

AGENDA

COMMITTEE ON AUDIT

Meeting: 4:05 p.m., Tuesday, March 24, 2015
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of January 27, 2015

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 Single Audit Reports of Federal Funds for the Fiscal Year Ended June 30, 2014, *Information*
3. Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting, *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 27, 2015

Members Present

Lupe C. Garcia, Chair
Adam Day, Vice Chair
Rebecca D. Eisen
Steven M. Glazer
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Chair Garcia called the meeting to order.

Approval of Minutes

The minutes of the meeting of November 12, 2014, were approved as submitted.

Assignment of Functions to Be Reviewed by the Office of Audit and Advisory Services for Calendar Year 2015

Ms. Janice Mirza, senior director of the Office of Audit and Advisory Services, presented the agenda item on behalf of Larry Mandel, vice chancellor and chief audit officer. She 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 Audit and Advisory Services and approves the audit plan for the year. She added that the audit plan is also discussed with the chair of the Committee on Audit. Ms. Mirza stated that the Office of Audit and Advisory Services performs an annual risk assessment to determine the high-risk areas to the system. In addition, as reported at the November 2014 meeting of the Board of Trustees, incremental changes have been made to the risk assessment model for 2015. A separate information technology audit risk assessment was performed for the first time; and a fraud survey was also conducted for the first time. The results of those risk assessments were used to determine the high-risk areas for review in 2015.

Ms. Mirza reported that the following areas have been included in the 2015 audit plan: Information Security; the Clery Act; Scholarships; Admissions; Student Activities; Payment Card Industry Data Security Standards Compliance; Information Technology Procurement, and Cloud Computing. She explained that high-profile areas are areas that are not identified through the risk assessment process but have attracted attention or publicity. The high-profile area

included in the audit plan is College Department Reviews. She added that this was selected because of a recent high-publicity incident that resulted in a special audit, a concern over faculty release time noted in a special investigation in 2013, as well as concerns noted by several campuses in the fraud survey related to college department administrative and financial controls.

Ms. Mirza stated that a core financial area was not identified for the audit plan, as a major focus of review for the aforementioned high-profile area will be financial controls.

Ms. Mirza 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. She explained that auxiliary organizations audits are conducted at each campus on a three-year cycle; this year's audit plan includes approximately 30 auxiliaries at eight different campuses.

Ms. Mirza reminded the Trustees that advisory services was introduced as a new function in 2013 and added that it continues to be well received within the system. She explained that its goal is to essentially prevent risk, rather than conducting audits to detect problems after the fact. Approximately 20 percent of the audit plan is dedicated to advisory services.

Ms. Mirza stated that the remainder of the audit plan includes staff time for committees and special projects, technology support, follow-up on prior audit recommendations, risk assessment, and day-to-day administration of the office.

Trustee Glazer stated that he had the opportunity to talk with staff prior to this meeting about the subjects chosen for the audit plan. He asked Chair Garcia for her acknowledgement of his understanding that as chair of the audit committee, she is consulted on the various options regarding audits and that this audit plan incorporates her advice to the audit team.

Chair Garcia confirmed that this is correct.

Trustee Faigan asked whether there were any significant findings that the Board should be made aware of from the audits that have been conducted.

Ms. Mirza responded that there are no significant findings that come to mind at this particular time. She explained that audit reports are issued for all audits and are posted on the Office of Audit and Advisory Services' website upon completion. In addition, she noted that the audit reports are also made available to the Trustees at the conclusion of a specific audit series.

Chair Garcia added that as chair of the audit committee, she would be notified by the audit team of any significant findings for the opportunity to discuss the next steps and resolutions as part of the conclusion of the audit.

Trustee Faigan requested that the Trustees be provided with a short summary of the most interesting trends noted in the audit reports at each Board meeting.

Ms. Mirza responded that a protocol could be established for presenting this type of information.

Ms. Garcia acknowledged Trustee Faigan's suggestion, noting that a high-level overview of some of the key recommendations could be informative for the Board.

Chair Garcia called for a motion to approve the committee resolution (RAUD 01-15-01). A motion was then made, and the resolution was passed unanimously to approve the audit plan for calendar year 2015.

Status Report on Current and Follow-Up Internal Audit Assignments

Ms. Mirza presented the Status Report on Current and Follow-Up Internal Audit Assignments. She 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. She reported that the campuses and the CSU Chancellor's Office are completing recommendations timely. She added that all of the 2014 planned audits are essentially complete.

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

Mr. George V. Ashkar, assistant vice chancellor/controller, presented a summary of the CSU systemwide financial statements for fiscal year (FY) ended June 30, 2014.

Mr. Ashkar reported that total revenues (operating, non-operating, capital and noncapital) were \$6.82 billion for FY year ended June 30, 2014. The two largest sources of revenue were state appropriations and student tuition and fees. Sales and services included housing, parking, food services, and educational activities and are the auxiliary enterprises operated by the campuses. Mr. Ashkar provided an overview of revenues by source for FY 2013-2014 vs. FY 2012-2013. There was an increase in state appropriation noncapital of \$277.3 million, which consists of \$125 million to restore the university's revenue loss from the FY 2012-2013 tuition fee rollback and another \$125 million increase in noncapital operating budget support. Overall expenses increased proportionately. There was an increase in student enrollment growth of \$42 million (enrollment grew by 11,791 students, or 3.3 percent). There was an increase in grants, contracts, and gift revenues of \$140.7 million. Sales and services as well as investment income were relatively unchanged, with slight differences from FY 2012-2013.

Mr. Ashkar reported that total expenses in FY 2014 were \$6.76 billion, of which \$6.53 billion were operating expenses and \$226.3 million were non-operating expenses, attributable to interest expenses. He noted that the majority of operating expenses are for instruction and educational support activities. Mr. Ashkar then provided an overview of expenses by program for

FY 2013-2014 vs. FY 2012-2013. He stated that total expenses increased by \$308.2 million, or 4.8 percent, in year-over-year comparison; operating expenses increased by \$326.1 million; and non-operating expenses decreased by \$17.92 million due to refunded revenue bonds and savings from refinancing's. Mr. Ashkar indicated there was an increase of \$116.9 million in instruction expenses; \$97.5 million in other educational support; \$45.6 million in institutional support; \$51.7 million in operating and maintenance; and \$26.1 million in auxiliary enterprises. He added that there was a decrease of \$11.72 million for depreciation and amortization.

Trustee Glazer acknowledged the massive amount of work that goes into the financial statements audits and he appreciated the simplistic presentation. He stated that he had two concerns. First, he noted that he did not see an explanation of how both revenues and expenses have gone up in the *Management's Discussion and Analysis* section. He stated that he appreciated that there was an explanation of net capital and net worth of the enterprise, but asked where in the document it indicated how the CSU did at the end of the year with regard to its budget.

Mr. Ashkar responded that in looking at the financial statements, revenues increased about \$277 million, but yet expenses increased about \$308 million, which means some of the reserves were used for operational costs. He stated that actuals to budget could be tracked and reported to the Board at the end of the year.

Trustee Glazer thanked Mr. Ashkar for his explanation and noted that this is likely a finance item rather than an audit item. He stated that it would be helpful to understand how the CSU did relative to its budget. He indicated that in his three years on the board, he did not recall receiving an accounting summary. He stated that if the CSU did dip into reserves, it is important to know how it happened and why.

Mr. Ashkar stated his belief that this information has never been provided to the board, but reassured the Trustees that tracking of actuals to budget is done on a daily basis.

Trustee Achtenberg acknowledged that Trustee Glazer made an excellent point. She stated that to her knowledge, finances have not been tracked in that way but agreed that it is important and should be done. She indicated that it would be important for the Board to know whether dipping into reserves is due to "overspending" in a particular category or whether it is just a timing issue. She added that there is nothing wrong with dipping into reserves as planned, but if it was not anticipated the board, which has responsibility for the finances of the institution, should be informed.

Mr. Ashkar responded that he believes there will be differences between the budget and actual numbers but staff should be able to explain those differences.

Trustee Glazer stated that he appreciated the feedback and that this information would be important to know going forward.

Chair Garcia asked for clarification as to whether this type of report would come to the Board on some periodic basis as part of the audit committee or finance committee. She stated that she believed it would be in the finance committee. Mr. Ashkar agreed.

Trustee Glazer continued with his second issue concerning the financial statements. He noted that on page 48 of the report, there is a review of the system's obligations in the areas of pensions and postretirement healthcare which shows a worrisome trend. He noted that the report reviews the university's pension contribution requirements from 2012 to 2014 and shows that in the last years, there has been an \$82 million increase in the contribution obligations to CalPERS. He further noted that on page 49, the report also indicated a substantial increase in just the last few years in terms of the university's obligation for postretirement healthcare. Trustee Glazer stated that he would like to understand this issue better. He questioned where the \$82 million came from in the budget. He inquired as to whether in the finance committee there should be a more thorough review of these costs and what the Board can expect going forward so that this information can be considered in the budgetary choices that will need to be made.

Mr. Ashkar stated that this would be discussed at the Committee on Finance in the Governmental Accounting Standards Board (GASB) 68 presentation. He noted that there has been a calculation change that will have a major impact on the way the university's financial statements are expressed and will affect every public education or government institution in the nation. He stated that this will be an accounting change in the balance sheet across the country for the FY 2014-2015 financial statements, which the CSU will be reporting on at the end of this fiscal year. Mr. Ashkar stated that this is a concern.

Trustee Glazer appreciated the explanation and understands the GASB requirement, which is a reporting requirement that is being forced upon us to acknowledge the system's liabilities. He agreed that is a good thing, but did not understand what the projections are going forward and how the budget will cover these costs. He stated that the CSU has gone to the legislature and the governor and asked for more funds to cover fixed and inflationary costs, but that he did not know exactly where these amounts show up in the budget. He asked Mr. Relyea for further explanation.

Mr. Steve Relyea, executive vice chancellor and chief financial officer, stated that each of the 23 campuses has their own budget process. He explained that staff tries to anticipate costs for the year and then pass on to the campuses an estimate that campuses need to set aside to cover the increases in various costs. Mr. Relyea further explained that each campus has a chief financial officer and most have budget committees that will consider these costs and other obligations as well as estimate revenues from all sources, when putting together the campus budget.

Chair Garcia asked for clarification on which category this is captured in.

Mr. Relyea responded that he believed it is in the mandatory cost category.

Trustee Eisen asked whether the benefits cost was included in one of the bars on the graph located on the slide entitled, Overview of Operating Expenses by Program – FY 2014 vs. FY 2013.

Mr. Ashkar stated that the benefits costs are included; it includes salary and benefits.

Mr. Relyea added that the cost of instruction, educational support, and institutional support includes the cost of faculty and lectures, including any associated benefits or pension costs.

Trustee Eisen commented that she was surprised to see that other educational support was higher than instruction, but understands that other educational support includes grants and scholarships. She asked what percentage of other educational support is made up of grants and scholarships as opposed to other support services.

Mr. Ashkar stated that on page 15 of the financial statements in the *Management's Discussion and Analysis*, a breakout of those numbers is provided and includes instruction, research, public service, academic support, etc.

Chancellor White observed that there are a couple related, but separate items being discussed. One question being asked is where are these costs in the budget. He stated that the question from Trustee Glazer related to the requirement to include pension costs in GASB reporting did not get answered deeply enough. Essentially, when pension costs are included, not only is there going to be a change in GASB reporting but there is a big change in the number. He suggested using numbers rather than percentages because percentages can be misleading. He added that this information can be cut and parsed in different ways, for example, by function or by cost within functions. Chancellor White stated that a fairly high level report to depict this would be presented at a future finance committee meeting.

Dr. Leroy M. Morishita, president of California State University, East Bay, stated that he thought Trustee Glazer's question was one, where is the money coming from and two, then how is it being spent. He stated that if he understands correctly, dollars for retirement benefits come from the state separate from the university's other budgetary allocations. For example, for the \$119 million that is being proposed for next year, the state looks at the CSU's retirement contribution needs and separately funds those retirement contributions. The state has provided dollars to the CSU to cover those expenses separate from the other allocations that the CSU is constantly fighting for.

Trustee Faigan followed up on Trustee Glazer's initial question asking whether the CSU anticipated dipping into reserves again this year.

Mr. Ashkar responded that at this point in time, the budget seems to be adequate to cover all expenses. However, he did add that sometimes it is necessary just due to timing, but that he did not anticipate that this will occur.

Dr. Elliot Hirshman, president of San Diego State University, added that operationally on the campus, there is a fringe benefits pool; and when personnel are added, the campus makes sure that the pool is adequate.

Mr. Relyea added a comment to Trustee Faigan's question about balances in the future. He stated that campuses are encouraged to keep balances for a variety of purposes as any business would, such as capital projects. In any given year, the CSU could dip into balances because perhaps there is a big delay in time from when a project is authorized to the time the money is actually transferred to the contractor. As a result, it is hard to forecast from year to year because there are so many variables and so much lag time between making a decision on committing those capital reserves for a project or initiative and actually expending them. Mr. Relyea stated that he agrees with Mr. Ashkar that there are no current plans to dip into reserves.

Mr. Ashkar clarified his earlier comment about his belief that he does not anticipate dipping into reserves again this year. He stated that he meant it in the context as it relates to day-to-day activities.

Trustee Eisen asked for further clarification from Dr. Morishita and asked whether he was saying that there is a separate allocation from the state to cover the CalPERS amount that we need to put into the budget.

Dr. Morishita stated his belief that the budget goes up and down according to what the state determines to be the CSU retirement need.

Trustee Eisen asked if the amount the state allocates to the CSU includes the special amount for retirement.

Chancellor White responded that the recurring base stays constant except in recessions but there is a separate pool of money that gets allocated based on what CalPERS experiences, and that is on top of the CSU's recurring base. He stated that in the past, that liability was on the state's list, and now the change in GASB is requiring this amount to be included as an encumbrance on CSU's books. He added that this accounting change will affect other institutions across the nation. He commented that the finance and budget teams have their finger on the pulse, and added that alarms go off if there are indicators of unexpected spending or unexpected loss of revenues in any significant way.

Single Audit Reports of Federal Funds

Mr. Relyea introduced the item noting that the report is an information item to provide an overview of the results of the annual external audit performed by KPMG. He stated that the report will be provided by Mr. Ashkar, followed by remarks from the KPMG audit partner, Mr. Mark Thomas.

Mr. Ashkar stated that every year the CSU system issues a Single Audit Report that includes 23 campuses and the CSU Chancellor's Office. He explained that an entity that expends \$500,000 or more in a year in federal awards is required to issue a single audit report. He noted that federal awards recorded by the campuses, including financial aid and nonfinancial aid programs (for example, research grants), are audited and disclosed in the CSU system's Single Audit Report. In addition, 22 discretely presented component units (i.e., auxiliary organizations and foundations) separately issued their own single audit reports. He indicated that total federal awards received by the CSU system in FY 2013-14 amounted to \$2.44 billion.

Mr. Ashkar reported that there were no audit findings related to the financial statements for the system. In addition, there were no audit findings related to financial aid programs for the first time. There was one audit finding related to nonfinancial aid federal awards at a campus that was a significant deficiency. This significant deficiency was due to the low materiality threshold imposed by federal regulations. Specifically it was determined that the controls in place were ineffective in ensuring compliance with the federal procurement relative to suspension and debarment vendor requirements. He added that this finding is not a case of an award being given to a vendor inappropriately, but rather not having the controls in place for the processes for review.

Mr. Ashkar further reported that for the 92 discretely presented auxiliaries reported in the university's financial statements, there were 16 auxiliaries that had findings that were reported to their independent boards and reviewed by staff in financial services – none were repeat findings. He explained that the auxiliaries are audited by approximately 20 separate independent firms that have met the CSU qualification requirements. He also noted that the auxiliaries are preparing corrective action plans for the CSU Chancellor's Office review by the internal audit department and the internal controls group in financial services. Mr. Ashkar stated that he would provide a progress report on the status of the completion of all of the corrective action plans at the March 2015 Board meeting.

Mr. Ashkar indicated that the external audits conducted were 117 in number, and they were financial as well as single audits as per the list that was provided – they are all CSU audits. He stated that the financial reporting staff has reviewed these external audit reports and the internal audit team verified that copies of all of the audit reports were received. He noted that the list of external audit reports excludes the NCAA required reports; those reports will be discussed at the March 2015 Board meeting.

Chair Garcia asked for acknowledgement from Ms. Mirza as to whether an independent review of the findings noted in the external audit reports was conducted by the internal audit team.

Ms. Mirza responded that the internal audit team verified that all of the external audit reports were received. She stated that the internal audit team will also review all of the corrective action submitted by the campuses to close the findings noted in the external audits.

Mr. Ashkar thanked the campus presidents, their accounting staff, and all of the auxiliary organizations for their great work. He stated that all financial reporting deadlines were met relating to KPMG's schedule and the state controller's mid-October requirements. Mr. Ashkar then introduced Mr. Mark Thomas, the national client leader for the higher education, research, and not-for-profit practice at KPMG.

Mr. Thomas agreed with Trustee Glazer's earlier comment about the fact that the preparation of the CSU financial statements is a massive undertaking. For the overall audit every year, 20 plus audit firms converge on the CSU and conduct 118 different financial statement audits and bring them all together for the completion of these sets of financial statements. He stated that the various financial statements of the auxiliary organizations represent about 91 of those financial statements and are all subject to review by their own boards and audit committees. He indicated that the documents presented today are the systemwide financial statements, representing all of the entities. He added that there are also a number of sub-audits occurring in the overall scope of the audit. Mr. Thomas reported that an unmodified opinion was issued on the financial statements, explaining that is as clean as it gets. He indicated that the single audit report referenced approximately \$2.4 billion in federal funds that are received by the university. He added that these funds are subject to very, very specified and prescriptive audit procedures as dictated by the federal government. He explained that the difference in scope of the single audit report is that it does include the auxiliary organizations; 21 of them received separate single audit reports and are subject to review by their own audit committees.

Mr. Thomas noted that there are required communications between the audit firm and the audit committee, the committee charged with governance over the audit. He stated that if there were significant disagreements with management, difficulties with management, or significant accounting issues, etc., these issues would be brought to the committee's attention verbally at this meeting; he reported that there were no significant issues.

Mr. Thomas stated that the big news story for next year is pension. He indicated that with the implementation of the new accounting pronouncements, the CSU will have additional requirements to bring the unfunded pension benefit onto the financial statements as of June 30, 2015. He stated that that number is not known yet, but expects it to be in the billions of dollars. He indicated that it will be a significant item and that there will be another statement that requires the CSU to bring unfunded benefits, postemployment benefits, onto the financial statements as well, probably within the following two years. He stated that KPMG is working with management, with the State Controller's Office, and with CalPERS on this issue. He explained that this is a complicated process because CalPERS initially allocates the number out to the state and then the State Controller's Office allocates the number out to the various state agencies. Mr. Thomas stated he hopes to know the CSU's number by the end of January and will start testing the accuracy of that number so that the CSU is ready to implement by June 30, 2015.

Chair Garcia asked for confirmation that the one significant deficiency noted in the report was not due to any identified wrongdoing but rather a lack of process policy that could cause a problem with respect to the selection of vendors.

Mr. Ashkar confirmed that that is correct. He explained that the reason it is a significant deficiency rather than a control deficiency is because the threshold of materiality is so low. He reiterated that every year in the past, there have been financial aid findings, and this is the first year ever that there are none. He added his viewpoint that this is remarkable because the materiality threshold is so low.

Chancellor White asked Mr. Thomas to put into context the type of clean report the CSU received in terms of the achievement of the CSU employees, especially in light of an organization of our size and geographic disbursement, which includes 23 campuses and the CSU Chancellor's Office. He added that he wanted to tie this question back into what he said in his State of the CSU address about every person who is employed in the CSU is helping create opportunities for our students and faculty to succeed.

Mr. Thomas responded that the first ever financial statement audit of the California State University happened about 1995. Before that point, there was no GAAP financial statements audit of the CSU system. At that point, the level of effort required to pull the information together and to report it in a GAAP basis was a massive undertaking. He explained that the State Controller's Office has had a deadline of October 15 for reporting financial information, but there was no possible way to pull the information together by that point. Last year for the first time, the CSU system was able to bring all of the information together, including 118 separate legal entities, in a massive consolidation of financial information to be able to present to the State Controller's Office by the deadline. Mr. Thomas stated that the results of the audit and the clean opinion on the financial statements should be the expectation of the CSU. He indicated that of the \$2.4 billion in federal funds that the CSU receives annually, the massive majority of those (\$2.394 billion) is student financial aid. He noted that the rules relating to student financial aid are very complex. He stated that the federal government has set a level of materiality of \$10,000, whether you are a school of 300 or a school of 350,000. Anything that exceeds a \$10,000 threshold gets reported just as a matter of rule by the federal government. He stated that the fact that the CSU had one finding that is a control finding and not a compliance finding is substantial.

Chair Garcia thanked Mr. Relyea, Mr. Ashkar, Mr. Thomas, the campus presidents, and all their teams for their diligence in helping achieve these results.

Chair Monville thanked Chair Garcia for her leadership of the audit committee. He shared his thanks with Mr. Relyea, Mr. Ashkar, and all of the teams at the campuses for the fine work and ongoing diligence of the proper stewardship of those dollars.

The meeting was adjourned.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

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

Janice Mirza
Senior Director
Office of Audit and Advisory Services

Summary

This item includes both a status report on the 2015 audit plan and follow-up on past assignments. For the 2015 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Clery Act, Information Technology Procurement, Payment Card Industry Data Security Standards, Admissions, Cloud Computing, Scholarships, and Student Activities), a high profile area (College Reviews), and Construction. In addition, follow-up on current/past assignments (Special Audit, Auxiliary Organizations, Sensitive Data Security, Sponsored Programs, Student Health Services, Conflict of Interest, Lottery Funds, Accessible Technology, Executive Travel, Information Security, and Continuing Education) was being conducted on approximately 40 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the committee meeting.

Status Report on Current and Follow-up Internal Audit Assignments

Auxiliary Organizations

The initial audit plan indicated that approximately 267 staff weeks of activity (25.8 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/31 auxiliaries. Report writing is being completed for one campus/four auxiliaries, and fieldwork is being conducted at one campus/five auxiliaries.

High-Risk Areas

Information Security

The initial audit plan indicated that approximately 37 staff weeks of activity (3.7 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. Five campuses will be reviewed. Report writing is being completed for one campus.

Clery Act

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus Clery Act policies and procedures to ensure compliance with CSU and federal requirements; review and testing of processes to compile required disclosures and statistics for the Annual Security Report (ASR); verification of the availability of educational programs for security awareness, and the prevention and reporting of crime; review and testing of ASR dissemination to required parties; review of campus good-faith efforts to comply with changes to the Clery Act imposed by the Violence Against Women Reauthorization Act (VAWA) for the 2014 ASR and progress in meeting the changes by the July 2015 deadline; and review of content and delivery of training. Six campuses will be reviewed. Report writing is being completed for two campuses, and fieldwork is being conducted at one campus.

Information Technology Procurement

The initial audit plan indicated that approximately 34 staff weeks of activity (3.3 percent of the plan) would be devoted to a review of policies and practices related to information technology procurement. Specific goals will include determining whether administration and management of information technology procurement activities provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy. Five campuses will be reviewed. Report writing is being completed for two campuses.

Payment Card Industry Data Security Standards

The initial audit plan indicated that approximately 14 staff weeks of activity (1.4 percent of the plan) would be devoted to a review of campus and auxiliary compliance with regulations specific to Payment Card Industry (PCI) Data Security Standards related to the security and protection of

credit cards systems and data. The review would specifically include compliance with the new PCI 3.0 standard. Two campuses will be reviewed.

Admissions

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of the evaluation of student records, including residency determination; processing admission applications, including use of supplemental admission criteria for impacted majors or campuses, transfer students, and redirection of eligible applicants; security of applicant data; application fee processing and granting of fee waivers; and compliance with state legislation and CSU requirements. Six campuses will be reviewed.

Cloud Computing

The initial audit plan indicated that approximately 11 staff weeks of activity (1.1 percent of the plan) would be devoted to a review of campus and/or auxiliary activities pertaining to cloud computing, including review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and oversight including but not limited to service availability, data ownership and backup and recovery, establishing contractual relationships with third-party service providers, and if sensitive data is maintained by a third party, review of involvement of campus information security personnel in the decision process; documentation of campus expectations for handling and securing the data; contract language covering security expectations; and monitoring third-party performance. One systemwide report will be issued.

Scholarships

The initial audit plan indicated that approximately 43 staff weeks of activity (4.2 percent of the plan) would be devoted to a review of campus and/or auxiliary activities pertaining to scholarships, including establishing student eligibility, awarding, and recordkeeping and protection of sensitive information; coordination between the financial aid department and awarding departments; and review of disbursement procedures for awarded scholarships. Six campuses will be reviewed.

Student Activities

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of activities relating to social and co-curricular programs, recreational sports, student clubs and organizations; review of policies and procedures to ensure compliance with CSU and other agency requirements; review of campus administration and

oversight of student activities; review and appropriate testing for compliance with charters, bylaws and/or other governing documents for selected student organizations, clubs and other programs; review and testing to ensure appropriate staffing of student programs by qualified individuals and volunteers, including student leaders; and assessment to determine that required policies regarding non-discrimination, alcohol and drugs, and hazing are monitored and enforced. Six campuses will be reviewed.

High Profile Area

College Reviews

The initial audit plan indicated that approximately 49 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of college/department administrative and financial controls, such as handling of cash and cash equivalents, expenditure processing, contracting activities, acquisition and tagging of sensitive equipment, and use of trust funds; and review of faculty assigned time, release time and special payments. Six campuses will be reviewed. Report writing is being completed for one campus, and fieldwork is being conducted at two campuses.

Construction

The initial audit plan indicated that approximately 47 staff weeks of activity (4.6 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. Six projects will be reviewed. Report writing is being completed for one project, and fieldwork is being conducted for one project.

Advisory Services

The initial audit plan indicated that approximately 216 staff weeks of activity (20.8 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.

Technology Support

The initial audit plan indicated that approximately 14 staff weeks of activity (1.3 percent of the plan) would be devoted to technology support for non-information technology specific audits and advisory services reviews. 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 participate on committees such as those related to information systems implementation and policy development, and to perform special projects. Special projects for 2015 will include the implementation of automated working papers in the Office of Audit and Advisory Services. Forty staff weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

Follow-ups

The audit plan indicated that approximately 15 staff weeks of activity (1.5 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 40 current/past assignments (Special Audit, Auxiliary Organizations, Sensitive Data Security, Sponsored Programs, Student Health Services, Conflict of Interest, Lottery Funds, Accessible Technology, Executive Travel, Information Security, and Continuing Education) 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. Eight staff weeks have been set aside for this purpose, representing approximately 0.8 percent of the audit plan.

Aud
Agenda Item 1
March 24-25, 2015
Page 6 of 6

Administration

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.3 percent of the audit plan.

Status Report on Current and Follow-Up Internal Audit Assignments
(as of 3/12/2015)

2015 ASSIGNMENTS											FOLLOW-UP PAST/CURRENT ASSIGNMENTS					
Aux Orgs	Info Security	Clery Act	College Reviews	IT Procure	PCI	Adm	Cloud Comptg	Scholar	Student Activity	Special Audit	Special Audit	Auxiliary Organizations	Sen. Data Sec./Protect.			
										*Recs	**Mo.	●No.	*Recs	**Mo.	*Recs	**Mo.
BAK												4	18/35	5		
CHI												4	25/25	-		
CI												3	31/32	7	8/8	-
DH												3	19/19	-	9/9	-
EB												3	31/31	-		
FRE	RW											6	5/36	4		
FUL				RW								4	28/28	-		
HUM												4	30/30	-		
LB												3	27/27	-	6/6	-
LA		RW										4	18/18	-		
MA												2	4/4	-		
MB												3	16/16	-		
NOR			FW									5	22/22	-		
POM			RW									2	11/11	-		
SAC			FW									5	28/41	10		
SB	RW											4			14/14	-
SD												4	21/21	-		
SF	FW											5			10/10	-
SJ										16/18	6	5	26/26	-		
SLO												3	0/11	3		
SM												4	22/22	-		
SON				RW								3	5/5	-		
STA												4	14/14	-		
CO												2	5/5	-	12/12	-
SYS															1/2	7

* 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 3/12/2015)

FOLLOW-UP PAST/CURRENT ASSIGNMENTS											
	Sponsored Programs *Recs **Mo.	Student Health Svcs. *Recs **Mo.	Conflict of Interest *Recs **Mo.	Lottery Funds *Recs **Mo.	Accessible Technology *Recs **Mo.	Executive Travel *Recs **Mo.	Information Security *Recs **Mo.	Continuing Education *Recs **Mo.			
BAK				2/2	-		0/10	3			
CHI	6/6		3/3								
CI	0/1	3			6/6	-					
DH					3/6	7					
EB				2/2	-			3/3	-		
FRE			1/1	3/3	-						
FUL	10/10	-	2/2					0/2	3		
HUM				1/1	-		4/4	-			
LB		6/6				3/3					
LA					5/5	-					
MA	0/7	4									
MB	3/3	-	1/1								
NOR	8/8	-							0/5	3	
POM	1/3	6			7/7	-	0/4	2			
SAC		9/9	4/5	7							
SB									5/7	4	
SD		14/14			7/7	-	0/6	3			
SF	4/4	-			1/1	-					
SJ		17/17				9/9					
SLO	7/7	-									
SM					0/4	5					
SON	0/0	-		1/1	-						
STA	6/7	7									
CO			1/1	0/7	6						
SYS		1/4	0/6	0/2	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 Actions for the Findings in the Single Audit Report of Federal Funds for the Fiscal Year Ended June 30, 2014

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

As presented at the January 2015 California State University Board of Trustees meeting, for the fiscal year ended June 30, 2014 there were no audit findings in the University's systemwide **Single Audit Report of Federal Funds** related to the financial statements for the system. Also, for the first time, there were no audit findings related to financial aid programs. There was one audit finding related to non-financial aid federal awards.

The single audit finding, 2014-001, was related to processes and controls to ensure compliance with federal procurement and suspension and debarment requirements at a campus. Corrective action has been taken to strengthen processes and controls to improve compliance with federal procurement guidelines for competitive bidding and add a certification clause to the CSU procurement general contract provisions where contractors will certify that they are not debarred, suspended or otherwise ineligible. Based on the Chancellor's Office staff review of the documentary evidence submitted by the campus, corrective action has been confirmed as completed.

COMMITTEE ON AUDIT

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

Colleges and universities with intercollegiate athletic programs in the National Collegiate Athletic Association (NCAA) have two NCAA requirements for reporting financial data. First, there is an agreed-upon procedures (AUP) report submitted by campus staff to the campus president. Second, online reporting of financial data to the NCAA is required.

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. Division I schools are required to annually issue the AUP report, conducted by a qualified independent accountant, and then submit the financial data to the NCAA. Division II schools are required to issue the AUP report every three years, but must submit financial data to the NCAA annually.

All nine campuses in Division I met reporting requirements for fiscal year end June 30, 2014. All eleven Division II schools also met reporting requirements for fiscal year end June 30, 2014. Four of the eleven campuses in Division II issued the AUP report, including one campus that elected to issue the report, though not required. The remaining seven Division II campuses were not required to issue the AUP report due to the three year cycle, as mentioned. Additionally, all eleven Division II schools submitted financial data to the NCAA.

Based on the review of the submitted reports by Audit and Advisory Services as well as Financial Services staff at the Office of the Chancellor, all campuses are in compliance with the NCAA reporting requirements.