mr. Andrew Jones, associate vice chancellor and deputy general counsel, responded that the previous Audit Committee Charter had incorrectly referred to the title of the document as Rules of Procedures Governing the Board of Trustees. Therefore, the change was made to conform to the correct title of the document, which is *Rules Governing the Board of Trustees*.

Chair Garcia called for a motion to approve the committee resolution (RAUD 01-14-01). A motion was then made, and the resolution was passed unanimously to approve the Audit Committee Charter, as amended.

Office of the University Auditor Charter

Mr. Mandel presented the amended Office of the University Auditor Charter to the committee for approval, including changes on certain items as discussed at the November meeting. He stated that the most significant change to the charter recognizes the addition of advisory services to the audit function, and as such, the name of the office would now change to the Office of Audit and Advisory Services to recognize this addition.

Mr. Mandel explained that all state agencies within the State of California with an internal audit function are required to follow the principles and guidelines set forth by *The Institute of Internal Auditors*. He stated that most of the changes on the first six pages of the charter relate to the updates in the guidelines and internal practices that are no longer required, as well as the name change for the office. In addition, he noted that under the heading of Audit Reporting, Follow-Up Procedures, and Program Accountability, a statement refers to a requirement for an external assessment of the audit function once every five years; a sentence was added to indicate that the independent review or review team must be approved by the chair of the Committee on Audit.

Mr. Mandel stated that additional substantive changes were made to parallel the changes made to the Audit Committee Charter, as follows: (1) The Board of Trustees, upon recommendation by the Committee on Audit and input from the chancellor, appoints, dismisses, and sets the compensation for the position of university auditor; (2) The Board of Trustees with input from the Committee on Audit and the chancellor, evaluates the university auditor not less than once every three years; and (3) An independent consultant may be appointed by the Committee on Audit to help with the evaluation.

Trustee Hauck asked if the appointment of the university auditor is by the chair of the audit committee.

Mr. Mandel responded that the appointment of the university auditor is by the chair of the board.

Trustee Hauck asked if the appointment of the university auditor by the chair of the board is standard practice in the auditing world.

Mr. Mandel responded affirmatively that it is standard practice.

Trustee Hauck proposed that there should be a process whereby the chair of the audit committee notifies the other audit committee members of the decision for an appointment of a university auditor as soon as possible so that any objections can be voiced and included in that decision.

Chair Garcia acknowledged Trustee Hauck's comment.

Chair Garcia called for a motion to approve the committee resolution (RAUD 01-14-02). A motion was then made, and the resolution was passed unanimously to approve the Office of Audit and Advisory Services Charter, as amended.

Status Report on Current and Follow-Up Internal Audit Assignments

Mr. Mandel presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 3 of the January 28-29, 2014, Board of Trustees agenda.

Mr. Mandel 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. He reported that the campuses have made excellent progress in the closing of these recommendations in a reasonable time period. He stated that there are a few recommendations that have been outstanding for a number of months, but noted that audit staff has been working with the campuses to get these resolved before the next board meeting. In addition, Mr. Mandel indicated that all of the 2013 audit assignments would be completed in the next couple of weeks prior to embarking on the audit plan for 2014.

Chair Garcia shared her concern regarding the long-outstanding recommendations still not addressed by the campuses. She understands and appreciates that the campuses are being diligent and are moving forward in completing the recommendations but would prefer to see the recommendations completed within six months. She then asked for any feedback as to the reasons for the delays.

Mr. Mandel responded that it is preferable to have at least half of the recommendations completed within a six-month period and then the remainder within a nine-month period. He stated that sometimes campuses exceed this time period due to various reasons, such as the lack of available funds. He added that one finding involved data center operations in which the closing of the recommendation was held up for a long period of time due to collective bargaining issues.

Trustee Garcia indicated her understanding of the number of factors that can contribute to the delay in completing the recommendations but noted the importance of continuing to stay on top of the progress in these areas. Although she appreciates the effort and hard work required for

this task, she enlisted the support of the campus presidents to ensure that the completion of these recommendations is made a priority.

Mr. Mandel then provided an update to the status report stating that supporting documentation was received late yesterday to close four of the seven recommendations pertaining to International Programs at Humboldt State University.

Assignment of Functions to Be Reviewed by the Office of the University Auditor for Calendar Year 2014

Mr. Mandel stated that each year at the January meeting of the Board of Trustees, the Committee on Audit reviews the audit assignments for the Office of the University Auditor (OUA) and approves the audit plan for the year. He noted that each year, the OUA performs a risk assessment of the California State University (CSU) to determine the areas of highest risk to the system. The results of that risk assessment indicated the following highest-risk areas for review in 2014: Information Security and ADA Web Accessibility.

Mr. Mandel then explained that audits are also periodically performed of high-profile areas; for this year, those include Continuing Education, Sponsored Programs – Post Award, and Executive Travel. He stated that Continuing Education was selected because it was recently audited by the California State Auditor (CSA). The CSA's report noted recommendations indicating that the CSU internal audit staff should perform audits at various campuses based on certain criteria that were included in the report. He further stated that several years ago, the National Science Foundation requested the OUA to perform periodic reviews of sponsored programs. Executive Travel was selected because this subject area has never been audited.

Mr. Mandel stated that an audit will also be performed of a core financial area, Lottery Funds.

Mr. Mandel noted that Conflict of Interest was scheduled on the 2013 audit plan. However, due to resource constraints, Conflict of Interest was postponed with the understanding that it would appear on the 2014 audit plan.

Mr. Mandel indicated that along with these other subject areas, auxiliary organizations and construction audits would continue to be included in the audit plan, along with any requested special investigations. He explained that auxiliary organizations audits are conducted at each campus on a three-year cycle for the approximately 94 auxiliary organizations; this year's audit plan includes approximately 30 auxiliaries at eight different campuses.

Mr. Mandel reminded the Trustees that he introduced a new function in 2013 that the OUA is offering to all campuses, called advisory services. He stated that advisory services has been met with good reception within the system and would like to increase efforts in that area by about 50 percent in order to essentially prevent risk, rather than conducting audits to detect problems after-the-fact; approximately 20 percent of the audit plan would be dedicated to advisory services this year.

Trustee Eisen asked for further explanation of the assessment in determining the total number of staff weeks of effort, especially pertaining to the auxiliary organizations, as that subject seems to take up the bulk of the audit plan and highest amount of time.

Mr. Mandel explained that the OUA started auditing auxiliary organizations in late 1998 at the direction of the board. He indicated that at that point, five positions were added to the audit staff; subsequent to that, one more position was added so that a total of six positions could be dedicated just to doing reviews of auxiliaries, as there are approximately 94 auxiliaries in the system. He stated that at that time, the auxiliaries were perceived as the biggest risk to the system, and auxiliary organizations audits continue to be conducted at each campus on a triennial basis.

Trustee Eisen asked for further clarification as she thought based on this report that Information Security and ADA Web Accessibility were considered the highest-risk areas.

Mr. Mandel explained that the annual risk assessment does not include the auxiliaries because they are always audited each year.

Trustee Eisen inquired as to the number of person weeks that would be devoted to auditing Information Security and ADA Web Accessibility issues.

Mr. Mandel responded that 50 staff weeks of audit effort would be devoted to each of the Information Security and ADA Web Accessibility audits.

Trustee Eisen asked whether an assessment is conducted at the end of the year to determine how the time was actually expended and how close the assessment came to the initial estimates.

Mr. Mandel responded that assessments had been performed for several years but were not proven very valuable. He stated that the estimates presented in the audit plan are usually very reliable when it comes to completing the subject areas by the end of each year.

Trustee Eisen asked for clarification as to whether the reason there is so much energy devoted to auditing the auxiliary organizations is because of a direction from the board that was received a couple of years ago.

Mr. Mandel responded that direction from the board was received a number of years ago but added that the auxiliaries represent a big piece of the system.

Trustee Eisen asked whether direction from the board would be required to devote more resources to some other areas considered to be more important.

Mr. Mandel responded that if necessary, he would present the board with an explanation for a varied audit plan at a scheduled meeting and request approval to proceed with that particular audit plan.

Trustee Hauck asked if there was a reason for auditing Executive Travel.

Mr. Mandel responded that Executive Travel is considered a high-profile area; these types of audits are periodically performed in order to ensure the board that appropriate policies and procedures are in place to mitigate risk to the system. He added that there is no specific situation that happened to influence the decision to audit Executive Travel. He stated that since this subject had never been audited during his long tenure, it seemed a logical area to audit.

Chair Garcia added that in terms of audit, it is definitely a best practice to review travel and expense, definitely for executives and top management in an organization.

Trustee Glazer asked whether the CSU Chancellor's Office would be included in the audit of Executive Travel.

Mr. Mandel responded that the CSU Chancellor's Office would be included in the audit of Executive Travel.

Chair Garcia called for a motion to approve the committee resolution (RAUD 01-14-03). A motion was then made, and the resolution was passed unanimously to approve the audit plan for calendar year 2014.

Report on the Systemwide Audit in Accordance with Generally Accepted Accounting Principles Including the Report to Management and Report on Single Audit Reports of Federal Funds

Mr. George V. Ashkar, assistant vice chancellor/controller, introduced Mr. Mark Thomas, the national client leader for the higher education practice for KPMG.

Mr. Thomas noted the three topics that would be discussed: Context for the Audits Performed at the CSU; Discussion of the Audit Results; and Required Communications between the Auditor and the Committee on Audit.

Mr. Thomas stated that the CSU audit is a significant effort, and it is important to understand the context of the external audits that are performed annually. He stated that there are 91 financial statement audits that are performed of the auxiliary organizations each year, i.e., Foundations, Associated Students, Student Unions, etc. The auxiliary organizations that receive federal funds are also subject to single audits, and there are 22 of those single audits performed for the auxiliary organizations. He offered an interesting note that the CSU has more than 20 audit firms within the State of California that are involved in approximately 113 audits of the auxiliary organizations each year. In addition to that, there is the CSU systemwide financial statement audit, which represents a culmination of all of the audits that are performed in the CSU system. He added that there are also various segments of the CSU that are required to be audited for different reasons, i.e, the Systemwide Revenue Bonds, CSU Risk Management Authority, Stockton Center Site Authority, CSU Institute, and the Systemwide Single Audit. In all, there are 119 financial statement and single audits performed annually at the CSU system. He pointed

out that he knows of no peer institute that has even half of that number of external financial statement and single audits performed annually, including the University of California. In addition, 19 of the campuses are also subjected to National Collegiate Athletic Association (NCAA) requirements for participation in the NCAA.

Mr. Thomas reported that unmodified (i.e., clean) opinions were issued for each of the financial statements of the following entities: CSU Systemwide Financial Statements; CSU Systemwide Revenue Bonds; CSU Risk Management Authority; Stockton Center Site Authority; and CSU Institute. He stated that there were no audit findings related to the CSU Systemwide Financial Statements; however, there were audit findings related to some of the separately issued financial statements of the auxiliary organizations.

Mr. Thomas then explained that a single audit is required by the federal government to test controls and compliance relating to federal funds expended. He reported that for fiscal year (FY) 2012-2013, the CSU system expended \$2.45 billion in federal funds; \$2.39 billion of which was for student financial aid. He reported that KPMG issued an overall unmodified (i.e., clean) opinion on compliance. He stated that there was one finding relating to internal control over the return of Title IV funds at three campuses. Mr. Thomas noted that the rules relating to student financial aid are very complex, and he would put them up against the tax code any day of the week. So to put it into context, he stated that this one finding does not surprise him given the complexity of the system. He added that management has already begun the process in resolving the finding.

Mr. Thomas then briefly explained the communications that are required by generally accepted auditing standards (GAAS) and best practices at the completion of the overall audits of the system.

Chair Garcia stated her appreciation for the additional detail that was provided pertaining to the financial statement and single audits process. She stated her belief that it is especially helpful for the new committee members so that they may have a clearer understanding of the engagement with our external auditors and the processes involved in order to provide the confidence and assurance of the operation.

Trustee Morales asked Mr. Thomas to describe the year-long financial statement process and how KPMG interacts with the CSU staff.

Mr. Thomas stated that it is a very complex and intense process with the coordination of approximately 130 audits; it is a massive undertaking to then bring it all together. He explained that the planning process starts in February for the June 30 audit and continues until the issuance of the audit report in time for the State Controller's Office (SCO) deadline of November 15.

Mr. Ashkar added that very intense planning meetings start early in the year that involve the CSU Chancellor's Office, campuses, and KPMG. He stated that a very detailed schedule is laid out in order to meet all of the state deadlines not only for the legal close, which is June 30, but also for the SCO for governmental and non-governmental funds for all the legal reporting. He

further stated that our generally accepted accounting principles (GAAP) process starts and goes through the summer, and the external auditors arrive at the campuses and the CSU Chancellor's Office in late August and early September. He added that it is a fairly long process in meeting the financial requirement date of October 15, not only for the financial statements but also for A-133.

Trustee Fortune asked whether Mr. Thomas's statement that 119 audits are performed annually at the CSU system and that no peer institute (including the University of California) has even half of that number of audits was meant to convey that it was excessive or that we should rest well at night.

Mr. Thomas responded that his original attempt was to rest well at night. He stated that the CSU system has a very unique structure having 90 plus auxiliary organizations. He further stated that laid out many years ago in the Education Code was a requirement for each of those auxiliary organizations to have a separate stand-alone financial statement audit and that still holds true today. He added that there is a significant amount of accountability throughout the system.

Mr. Ashkar added that the CSU system has a sophisticated reporting package process that consolidates all of those auxiliaries with the campus financials and rolls them up to the CSU Chancellor's Office. He stated that the reporting package was developed about seven years ago and is reviewed on a continuing basis as the numbers come in, by KPMG as well as CSU Chancellor's Office accounting staff. It is a continuing process of review and refinement.

Trustee Morales asked Mr. Thomas to describe the KPMG organization and how the teams are organized to perform the CSU audits.

Mr. Thomas responded that it is a significant amount of work to be done in a short period of time; therefore, he has four additional partners throughout the State of California who take on segments of the work with him; and there are teams throughout the State of California as well that address each of the campuses simultaneously. During the heat of the audit, there are approximately 100 auditors throughout the state, performing everything from the financial statements audits to compliance work at the various campuses. Mr. Thomas added that it is a complex team that rolls up and he ultimately signs over the top of all of the other partners.

Trustee Glazer stated that there has been a lot of discussion and concern in many quarters about the issue of pension obligations and post-retirement healthcare obligations, as well as the importance of transparency in all of our institutions and in understanding what those issues are and how they may be changing for the better or for the worse. He commented that he found it difficult looking through the provided materials in trying to clearly see those issues and how they are presented and whether we are providing the level of transparency that is necessary. Trustee Glazer then asked for the location of this information in both the Management Discussion and in the financial statements. He also stated that he would be interested in knowing how those have changed and are these becoming more significant problems or are things getting better.

Mr. Thomas responded that it is the hot topic of accounting pronouncements even as it stands right now, and we are moving more in that direction as of the June 30, 2015, audit. The CSU will actually have additional requirements to book the unfunded portion of the liability related to retirement in the financial statements. Today, it is not booked under the Governmental Accounting Standards Board (GASB) pronouncements. He explained that the reason this change is still two years away is because the first year requirement is for PERS to actually come up with those numbers and then disclose them in the June 30, 2014, audit. Then ultimately the CSU would have the requirement for those numbers to be booked to the financial statements for the June 30, 2015, audit. As of today, it is not known specifically what would be allocated to the CSU system; that is part of the huge challenge of the PERS system to actually pull those numbers entity by entity and being able to allocate those to the agencies.

Trustee Glazer stated that for most cities in California that have these obligations, PERS has already provided that information to those entities. He asked Mr. Thomas for clarification as to whether we have not requested this information or whether PERS cannot provide what those obligations are at this current time.

Mr. Thomas explained that there are differences for the cities and for an organization that is part of the general fund of the State of California. As of today, this information is not available for the CSU.

Trustee Hauck shared his concerns and asked when those numbers become public, what impact is that going to have on the ability of the system to finance a whole range of projects in terms of the credit rating and our ability to function as an organization.

Mr. Thomas responded that the impact of this could be very, very significant, and there is a lot of work happening today to try to get to those numbers. He added that the compensating news is that there will be other entities as well that are suffering the same woes as the CSU in respect to the financial statements. He stated that the real answer is that it is not known how the information will be responded to by the rating agencies and by the debt markets overall. He stated his belief that the soonest this information would be available to the CSU would be very close to the June 30, 2015, audit.

Trustee Glazer commented that the CSU needs to be as transparent and clear about these issues as possible. He suggested that maybe next year we could do a better job in the Management Discussion of owning up to these potential risks and impacts because they seem to be very significant to the CSU.

Mr. Ashkar then presented a brief summary of the financial statements for the CSU system for FY ending June 30, 2013.

Mr. Ashkar reported that total revenues for FY 2012-2013 were \$6.4 billion. The two largest sources of revenue are state appropriations (\$2.08 billion) and student tuition and fees (\$2.08 billion), combined for \$4.2 billion or 65 percent of total revenues. In addition, he reported that there were increases of 22.9 percent in grants, contracts, and gifts; 6.9 percent in sales and

services, which includes housing, parking, athletics, food services, and educational activities; and 4.8 percent in other sources such as investment income. Mr. Ashkar stated that overall revenues increased by \$210 million, or 3 percent, in year-over-year comparison. The major factors include an increase in state appropriation non-capital of \$72 million, mostly to cover higher retirement benefit costs; an increase in state appropriations of \$10 million for capital projects; an increase of student tuition and fees of \$16 million due to enrollment growth; an increase in grants, contracts and gifts revenues of \$79 million, primarily due to a \$43 million increase in eligible students or California grant programs; and a net increase of \$33 million in other categories, such as sales and services and investment categories.

Mr. Ashkar reported that total operating expenses for FY 2012-2013 were \$6.4 billion, of which \$6.2 billion was operating expenses and \$244 million was non-operating expenses. He noted that instruction and other educational support activity account for approximately 70 percent of the total operating expenses. Other contributing factors were instruction support (10.3 percent); operations and maintenance of plant (8.5 percent), auxiliary enterprises expenses (4.5 percent); and depreciation and amortization (7 percent). Mr. Ashkar stated that total expenses increased by \$199 million, or 3 percent, in year-over-year comparison; operating expenses increased by \$168 million; and non-operating expenses increased by \$31 million due to new revenue bonds. The major factors in operating expenses included the increase in employees' and retirees' benefit costs, as well as an increase in insurance premiums. Mr. Ashkar then provided an overview of operating expenses by program (FY2013 vs. FY2012) indicating there was an increase of \$36 million in instruction expenses; \$46 million for other educational support; \$28 million for institutional support; \$16 million for auxiliary enterprises; \$20 million for operation and maintenance, and \$22 million for depreciation and maintenance.

Trustee Hauck inquired as to the new bonds.

Mr. Ashkar responded that he was referring to the issuance of the systemwide revenue bonds. He indicated that for FY 2012-2013, there was about \$453 million in revenue bonds, and that increase was related to that interest expense.

Mr. Ashkar reported that actual state general fund appropriation (non-capital) received was \$2.06 billion, which was the same as the budgeted general fund appropriation in the State Budget Act for FY2013. He stated that the actual student tuition and fees was \$2.08 billion partly due to the passage of Proposition 30, which resulted in a tuition fee rollback to the levels in effect for the 2011-12 academic year. He added that total revenue refund, either by refund checks or credit for the following semester, for the 2012-2013 academic year was \$126 million; and the revenue refund will be recovered through the FY2014 state appropriation in the amount of \$125 million.

Mr. Ashkar stated that a progress report on the status of the corrective action plans for the one finding related to internal control over the return of Title IV funds at three campuses will be presented to the board at the March meeting. He further stated that the CSU Chancellor's Office is also following up on the auxiliary organizations' audit findings to ensure appropriate corrective actions are taken and will also provide a status report at the March meeting. In

addition, he indicated that he would also report on the 19 NCAA Agreed-Upon Procedures at that time.

Trustee Glazer stated that it was his understanding that there are no new findings in this audit.

Mr. Ashkar responded that there were no findings relating to the systemwide financial statements. He stated that there were audit findings relating to some of the separately issued financial statements of the auxiliary organizations. He added that there was one finding in the Single Audit Reports relating to internal control over the return of Title IV funds at three campuses.

Trustee Glazer asked if there were any findings from the previous years that have not been cleared.

Mr. Ashkar responded that all findings from the previous years have been cleared and recalled that the status was reported at the March 2013 board meeting.

Trustee Glazer asked if there were any auxiliary findings that have not been cleared and whether there is a process for reviewing and clearing those items.

Mr. Ashkar responded that there are no auxiliary findings pending from any previous years and that there is a process for clearing current findings.

Trustee Glazer thanked Mr. Ashkar for his careful stewardship of these matters.

Mr. Mandel referred to the Summary of External Audit Compliance that shows all of the reviews (both for the system and for all of the auxiliaries) that KPMG rolls up into the systemwide financial statements.

Mr. Mandel explained that the OUA has verified that KPMG and the other auxiliary organization auditors have completed their reviews of the 119 entities, as required. He further explained that the OUA works closely with the CSU Chancellor's Office to review and approve the supporting documentation to close any outstanding findings noted in these reviews. Mr. Mandel reported that the findings have been cleared for most of the significant deficiencies within the auxiliaries, with only one remaining. He added that the one material weakness has been cleared as well.

Mr. Ashkar added that the CSU Chancellor's Office, in conjunction with the OUA, reviews the plans to ensure appropriate corrective action is taken on the reported findings. He added that follow-up is provided to the campuses from implementation to completion to ensure there is proper training, etc.

Trustee Garcia thanked Mr. Mandel, Mr. Ashkar, and Mr. Thomas for their diligence in all of these very important matters and for the information shared at this meeting.

The meeting adjourned.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

Larry Mandel
Vice Chancellor and Chief Audit Officer

Summary

This item includes both a status report on the 2014 audit plan and follow-up on past assignments. For the 2014 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Accessible Technology, and Conflict of Interest), high profile areas (Sponsored Programs – Post Awards, Continuing Education, and Executive Travel), core financial area (Lottery Funds), and Construction. In addition, follow-up on current/past assignments (Special Investigations, Auxiliary Organizations, Data Center Operations, Facilities Management, Identity Management, Police Services, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, and Student Health Services) was being conducted on approximately 25 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 273 staff weeks of activity (26.6 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Five campus/19 auxiliary reviews have been completed. Report writing is being completed for one campus/five auxiliaries, and fieldwork is being conducted at one campus/three auxiliaries.

High-Risk Areas

Information Security

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 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. Six campuses will be reviewed.

Accessible Technology

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of compliance with laws and regulations specific to the Americans with Disabilities Act of 1990 as it applies to accessible technology requirements and program access. Six campuses will be reviewed.

Conflict of Interest

The initial audit plan indicated that approximately 53 staff weeks of activity (5.1 percent of the plan) would be devoted to a review of the process for identification of designated positions; monitoring, tracking, and review of disclosures relating to conflicts of interest, such as research disclosures; faculty and CSU designated officials reporting; employee/vendor relationships; ethics training; and patent and technology transfer. Six campuses will be reviewed. Report writing is being completed for three campuses, and fieldwork is being conducted at two campuses.

High Profile Areas

Sponsored Programs – Post Awards

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of contract/grant budgeting and financial planning; indirect cost administration including cost allocation; cost sharing/matching and transfer processes; effort-reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems. Six campuses will be reviewed.

Continuing Education

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of the processes for administration of continuing education and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and

reporting of continuing education activity and maintenance of CERF contingency reserves. Six campuses will be reviewed.

Executive Travel

The initial audit plan indicated that approximately 50 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus travel policies and procedures to ensure alignment and compliance with CSU requirements; review of internal campus processes for monitoring, reviewing, and approving travel expense claims; and examination of senior management travel and travel expense claims for proper approvals and compliance with campus and CSU travel policy. Six campuses will be reviewed.

Core Financial Area

Lottery Funds

The initial audit plan indicated that approximately 51 staff weeks of activity (4.9 percent of the plan) would be devoted to a review of campus lottery fund allocation and expenditure policies and procedures to ensure compliance with CSU and state requirements; review of internal campus processes for monitoring, reviewing, and approving campus discretionary allocations to specific programs; and examination of specific programs receiving lottery funding to confirm the expenditures are in conformance with state and CSU restrictions. Six campuses will be reviewed. Report writing is being completed for two campuses, and fieldwork is being conducted at two campuses.

Construction

The initial audit plan indicated that approximately 39 staff weeks of activity (3.8 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. Five projects will be reviewed. Report writing is being completed for one campus.

Advisory Services

The initial audit plan indicated that approximately 209 staff weeks of activity (20.3 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.

Information Systems

The initial audit plan indicated that approximately 13 staff weeks of activity (1.3 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training 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 perform special audit requests made by the chancellor. Twenty-nine staff weeks have been set aside for this purpose, representing approximately 2.8 percent of the audit plan.

Follow-ups

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 25 current/past assignments (Special Investigations, Auxiliary Organizations, Data Center Operations, Facilities Management, Identity Management, Police Services, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, and Student Health Services) 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. Five staff weeks have been set aside for this purpose, representing approximately 0.5 percent of the audit plan.

Administration

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.1 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments
 (as of 3/6/2014)

2014 ASSIGNMENTS												FOLLOW-UP PAST/CURRENT ASSIGNMENTS					
Aux Orgs	Conflict of Interest	Lottery Funds	Access Tech	Exec Travel	Spon Prog-Post	Info Security	Cont Educ	Special Investigations	Auxiliary Organizations	Data Center Operations	Facilities Management	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK		FW							4	16/16	-					5/5	-
CHI	FW							8/8	4	25/25	-	2/2	-				
CI									3	15/15	-	7/7	-			4/4	-
DH									3	19/19	-	4/4	-				
EB		RW							3			6/6	-				
FRE	RW								6	25/25	-						
FUL	FW								4	28/28	-						
HUM		FW							4	25/25	-						
LB									3	27/27	-	8/8	-				
LA									4	18/18	-						
MA									2	4/4	-					6/6	-
MB		RW							3	16/16	-						
NOR									5	22/22	-						
POM									2	11/11	-	8/8	-			4/4	-
SAC	RW								5							4/4	-
SB									4	28/28	-						
SD			RW						4	24/24	-						
SF									5	19/19	-						
SJ									5	26/26	-					4/4	-
SLO									3	12/12	-						
SM									4	22/22	-						
SON		RW							3	5/5	-						
STA									4	14/14	-						
CO									2	0/0	-						
SYS												7/8	11		0/2	13	

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

FW = Field Work In Progress
 RW = Report Writing in Progress
 AI = Audit Incomplete (awaiting formal exit conference and/or campus response)
 AC = Audit Complete

Status Report on Current and Follow-Up Internal Audit Assignments
 (as of 3/6/2014)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS												
	Identity Mgmt/ Comm Access *Recs **Mo.	Police Services *Recs **Mo.	International Programs *Recs **Mo.	Credit Cards *Recs **Mo.	Sen. Data Sec./Protect. *Recs **Mo.	Centers and Institutes *Recs **Mo.	Hazardous Mat. Mgmt. *Recs **Mo.	Sponsored Programs *Recs **Mo.	Student Health Svcs. *Recs **Mo.			
BAK				5/6	9		2/7	5				
CHI			3/6					6/6	-			
CI					8/8		4/5	7				
DH		7/7			4/9		0/4	3				
EB		12/12		6/6	-	8/8	-					
FRE		6/6		4/4	-							
FUL			4/4					0/10	4			
HUM	1/1		5/7									
LB			7/8		2/6							
LA			4/4			2/4	5					
MA												
MB	1/1											
NOR			8/8	4/4	-	4/5	5					
POM	3/3						4/10	3				
SAC			4/5									
SB			13/13		14/14	3/7	5					
SD	2/2	9/9	1/1							0/14	2	
SF			8/8	4/4	-	0/10	4	8/9	7			
SJ										0/17	3	
SLO		5/5				5/7	9					
SM	0/0					3/7	5					
SON			3/3					6/6	-			
STA			5/5	4/4	-							
CO												
SYS	1/3	9	0/3	11	0/5	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.

• The number of auxiliary organizations reviewed.

COMMITTEE ON AUDIT

Status Report on Corrective Action for the Findings in the California State University A-133 Single Audit Reports and Auxiliary Organization Audit Reports for the Fiscal Year Ended June 30, 2013

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

As presented at the January 2014 California State University Board of Trustees meeting, there was one audit finding in the university's systemwide A-133 Single Audit Reports for the fiscal year ended June 30, 2013. That audit finding 2013-01 was related to internal control over return of Title IV financial aid funds at three campuses. Corrective action has been taken at these campuses to strengthen internal controls to ensure the accuracy of refund/return calculations, the timely review and return of funds, and the maintenance of appropriate documentation, as applicable to the specific campus findings. Based on the Chancellor's Office staff review of the documentary evidence submitted by the campuses, corrective action at all three campuses has been confirmed as completed.

There were seven audit findings involving five auxiliary organizations at five different campuses. Six of the findings were related to preparation of financial statements and one finding was related to administration of Federal awards. Based on the Chancellor's Office staff review of the documentary evidence submitted by the auxiliary organizations, corrective action for all findings is completed. More detailed descriptions of auxiliary organizations' audit findings are below:

- Improper accounting treatment of non-routine transactions
- Segregation of duties conflict for financial reporting and financial compliance administration of sponsored program operations
- Inadequate internal control over administration of Federal awards due to segregation of duties conflict as described in the bullet above
- Improper revenue recognition and recording of grants and pledges receivable
- Errors in financial statements preparation and review
- Improper revenue recognition of related party transactions
- Incorrect amortization of loss on bond refunding

COMMITTEE ON AUDIT

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

Presentation By

George Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

As explained at the January 2014 California State University Board of Trustees meeting, colleges and universities with intercollegiate athletic programs as members of the National Collegiate Athletic Association (NCAA) are subject to the NCAA's financial agreed-upon procedures (AUP) reporting requirements. Division I schools are subject to agreed-upon verification procedures of financial data related to athletic programs conducted by a qualified independent accountant annually and required to submit the financial data to the NCAA annually. Division II schools are subject to agreed-upon verification procedures of financial data related to athletic programs conducted by a qualified independent accountant at least once every three years, but should submit the financial data to the NCAA annually.

Of the twenty-three CSU campuses, nine campuses are in Division I, eleven campuses are in Division II, and three campuses do not have athletic programs with the NCAA. Eight of the nine campuses in Division I issued the AUP report for the fiscal year ended June 30, 2013. One campus in Division I elected to substitute its Athletic Corporation's audited financial statements for the university's AUP report, which is an acceptable procedure to the NCAA with additional verification from the auditing firm. Seven of the eleven campuses in Division II issued the AUP report for the year ended June 30, 2013. Four of the eleven campuses in Division II were not required to issue the AUP report for the year ended June 30, 2013 due to the three year cycle. Based on our review of the submitted reports, all campuses are in compliance with the NCAA reporting requirements.