

AGENDA

COMMITTEE ON AUDIT

Meeting: 11:30 a.m., Tuesday, July 13, 2021
Virtually via Teleconference

Adam Day, Chair
Jane W. Carney, Vice Chair
Jack McGrory
Anna Ortiz-Morfit
Krystal Raynes
Lateefah Simon

Consent

1. Approval of Minutes of the Meeting of May 18, 2021, *Action*
2. Status Report on Audit and Advisory Services Activities, *Information*
3. Report on Financial Statements Audit Corrective Actions, *Information*

Fiscal Year 2021-2022 Audit Plan

In accordance with the Audit Committee charter, Vice Chancellor Marinescu presented the annual audit plan for fiscal year 2021-2022 to the committee for review and approval. Each year, Audit and Advisory Services engages in an annual audit planning process to develop a comprehensive risk-based audit plan that addresses both systemwide risks and individual campus-specific risks. The 2021 audit plan consists of five primary functional areas: assurance audits and data analytics, advisory services, investigations and intergovernmental audits, outreach and engagement, and audit support.

The foundation of the plan is focused on the core support areas of Finance and Administration; Information Technology; and Compliance, Human Resources and Risk Management. The second segment of the plan is focused on Academic Administration; Student Activities and Services; and University Relations and Advancement. The final segment of the plan focuses on auxiliary organizations. Although the audit topics are organized into organizational area categories, there is overlap between categories for many of the reviews that are planned. A brief description of each planned audit topic is included in Attachment A of the agenda item.

The assurance audits portion of the audit plan also includes data analytics and continuous auditing, which allows for monitoring and reviewing large data sets for anomalies and trends with a high degree of automation. It also assists with the existing audit process. By using a continuous auditing approach, control testing and monitoring can be performed on a more frequent or continuous basis, as opposed to a traditional audit approach, in which a particular area may only be covered once every three or four years.

Approximately 20 percent of staff resources are allocated toward advisory services. For these consultative reviews, 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.

Resources are also allocated for investigations and the coordinating of intergovernmental audits. The investigations unit of Audit and Advisory Services acts as a liaison and representative for the CSU system throughout the intergovernmental audit process. For audits of the CSU performed by the California State Auditor, Audit and Advisory Services helps facilitate communication between the State Auditor, the chancellor's office, and any applicable campuses. Because the need for investigations fluctuates depending on when issues and allegations come to the attention of administrators, investigations resources are also deployed to perform advisory work targeted toward fraud risk and prevention, as time allows.

The last major area of the audit plan includes outreach and engagement. Although audit and advisory work naturally requires quite a bit of outreach and engagement, the audit plan allocates additional resources to ensure that Audit and Advisory Services is partnering and working with

stakeholders beyond what would be the usual course of business for an audit or advisory review. This includes activities such as participating in and leading affinity groups, providing support and guidance to campus and chancellor's office management, sharing information and common themes across campuses, and acknowledging feedback and insights provided by management. Outreach and engagement activities also include educational activities such as providing fraud prevention and awareness training for staff throughout the system and providing students with work experience and exposure to the audit profession.

Following the presentation, the trustees discussed the audit plan. Trustees expressed support for building the data analytics program and inquired about the allocation of resources toward audits of auxiliary organizations and emphasized coverage for this area.

The Fiscal Year 2021-2022 Audit Plan was approved.

Trustee Carney adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Audit and Advisory Services Activities

Presentation By

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

Summary

This item provides an update on internal audit activities and initiatives. It also includes a status report on both the 2020-2021 and 2021-2022 audit plans, as well as follow-up on completed audit assignments. Follow-up on current and past assignments is being conducted on approximately 33 completed campus reviews. Attachment A summarizes the status of audit assignments by campus.

For both the 2020-2021 audit plan year and 2021-2022 audit plan, assignments were made to execute individual campus audit plans and conduct financial, operational, compliance, and information technology audits; use continuous auditing techniques and data analytics tools; and provide advisory services and investigation reviews.

AUDITS

Status of In-Process and Completed Audits

Audit and Advisory Services is wrapping up work on the 2020-2021 audit plan and has commenced work on the 2021-2022 audit plan. Thirty-six audits have been completed as part of the 2020-2021 audit plan and the remaining 2020-2021 audits are progressing through the report writing and campus review process. Fieldwork has begun for 2021-2022 audits and is being performed remotely. Audit management is currently evaluating when in-person on site fieldwork will resume. Completed audit reports are posted on the California State University website at <https://www2.calstate.edu/csu-system/transparency-accountability/audit-reports>.

The status of campus progress toward implementing recommendations for completed 2020-2021 audits is included in Attachment A. Prior year audits that have open recommendations are also included in Attachment A and are removed from the report the meeting following all recommendations having shown as completed.

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

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

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

Continuous Auditing and Data Analytics

Audit and Advisory Services has completed the second round of credit card reviews at all 23 campuses and the chancellor's office. Based on the results of the reviews, credit card tests have been identified for automation, and quarterly reports on credit card data trends and analyses are being developed to share with campuses on an on-going basis.

Fieldwork has been completed for the review of human resources/payroll at two campuses for the current audit plan year, and data validation at two additional campuses is currently in progress.

A process has been implemented to incorporate data analytics into all audits. The data analytics team provides input in the planning stage of each audit of available data, and feasible analytics tests that can be performed.

ADVISORY SERVICES

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

INVESTIGATIONS AND INTERGOVERNMENTAL AUDITS

Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations or conflicts of interest. Investigations are performed on an ongoing basis, both at the request of an individual campus or the chancellor's office and by referral from the state auditor. Additionally, the investigations unit tracks external audits being conducted by state and federal agencies, acts as a liaison for the system throughout the audit process, and offers assistance to campuses undergoing such audits.

The California State Auditor (CSA) recently identified 18 state agencies, including the California State University (CSU), that are responsible for managing a portion of federal COVID-19 funds. The CSU and University of California are among the entities being audited regarding the administration of these funds. The audit is currently underway and will evaluate the role of the Chancellor's Office in overseeing the funds and providing guidance to the campuses on their use. The funds are administered at the campus level, and as a result the CSA has selected three CSU campuses to review: Chico, Long Beach, and Sonoma.

Last year the investigations unit began providing fraud awareness and prevention training throughout the CSU system. The fraud awareness and prevention training program shares insights and common findings from investigations. Investigations often involve allegations related to travel and hospitality claims and procurement card transactions, so the program highlights CSU-specific examples that cover each of those areas and provides practical guidance on how to prevent and detect fraud. Since fall 2020, presentations have been made to 14 campuses and various systemwide affinity groups, and more than 1,300 employees throughout the system have participated in the training program, including presidents, chief administrators, business officers, campus audit liaisons, and academic personnel such as department chairs, deans, and provosts.

Status Report on Current and Past Audit Assignments

| Campus | Category | Audit Topic | Audit Plan Year | Total # of Recommendations | *Status |
|---------------------|-------------------------------|---|-----------------|----------------------------|---------|
| Bakersfield | Status of Recommendations | Cloud Computing | 2020 | 2 | 2 |
| | | Housing and Residential Services | 2020 | 5 | 5 |
| Chancellor's Office | Audits Currently in Progress | Procurement | 2020 | | |
| Channel Islands | Status of Recommendations | Faculty Assigned Time and Additional Employment | 2019 | 4 | 4 |
| | | Conference Services | 2020 | 2 | 1 1 |
| | | Information Security | 2020 | 9 | 9 |
| Chico | Audits Currently in Progress | Academic Personnel | 2020 | | |
| Dominguez Hills | Audits Currently in Progress | Accounts Payable & Disbursements | 2020 | | |
| | Status of Recommendations | Post Award Administration | 2020 | 6 | 6 |
| East Bay | Audits Currently in Progress | Facilities Management | 2020 | | |
| | | Information Security | 2020 | | |
| Fresno | Audits Currently in Progress | Faculty Assigned Time and Additional Employment | 2020 | | |
| | Status of Recommendations | Professional and Continuing Education | 2020 | 3 | 3 |
| Fullerton | Audits Currently in Progress | Faculty Assigned Time and Additional Employment | 2020 | | |
| | No Reportable Recommendations | Service Learning | 2020 | n/a | |
| Humboldt | Status of Recommendations | Facilities Management | 2020 | 6 | 6 |
| | | Procurement | 2020 | 1 | 1 |
| | | University Center | 2020 | 14 | 7 7 |
| Long Beach | Status of Recommendations | Foundation | 2020 | 3 | 3 |
| | No Reportable Recommendations | Accounts Payable & Disbursements | 2020 | n/a | |
| Los Angeles | Audits Currently in Progress | Information Security | 2020 | | |
| | Status of Recommendations | Faculty Assigned Time and Additional Employment | 2020 | 3 | 3 |
| Maritime Academy | Audits Currently in Progress | Service Learning and Internships | 2020 | | |
| | Status of Recommendations | Foundation | 2020 | 8 | 8 |
| Monterey Bay | Status of Recommendations | Information Security | 2020 | 11 | 11 |
| | | Professional and Continuing Education | 2020 | 2 | 2 |
| Northridge | Audits Currently in Progress | Service Learning and Internships | 2020 | | |
| Pomona | Audits Currently in Progress | Auxiliary-Owned Housing | 2021 | | |
| | Status of Recommendations | Housing and Residential Services | 2020 | 4 | 4 |
| | No Reportable Recommendations | Procurement | 2020 | n/a | |
| Sacramento | Audits Currently in Progress | Service Learning | 2021 | | |
| | Status of Recommendations | Professional and Continuing Education | 2020 | 3 | 3 |
| | No Reportable Recommendations | Accounts Payable & Disbursements | 2020 | n/a | |

***Status**

Closed (green) - Recommendations have been satisfactorily implemented

Open (blue) - Implementation of recommendations is in progress and within the agreed upon timeframe

Exceeds Agreed Upon Timeframe (red) - Recommendations have not been implemented within the agreed upon timeframe

Report as of June 22, 2021

Status Report on Current and Past Audit Assignments

| Campus | Category | Audit Topic | Audit Plan Year | Total # of Recommendations | *Status | |
|-----------------|-------------------------------|---------------------------------------|-----------------|----------------------------|---------|---|
| San Bernardino | Audits Currently in Progress | Facilities Management | 2020 | | | |
| | Status of Recommendations | Philanthropic Foundation | 2020 | 6 | 6 | |
| | | Post Award Administration | 2020 | 6 | 5 | 1 |
| San Diego | Audits Currently in Progress | Information Security | 2020 | | | |
| | | Procurement | 2020 | | | |
| | Status of Recommendations | Emergency Management | 2020 | 7 | 7 | |
| San Francisco | Audits Currently in Progress | Endowment Management | 2021 | | | |
| | Status of Recommendations | Emergency Management | 2019 | 11 | 10 | 1 |
| | | Facilities Management | 2020 | 3 | 3 | |
| | | Minors on Campus | 2020 | 5 | 5 | |
| San Jose | Audits Currently in Progress | Counseling and Psychology Services | 2021 | | | |
| | Status of Recommendations | Construction Management | 2020 | 4 | 4 | |
| | | Fundraising and Gift Processing | 2020 | 3 | 3 | |
| | | Professional and Continuing Education | 2020 | 5 | 5 | |
| San Luis Obispo | Audits Currently in Progress | Information Security | 2020 | | | |
| | Status of Recommendations | Associated Students, Inc. | 2020 | 5 | 5 | |
| | | Construction Management | 2020 | 6 | 6 | |
| | | Housing and Residential Services | 2020 | 12 | 12 | |
| San Marcos | Audits Currently in Progress | Associated Students, Inc. | 2020 | | | |
| | | Information Security | 2020 | | | |
| | Status of Recommendations | Emergency Management | 2020 | 6 | 6 | |
| Sonoma | Status of Recommendations | Accessible Technology | 2020 | 5 | 5 | |
| | No Reportable Recommendations | Travel and Hospitality | 2020 | n/a | | |
| Stanislaus | Audits Currently in Progress | Credit Cards | 2020 | | | |
| | Status of Recommendations | Cloud Computing | 2020 | 2 | 2 | |
| | | Emergency Management | 2020 | 4 | 4 | |

***Status**

Closed (green) - Recommendations have been satisfactorily implemented

Open (blue) - Implementation of recommendations is in progress and within the agreed upon timeframe

Exceeds Agreed Upon Timeframe (red) - Recommendations have not been implemented within the agreed upon timeframe

Report as of June 22, 2021

COMMITTEE ON AUDIT

Report on Financial Statements Audit Corrective Actions

Presentation By

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

As presented at the March 2021 California State University Board of Trustees meeting, each component unit conducts individual audits and nine of the 91 component units (mostly auxiliary organizations) were found to have a mix of material weaknesses and significant deficiencies in internal controls over financial reporting. All component units have provided documentation of corrective actions taken.

Additionally, there were findings of minor financial materiality from the Single Audit of Federal Awards audit and campuses have provided documentation of corrective actions taken.

The Chancellor's Office Financial Services and Audit and Advisory Services have reviewed documentary evidence provided by auxiliary organizations and campuses and have confirmed completion of corrective actions to respond to findings from the component unit audits and the Single Audit.