

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:** 9:50 a.m., Wednesday, November 8, 2017  
Glenn S. Dumke Auditorium

Douglas Faigin, Chair  
Hugo N. Morales, Vice Chair  
Silas H. Abrego  
Lillian Kimbell  
Peter J. Taylor

**Consent** Approval of Minutes of the Meeting of September 20, 2017

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

**Discussion** 2. Report on Implementation of the New Organization Structure 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**

**September 20, 2017**

**Members Present**

Hugo N. Morales, Vice Chair  
Silas H. Abrego  
Lillian Kimbell  
Peter J. Taylor  
Rebecca Eisen, Chair of the Board  
Timothy P. White, Chancellor

Trustee Hugo Morales called the meeting to order.

**Public Comments**

Catherine Hutchinson, VP of Finance, CSUEU, Carolyn Duckett, Chair of Bargaining Unit 7, CSUEU, and Pat Gantt, President, CSUEU, all provided comment on a recent California State Auditor report pertaining to the California State University.

**Approval of Minutes**

The minutes of July 18, 2017, were approved as submitted.

**Status Report on Current and Follow-up Internal Audit Assignments**

Mr. Mandel provided a status on the 2017 audit plan and follow-up on past audit assignments. Mr. Mandel explained 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 reminded the committee that under the re-tooled approach, campus specific risk assessments and audit plans enable the review of a much larger number of audit topics. Mr. Mandel stated that audit assignments for 27 areas are currently in process and include topics such as cashiering, emergency management, international activities, information security, service learning, and sponsored programs post-award activities.

Mr. Mandel commented that the campuses and the Chancellor's Office continue to do a good job completing recommendations on a timely basis. Mr. Mandel added that both the reviews and associated recommendations pertaining to the construction projects are also being completed timely. Consultative reviews continue to be offered through the advisory services function and investigations are performed as needed.

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Aud

Trustee Taylor inquired about a Chancellor's Office audit pertaining to credit cards and asked when the five associated recommendations are expected to be completed by management. Mr. Mandel stated that he had no reason to believe that management would not complete the recommendations within the standard time period allowed and noted that at least half of the recommendations should be cleared by the six-month mark. Trustee Taylor requested a copy of the report and Mr. Mandel agreed to mail a copy to Trustee Taylor.

Trustee Morales 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 2017 audit plan and follow-up on past assignments. For the 2017 year, assignments were made to develop and execute individual campus audit plans, as well as to conduct audits of Information Technology (IT), Sponsored Programs and Construction; and to provide advisory services and investigation reviews. Follow-up on current/past assignments (Special Investigation, Information Security, IT Disaster Recovery, Logical Access and Security, Sponsored Programs, Delegations of Authority, Emergency Management, and various 2017 Audit Topics) was also being conducted on approximately 30 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

## **AUDITS**

### Campus Audits

The new organization structure provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks. Risk assessments and initial audit plans have been completed for all campuses. Twenty-one campus reports have been completed, six reports are awaiting a campus response prior to finalization, report writing is being completed for eight campuses, and fieldwork is being conducted at six campuses.

### Information Technology Audits

The initial audit plan indicated that reviews of Information Security, Logical Access and Security, IT Disaster Recovery and General Computer Controls would be performed at those campuses where a greater degree of risk was perceived for each topic. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues. Five campus reports have been completed, two campus reports are awaiting a campus response prior to finalization, and report writing is being completed for three campuses.

### Sponsored Programs

The initial audit plan indicated that reviews of post award activities based on recent changes in federal regulations, as well as a systemwide review of campus policies, procedures, and practices relating to indirect cost recovery would be performed. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Two campus reports have been completed, and report writing is being completed for two campuses.

### Construction

The initial audit plan indicated that reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors would be performed. Areas to be reviewed include approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting. Three campus reports have been completed, report writing is being completed for two campuses, and fieldwork is being conducted for one project.

## ADVISORY SERVICES

The Office of Audit and Advisory Services partners with management to identify solutions for business issues, offer opportunities to improve the efficiency and effectiveness of operating areas, and assist with special requests, while ensuring the consideration of related internal control issues. Advisory services are more consultative in nature than traditional audits and are performed in response to requests from campus management. The goal is to enhance awareness of risk, control and compliance issues and to provide a proactive independent review and appraisal of specifically identified concerns. Reviews are ongoing.

## INVESTIGATIONS

The Office of Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations 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.

## 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.

### AUDIT SUPPORT

#### 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, as well as campus-specific risks.

#### Administration

Day-to-day administration of the Office of Audit and Advisory Services includes such tasks as scheduling, personnel administration, maintenance of department standards and protocols, administration of the department's automated workpaper system and SharePoint website, and department quality assurance and improvement.

Status Report on Current and Past  
Audit Assignments  
(as of 11/2/2017)

2017 AUDITS					
	Topic 1	Topic 2	Topic 3	Information Technology (IT)	Sponsored Programs
BAK	Emergency Management (AC)	Athletic Fund-Raising (RW)			
CHI	Student Activities (AC)	Facilities Management (RW)		Logical Access & Security (AI)	
CI	Fund-Raising & Gift Proc. (AC)				
DH	Business Continuity (AC)			Information Security (AC)	
EB	Cashiering (AC)				Post Award (RW)
FRE	Cashiering (AC)	Hazardous Materials Mgmt. (AI)			Post Award (AC)
FUL	International Activities (AC)	Academic Dept. Fiscal Review (AC)	Cashiering (FW)		
HUM	Extended Education (RW)			Logical Access & Security (AC)	
LB	Counseling & Psych. Svcs. (AC)			IT Disaster Recovery (AC)	Post Award (AC)
LA	Cashiering (AC)	Student Health Services (RW)	Student Activities (FW)		
MA	Police Services (AI)			Information Security (AC)	
MB	Cashiering (AC)	Police Services (AI)			
NOR	Facilities Management (AI)	Student Activities (FW)			
POM	Student Disability Support (AC)	Emergency Management (FW)		IT Disaster Recovery (AC)	
SAC	Centers and Institutes (RW)			Information Security (AI)	
SB	Cashiering (AC)	Police Services (FW)			
SD	Facilities Management (AC)	Instruct. Related Activity Fees (AC)			
SF	International Activities (AC)	Academic Dept. Fiscal Review (RW)			
SJ	Associated Students (AI)	Tower Foundation (RW)			
SLO	Hazardous Materials Mgmt. (AC)	Cashiering (AC)			
SM	International Activities (AC)	Service Learning and Internships (RW)		Information Security (RW)	
SON	Cashiering (AC)			Information Security (RW)	
STA	Service Learning and Internships (AC)	Student Disability Support (FW)			
CO	Credit Cards (AC)			Information Security (RW)	
SYS					Indirect Costs (RW)

FW = Field Work In Progress  
RW = Report Writing in Progress  
AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  
AC = Audit Complete  
Numbers/letters in green are updates since the agenda mailout.

**Status Report on Current and Past  
Audit Assignments**  
(as of 11/2/2017)

FOLLOW-UP ON CURRENT/PAST AUDITS												
	Special Investigation *Recs **Mo.	Information Security *Recs **Mo.	Info. Technology Disaster Recovery *Recs **Mo.	Logical Access and Security *Recs **Mo.	Sponsored Programs *Recs **Mo.	Delegations of Authority *Recs **Mo.	Emergency Management *Recs **Mo.	2017 #Audit Topic 1 *Recs **Mo.	2017 #Audit Topic 2 *Recs **Mo.			
BAK		10/10	-	8/8	-				4/5	5		
CHI		21/21	-					2/2	-			
CI		17/17	-		6/6	-		0/9	2			
DH		7/10	4				4/4	0/2	2			
EB		9/9	-				7/8	4/5	3			
FRE		11/11	-	7/7	-	3/3		3/3	-			
FUL							8/8	6/6	-	0/4	2	
HUM		4/4	-		0/1	2	4/4					
LB		6/6	-	0/0		0/4		2/3	5			
LA		13/13	-					4/4	-			
MA		0/7	2			6/6	-					
MB		13/13	-					2/3	4			
NOR		8/8	-									
POM								3/8	3			
SAC						3/3	-					
SB		10/10	-					5/5	-			
SD		6/7	18 <sup>1</sup>					0/7	5	0/0	-	
SF	0/2	1	9/9	-		4/4	-	1/2	3			
SJ		17/17	-				6/6					
SLO		0/6	5				3/3	7/7	-	0/4	1	
SM									0/6	3		
SON						1/1	-	0/3	4			
STA		21/21	-	6/8	9			0/3	1			
CO	2/5	4	-	1/3	6 <sup>2</sup>			0/6	4			
SYS						4/4	-	0/1	5			

**Follow-Up**

\* 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.  
 # See 2017 Audits on page 1.  
 1 Approved extended completion date of 12/31/17. 2 Approved extended completion dates of 12/31/17.  
 Numbers/letters in green are updates since the agenda mailout.





## **COMMITTEE ON AUDIT**

### **Report on Implementation of the New Organization Structure 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**

At the November 2016 meeting of the Committee on Audit, details were provided regarding the new organization structure of the Office of Audit and Advisory Services (OAAS). This item provides information to the California State University Board of Trustees regarding the implementation status of the new organization structure.

#### **Background**

The new organization structure was developed in response to recommendations contained in a quality assurance review of the OAAS. The recommendations highlighted that under the old structure, the vice chancellor and chief audit officer might not be aware of the issues and risks occurring at the campus level, the risk assessment process might not include necessary input to ascertain the highest risks to the system, and the audit planning approach for auxiliary organizations should be re-evaluated due to the large percentage of audit resources utilized on auxiliary organization audits.

The new organization structure implemented in 2017 sufficiently addressed quality assurance team recommendations, strengthened the effectiveness of the audit function and provided increased assurance to the chancellor and the Board of Trustees that significant risks to the system are sufficiently understood and assessed and are receiving appropriate audit coverage, and adds value to both campuses and auxiliary organizations, while further mitigating risk.

#### **Status of the Implementation of the New Organization Structure**

The new organization structure remained centralized but was reorganized and better resourced to identify risk in a more targeted fashion, focus on individual campuses, more effectively utilize audit resources previously dedicated to audits of auxiliary organizations, improve audits of sponsored programs, initiate new directives for more focused and higher quality audits, and meet the increasing demand for investigative audits. The following functional and organizational changes have been either completed, initiated and/or are ongoing:

1. The previously separate teams for campus and auxiliary organization audits have been combined and reorganized into four audit teams each responsible for six campuses/CO. In addition, the approach to auxiliary organization audits has been changed from a triennial cyclical basis to the same risk-based approach utilized for campus audits. As previously reported, information technology (IT) and construction audits, advisory services and investigations continued to be handled as in the past. During this implementation year, the four campus audits teams have focused on developing closer relationships with campus management, understanding specific campus nuances, and learning campus specific policies, procedures and systems, as they completed the campus audit plans.
2. The 2017 risk assessment process was changed from a systemwide risk assessment approach to a campus specific approach leading to campus specific audit plans and enabling us to review 28 diverse topics as compared to the previous nine to ten per year. The four audit team managers are currently completing in-person interviews with campus management to build upon information learned in the 2017 risk assessment in order to complete the 2018 risk assessment and campus audit plans. The interviews have been invaluable as they give us an opportunity to learn about new activities/areas on campus, help validate the results of our risk assessment and narrow our audit focus/scope, and further enrich our audit relationship with campus administration.
3. A dedicated senior auditor began performing audits of sponsored programs. With this dedicated sponsored programs function, audits of post-award activities will be performed on an ongoing basis each year. In addition, each year, one additional sponsored programs topic will be selected for review. This year, in addition to the sponsored programs post award audits, a systemwide audit of indirect cost recovery, which reviews practices relating to sponsored program proposal and indirect cost rate approvals, is being performed.
4. A senior IT auditor was added to provide adequate IT support for the numerous diverse audit topics resulting from our campus specific approach, enhance our advisory services function, and help support the continuous monitoring initiative described below, as well as ensure adequate coverage of emerging technologies.
5. A current senior audit manager updated protocols to ensure adherence to consistent and best practices throughout the division; and began managing the sponsored programs and construction audits, coordinating and improving the annual risk assessment process, developing a required quality assurance program in accordance with professional standards, and administering the automated workpaper system, as well as developing the division's continuous auditing initiative. Continuous auditing uses computer assisted audit techniques/tools or other data analysis tools to analyze large volumes of data, look

for anomalies and trends, complement the existing risk assessment process, and add to our awareness of campus-level/auxiliary organization issues and risks. To date, we have identified initial data analytics tests and are currently piloting our continuous audit approach with a campus. We plan to start performing these tests on additional campuses in the first quarter of 2018, while continuing to develop additional data analytics tests and tools for future use.

6. A senior investigative auditor was added to meet the increased demands of the investigative function, eliminate the need to borrow resources from the campus audit team, and provide adequate resources to ensure that control failures resulting in campus fiscal improprieties are properly resolved. Future initiatives include periodic fraud risk assessments and implementation of strategies to improve fraud awareness and education.