

AGENDA

COMMITTEE ON AUDIT

Meeting: **2:10 p.m., Tuesday, September 20, 2016**
 Glenn S. Dumke Auditorium

Douglas Faigin, Chair
John Nilon, Vice Chair
Lillian Kimbell
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of July 19, 2016

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

Discussion Item

2. Report on Responsibilities of the Office of Audit and Advisory Services, *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**

July 19, 2016

Members Present

Douglas Faigin, Chair
Lupe C. Garcia, Vice Chair
Lillian Kimbell
Hugo N. Morales
Lateefa Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Faigin called the meeting to order.

Approval of Minutes

The minutes of May 24, 2016, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Mr. Larry Mandel, vice chancellor and chief audit officer, presented a brief status report on the 2016 audit plan and follow-up on past assignments. The report noted reviews for 2016 that included Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology Disaster Recovery Planning. In addition, follow-up on current/past assignments were being conducted on approximately 30 prior campus/auxiliary reviews.

Trustee Faigin commended the audit staff for the work it does and indicated that next time the Committee on Audit would highlight actual audits and provide a summary of audit responsibilities. Trustee Faigin also commented that audit reports are posted on the CSU website and provided the web address (www.calstate.edu/audit).

Trustee Faigin adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

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

Summary

This item includes both a status report on the 2016 audit plan and follow-up on past assignments. For the 2016 year, assignments were made to conduct reviews of Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology (IT) Disaster Recovery Planning. In addition, follow-up on current/past assignments (Auxiliary Organizations, Information Security, Scholarships, Student Activities, Academic Departments, and Delegations of Authority) was being conducted on approximately 30 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form.

Status Report on Current and Follow-up Internal Audit Assignments

Auxiliary Organizations

The initial audit plan indicated that approximately 267 staff weeks of activity (26.1 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Four campus/12 auxiliary reports have been completed, one campus/four auxiliary reports are awaiting a campus response prior to finalization, and report writing is being completed for one campus/four auxiliaries.

Delegations of Authority

The initial audit plan indicated that approximately 48 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of the management of processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Six campuses will be reviewed. One campus report has been completed, three reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses.

Operational/Financial Reviews

Academic Department Fiscal Review

The initial audit plan indicated that approximately 47 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of college/department administrative and financial controls. Six campuses will be reviewed. Five campus reports have been completed.

Emergency Management

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 emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements. Six campuses will be reviewed. One report is awaiting a campus response prior to finalization, report writing is being completed for one campus, and fieldwork is being conducted at one campus.

International 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 campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements. 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 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. Two campus reports have been completed, one report is awaiting a campus response prior to finalization, report writing is being completed for one project, and fieldwork is being conducted for one project.

Student Activities

Due to resource constraints, we were unable to complete three Student Activities audits in 2015. The 2016 audit plan indicated that approximately 25 staff weeks of activity (2.5 percent of the plan) would be devoted to completion of these reviews that ensure compliance with CSU policies and other regulatory requirements. Three campuses will be reviewed. Two campus reports have been completed, and one report is awaiting a campus response prior to finalization.

Information Technology Reviews and Support

Information Security

The initial audit plan indicated that approximately 46 staff weeks of activity (4.5 percent of the plan) would be devoted to a review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information. Six campuses will be reviewed. Two campus reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses.

Cloud Computing

The initial audit plan indicated that approximately 26 staff weeks of activity (2.5 percent of the plan) would be devoted to a review of activities pertaining to the use of third-party cloud computing/internet service providers, including a review of contractual provisions related to service availability, data ownership, backup and recovery, and protection of sensitive and/or proprietary information. Four campuses will be reviewed. Two campus reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses.

Information Technology Disaster Recovery Planning

The initial audit plan indicated that approximately 26 staff weeks of activity (2.6 percent of the plan) would be devoted to a review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event. Four campuses will be reviewed. Report writing is being completed for one campus, and fieldwork is being conducted at one campus.

Technology Support

The initial audit plan indicated that approximately 17 staff weeks of activity (1.6 percent of the plan) would be devoted to technology support for non-information technology specific audits and advisory services reviews. The provision of support is ongoing.

Advisory Services

The initial audit plan indicated that approximately 220 staff weeks of activity (21.6 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.

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. Thirty-eight weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

Audit Support

Audit Follow-up

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 30 current/past assignments (Auxiliary Organizations, Information Security, Scholarships, Student Activities, Academic Departments, and Delegations of Authority) 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. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 percent of the audit plan.

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 9/8/2016)

| 2016 ASSIGNMENTS | | | | | | | | | | | FOLLOW-UP PAST/CURRENT ASSIGNMENTS | | | | |
|------------------|---------------|--------------------|--------------|-------------------------|---------------|------------|--------------|-----------------|-------------------------|----------------------|------------------------------------|-------|-------|-------|-------|
| Aux Orgs | Info Security | Student Activities | Cloud Comptg | Acad Dept Fiscal Review | Deleg of Auth | Emerg Mgmt | IT Dis Recov | Intl Activities | Auxiliary Organizations | Information Security | *No. | *Recs | **Mo. | *Recs | **Mo. |
| BAK | | AI | | | | | FW | | | | 4 | 35/35 | - | 10/10 | - |
| CHI | | | AI | | | | | | | | 3 | 16/32 | 5 | 21/21 | - |
| CI | RW | AC | | AI | | | | | | | 3 | 32/32 | - | | |
| DH | | | | AC | | AI | | | | | 3 | 26/36 | 6 | | |
| EB | AI | | | | | | | | | | 3 | 31/31 | - | | |
| FRE | | | | AC | | | RW | | | | 6 | 36/36 | - | 11/11 | - |
| FUL | | | AI | | | | | | | | 4 | 30/30 | - | | |
| HUM | AI | | | | | | | | | | 4 | | | 4/4 | - |
| LB | | | | AC | | | | | | | 4 | 18/18 | - | 6/6 | - |
| LA | RW | | | | | | | | | | 4 | 18/18 | - | | |
| MA | | | | | AI | | | | | | 2 | 13/13 | - | 7/7 | - |
| MB | | | | | | | | RW | | | 2 | 23/23 | - | | |
| NOR | AI | | | | | | | FW | | | 5 | 19/19 | - | | |
| POM | AC | AC | | | | | | | | | 2 | 0/20 | 2 | | |
| SAC | | | | | RW | | | | | | 5 | 41/41 | - | | |
| SB | | | | | | | | FW | | | 4 | 23/23 | - | 10/10 | - |
| SD | AC | | | | | | | RW | | | 4 | 0/15 | 1 | 0/7 | 4 |
| SF | | | RW | | AC | | | | | | 3 | 17/17 | - | 9/9 | - |
| SJ | | | | | | FW | | | | | 5 | 26/26 | - | 17/17 | - |
| SLO | | | | | | RW | | | | | 3 | 11/11 | - | | |
| SM | AC | | RW | | | | | | | | 4 | 9/17 | 4 | | |
| SON | | | | AC | RW | | | | | | 3 | 4/4 | - | | |
| STA | RW | | | AC | | | | | | | 4 | | | 14/21 | 10 |
| CO | AC | | | | AI | | | | | | 2 | 0/1 | 4 | | |
| SYS | | | | | | | | | | | | | | | |

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

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

Status Report on Current and Follow-Up Internal Audit Assignments
 (as of 9/8/2016)

| | FOLLOW-UP PAST/CURRENT ASSIGNMENTS | | | | | | | |
|-----|------------------------------------|-------|--------------------|-------|------------------------------|-------|--------------------------|-------|
| | Scholarships | | Student Activities | | Academic Dept. Fiscal Review | | Delegations of Authority | |
| | *Recs | **Mo. | *Recs | **Mo. | *Recs | **Mo. | *Recs | **Mo. |
| BAK | 3/3 | - | | | | | | |
| CHI | | | | | | | | |
| CI | | | 0/2 | 5 | | | | |
| DH | 3/3 | - | | | 0/10 | 2 | | |
| EB | | | | | | | | |
| FRE | | | | | 0/7 | 2 | | |
| FUL | | | 5/5 | - | | | | |
| HUM | | | | | | | | |
| LB | | | | | 0/4 | 4 | | |
| LA | 2/2 | - | | | | | | |
| MA | | | | | | | | |
| MB | | | | | | | | |
| NOR | 3/3 | - | | | | | | |
| POM | | | 0/3 | 5 | | | | |
| SAC | | | 1/1 | - | | | | |
| SB | | | | | | | | |
| SD | | | | | | | | |
| SF | | | | | | | 2/4 | 4 |
| SJ | 3/3 | - | | | | | | |
| SLO | 1/1 | - | | | | | | |
| SM | | | 2/2 | - | | | | |
| SON | | | | | 0/5 | 4 | | |
| STA | | | | | 0/6 | 2 | | |
| CO | | | | | | | | |
| SYS | | | | | | | | |

* The number of recommendations satisfactorily addressed followed by the number of recommendations in the original report.

** The number of months recommendations have been outstanding from date of report.

• The number of auxiliary organizations reviewed.

COMMITTEE ON AUDIT

Report on Responsibilities of the Office of Audit and Advisory Services

Presentation By

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

Summary

This item provides information to the California State University Board of Trustees regarding responsibilities of the Office of Audit and Advisory Services (OAAS).

Background

Education Code Section 89045, enacted by Chapter 1406 of the Statutes of 1969, provided for the establishment of an internal auditing function reporting directly to the Trustees of the California State University (CSU). Subsection (b) of the Code states that the duties of this function/internal audit staff shall include, but not be limited to, auditing, reviewing, cost and system analysis, analyzing and recommending operating procedures for the CSU. Subsection (c) of the Code states that management audits shall be made to determine the effectiveness and efficiency of the organization, operation, and procedures of each state university, each auxiliary organization, and the Office of the Chancellor. Subsection (d) of the Code states that audit staff shall perform audits, at least once every five years, of certain procurement and contracting activities, motor vehicle inspections, and real and personal property transactions pursuant to specified Sections of the Code.

In 1991, the Department of Finance (DOF) determined that it no longer had the staff resources required to perform internal control reviews of the CSU, as required by the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. The OAAS began performing these reviews on all campuses once every two years. Beginning in calendar year 2010, cyclical audits of internal controls were reevaluated and discontinued due to a change in the OAAS audit risk assessment methodology and updated guidance from the DOF. Using the new procedure, the OAAS works with CSU campuses and Office of the Chancellor executive management to identify high-risk areas within the CSU system, and creates an annual audit plan using a risk assessment methodology.

In 1999, the Trustees' Committee on Audit took action at the January meeting of the Board, which required the OAAS to perform an internal compliance/internal control review of each auxiliary organization. The OAAS performs these reviews at all auxiliary organizations once every three years.

At its January 2008 meeting, the Trustees' Committee on Audit directed the OAAS to continue its annual review of construction activity. Construction auditing had been performed by an external public accounting firm since fiscal year 1997/98 with coordination from the OAAS. In fiscal year 2008/09, the OAAS began performing construction audits.

In 2013, the Trustees' Committee on Audit took action at the January meeting of the Board to approve the addition of advisory services to the annual audit plan.

In 2017, the OAAS will implement functional and organizational changes to improve its capacity to identify risk in a more targeted fashion, provide advisory services, and implement an alternative approach to audits of auxiliary organizations.

Mission

The mission of the OAAS is to assist university management and the Trustees in the effective discharge of their fiduciary and administrative responsibilities by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This assistance is provided through a series of independent and objective operational and compliance audits, internal control reviews, investigations, and advisory services designed to add value and improve operations.

Types of Audits

With the guidance of the original legislation and *The International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors), the OAAS uses a variety of audit techniques in its review of campus programs/resources. These audit techniques are commonly referred to as:

Operational Audits - Examine the use of unit resources to evaluate whether those resources are being used in the most effective and efficient manner to fulfill the University's mission and objectives. An operational audit may include elements of the other audit types listed below.

Financial Audits - Focus on accounting and reporting of financial transactions, including commitments, authorizations, and receipt and disbursement of funds. The purpose of this type of audit is to verify that there are sufficient controls over cash and cash-like assets, and that there are adequate process controls over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the fairness of the presentation of financial statements.

Compliance Audits - Review adherence to laws, regulations, policies, and procedures. Examples include federal and state law, Trustee policies, and chancellor's office directives. Recommendations typically call for improvements in processes and controls intended to ensure compliance with regulations.

Information Systems (IS) Audits - Examine the internal control environment of automated information processing systems and how people use those systems. IS audits typically evaluate system input, output, and processing controls; backup and recovery plan; system security; and computer facility reviews. IS auditing projects can focus on existing systems, as well as systems in the development stage.

Internal Control Reviews - Focus on the components of the university and auxiliary organization major business activities. Areas such as payroll and benefits, cash handling, inventory and equipment and their physical security, grants and contracts, and financial reporting are usually subject to review.

Investigations - Seek to establish evidence of impropriety; imply a systematic track-down of information the auditor hopes to discover or needs to know. Investigations include alleged instances of fraud, waste and abuse, and improper governmental activities.

Advisory Services - More consultative in nature than traditional audits and performed in response to requests from campus management. Advisory services enhance awareness of risk, control and compliance issues and provide a proactive independent review and appraisal of specifically identified concerns. Advisory services may include internal control and risk management reviews, transition reviews, business process assessments, and other activities.

Additional Responsibilities

The OAAS follows-up on all audit recommendations to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required. In addition, the OAAS acts as the liaison for audits of the CSU conducted by outside agencies, such as the California State Auditor, the Department of Finance, and the federal Department of Education.