

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:00 a.m., Wednesday, May 21, 2014
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of March 26, 2014

Discussion Items

1. Quality Assurance Review of the Office of Audit and Advisory Services, *Information*
2. Status Report on Current and Follow-Up Internal Audit Assignments, *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**

March 26, 2014

Members Present

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

Chair Garcia called the meeting to order.

Approval of Minutes

The minutes of the meeting of January 29, 2014, were approved as submitted.

Status Report on Current and Follow-Up Internal Audit Assignments

Mr. Mandel presented the Status Report on Current and Follow-up Internal Audit Assignments, Agenda Item 1 of the March 25-26, 2014, Board of Trustees agenda.

Mr. Mandel stated that some of the 2014 audit assignments (i.e., Auxiliary Organizations, Conflict of Interest, Lottery Funds, and Accessible Technology) are currently in progress and that other subjects would begin throughout the year. He then reminded everyone that updates to the status report are displayed in green numerals and indicate progress toward or completion of recommendations since the distribution of the agenda. He reported that the campuses have been making very good progress in the closing of these recommendations over the past year. He noted that there are a few recommendations that have been outstanding for a number of months, specifically, CSU Chancellor's Office systemwide recommendations for Data Center Operations, Facilities Management, and Police Services. Mr. Mandel stated that as per discussion with Interim Vice Chancellor Sally Roush, all of the recommendations would be completed by the end of April 2014. He also noted that there are three long-outstanding recommendations pertaining to International Programs at California State University, Chico, and requested an update from President Zingg.

President Zingg commented that CSU Chico ranks second in the nation among all masters-level institutions for the number of CSU institutions that are involved in year-long study-abroad programs. He stated that the campus' involvement in these kinds of high-impact programs consists of a number of strategies, including third-party vendors, and some of the audit issues

refer to those strategies that are being coordinated in the CSU Chancellor's Office. He added that there are nine bilateral agreements that the campus is continuing to work through, which are very sensitive due to various cultures and customs of other countries. President Zingg anticipated that the outstanding items would be completed by the end of April 2014.

Chair Garcia indicated her appreciation for Ms. Roush's commitment to complete the outstanding recommendations before the end of her tenure and thanked her for all of the interim leadership in the business and finance division. Ms. Garcia thanked President Zingg for his commitment as well.

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

Mr. George V. Ashkar, assistant vice chancellor/controller, financial services, provided a status report on the corrective action plans for the audit findings noted in the A-133 Single Audit Reports. He reminded the trustees that the one finding was related to internal controls over the return of Title IV financial aid funds at three campuses. He added that the other seven audit findings pertained to administrative matters at five auxiliary organizations. Mr. Ashkar reported that corrective action plans for all findings have been completed and implemented.

Chair Garcia informed the board that she has had discussions with Mr. Ashkar and Mr. Mandel regarding the importance of having confidence that required remediation is actually completed with respect to any deficiencies noted in the course of audits.

Mr. Ashkar explained that when corrective action plans are submitted by the campuses, the supporting documentation for completion is reviewed jointly by the Office of Audit and Advisory Services and the Financial Services Internal Control staff at the CSU Chancellor's Office for accuracy and completeness.

Trustee Glazer thanked Mr. Ashkar for having this item placed on the agenda and for his follow-through on the completion of the audit findings. He stated the importance of having this item agendaized yearly, so that the board can be updated as to the completion of all audit findings.

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

Mr. Ashkar indicated that this agenda item was postponed from the January board meeting to the March meeting in order to allow for submission of the reports by the campuses to the NCAA based on the late-January deadline. He added that it also allowed CSU Chancellor's Office staff to adequately review the detailed reports for compliance. He stated that based on the review of the submitted reports for 16 campuses with NCAA athletic programs that are required to report for the year ended June 30, 2013, all are in compliance with the NCAA requirements for the reporting of financial data.

COMMITTEE ON AUDIT

Quality Assurance Review of the Office of Audit and Advisory Services

Presentation By

Larry Mandel
Vice Chancellor and
Chief Audit Officer

Sheryl Vacca
Senior Vice President/Chief Compliance and Audit Officer
University of California

Summary

All state audit functions within California are required to follow the practices espoused by the Institute of Internal Auditors. In January 2014, the Office of Audit and Advisory Services underwent a quality assurance review (QAR). While the primary objective of the QAR was to provide reasonable assurance that the internal auditing program at the California State University System complied with the *International Professional Practices Framework* promulgated by that organization (the review contains an opinion as to conformance to the standards in twelve separate areas), observations and recommendations for enhancement were also noted. The full report is attached.



THE UNIVERSITY OF TEXAS AT DALLAS
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February 19, 2014

Mr. Larry Mandel, Vice Chancellor and Chief Audit Officer
California State University System
Long Beach, CA

Dear Larry,

We have completed a Quality Assurance Review of the California State University System Office of Audit and Advisory Services. On behalf of the Quality Assurance Review team, it is a pleasure to transmit our accompanying final report. We hope that the report is useful in your efforts to continually improve what is already an outstanding internal audit program.

One characteristic of a sound professional organization is its interest in continuous improvement. While the primary objective of the Quality Assurance Review was to provide reasonable assurance that the internal auditing program at The California State University System complied with *The International Professional Practices Framework* (IPPF) promulgated by The Institute of Internal Auditors, we hope that the suggestions contained herein serve as a catalyst for continued enhancement and development of the internal audit division.

Please extend to all involved our appreciation for their hospitality and the many courtesies extended to us during our visit. Best wishes for continued success.

Sincerely,

A handwritten signature in blue ink that reads "Toni Stephens". The signature is written in a cursive, flowing style.

Toni Stephens
The University of Texas at Dallas

Executive Summary

As requested by the Vice Chancellor and Chief Audit Officer (VCCAO), we have completed a Quality Assurance Review of the California State University System Office of Audit and Advisory Services (OAAS) internal audit program. The principal objectives of the quality assessment were:

- To assess the audit division's conformity to The Institute of Internal Auditors' (IIA) *International Professional Practices Framework (IPPF)*. The IPPF includes the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the *Code of Ethics*.
- To evaluate the audit division's effectiveness in carrying out its mission as defined in its charter.
- To identify opportunities to enhance internal audit management and work processes, as well as its value to the California State University System.

The objectives were achieved following the steps outlined in the *Quality Assessment Manual, Sixth Edition*, published by the IIA. We interviewed selected members of management, the Chancellor, the Chair of the Audit Committee, and internal audit staff and management; conducted an anonymous survey of the staff; examined the materials received from the audit division; reviewed selected working papers; and evaluated the division's policies, procedures, and other documents as deemed necessary.

The following recommendations for enhancement are made as detailed in the attached report:

- (1) External assessments should be performed every five years as required by the *Standards*.
- (2) The current organization structure should be reviewed to determine if a reporting relationship should be established between campus auditors and the VCCAO in order to strengthen the effectiveness of the audit function and provide increased assurance to the Chancellor and the Board that the significant risks of the System are receiving appropriate audit coverage.
- (3) A separate IT audit risk assessment should be prepared as part of the annual audit plan risk assessment process. IT audits should be performed based on this risk assessment. Staff resources should be allocated and the need for additional resources should be identified as part of the planning effort.
- (4) The current risk assessment and audit planning approach should be re-evaluated.
- (5) The evaluation and communication of fraud risks should be reviewed on a Systemwide basis.
- (6) The VCCAO should consider implementing an automated working paper system and further evaluate enhancing the use of data analytical software.
- (7) The VCCAO should explore options to incorporate the use of computer assisted audit techniques/tools (CAATS) in audits. In addition, the VCCAO should look for ways to train staff in the use of these techniques or tools.

Opinion as to Conformance to the Standards

In our opinion, The California State University System OAAS generally conforms to the Standards in all material respects during the period under review, except for Standard 1312, External Assessments. Standard 1312 requires external assessments be conducted at least once every five years, and the last full quality assurance review was performed over five years ago in November 2006 with an additional review of audit coverage performed in October 2007.

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform. "Generally Conforms" means that Internal Audit has policies, procedures, and a charter that were judged to be in accordance with the *Standards*; however, opportunities for improvement may exist. "Partially Conforms" means deficiencies, while they might impair, did not prohibit Internal Audit from carrying out its responsibilities. "Does Not Conform" means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the division in carrying out its responsibilities.

Scope and Methodology

The IIA's *Standards* require that internal audit functions have a quality assurance and improvement program in place which includes both internal and external assessments. A periodic external quality assessment, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program and must be conducted at least once every five years.

The review was conducted January 6 – 14, 2014, and covered 2012-2013. The work performed during the review generally followed the steps outlined in the *Quality Assessment Manual, Sixth Edition* published by The IIA in 2009, and the January 2013 edition of the *Standards*, including:

- Review, verification, and evaluation of the information prepared by the OAAS to help us gain an understanding of the university system and of their audit operations, including previous quality assurance review reports.
- Review and evaluation of surveys to customers of the OAAS and audit staff.
- Interviews with the VCCAO, the senior directors and other selected members of the audit staff, the audit committee chair, the Chancellor, and key administrators at the University who are responsible for some of the more significant areas subject to audit.
- Review and evaluation of selected sets of audit working papers.
- Review of the division's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

The peer review team met with the VCCAO throughout the course of the review, including a preliminary exit conference on January 8, 2014. We shared experiences, approaches, and other insights to further consider in enhancing the work of the OAAS.

Best Practices, Observations, and Recommendations

All members of management interviewed were complimentary of the division and its interaction with audit clients throughout the System. We observed a number of practices that demonstrate outstanding commitment and professionalism. These best practices include the following:

Best Practices

Governance and Independence

- ✚ The VCCAO reports directly to the Board of Trustees through the Chair of the Audit Committee. This is considered the optimum reporting arrangement, giving the right and responsibility to report directly to the Board of Trustees any circumstances that are significant violations of CSU controls or policies/procedures, and any other matters that warrant Trustee notification.
- ✚ The VCCAO promotes effective governance as evidenced by his inclusion in the Chancellor's and other key management meetings.
- ✚ The current Internal Audit Charter is being reviewed and updated by the Audit Committee.

Customer Rapport

- ✚ Surveys sent to internal audit customers both by the external review team and by the division and interviews held with key managers indicated high customer satisfaction with the OAAS.

Staff Expertise

- ✚ 87% of staff members are certified, and the average experience in internal audit is approximately 15 years.

Monitoring Progress of Audit Recommendations

- ✚ Audit recommendations are frequently monitored and detailed reports of management actions are provided to the Audit Committee regularly.

Advisory Services

- ✚ The OAAS is in the process of enhancing its advisory services, and many of the managers interviewed commended them on this.

The following observations and recommendations for enhancement are intended to build on the foundation already in place in the OAAS.

Observations and Recommendations for Enhancement

The following are our comments related to general observations/best practices and specific individual standards that comprise each of the sections of the *Standards* listed above. Other recommendations for enhancement were discussed verbally with the VCCAO for his consideration but are not contained in the following observations.

Standard 1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

Observation #1: The last full quality assurance review was performed over five years ago in November 2006 with an additional review of audit coverage performed in October 2007.

Recommendation for Enhancement #1: *External assessments should be performed every five years as required by the Standards.*

OAAS Management Response:

We concur. Audit management delayed performance of an external assessment as it explored development of a system-wide compliance function in 2011/2012 and subsequently redirected efforts towards the addition of advisory services in 2012/2013. In the future, external assessments will be performed every five years.

Standard 2000 – Management of the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Observation #2: Some of the campuses have internal audit positions that organizationally report to campus presidents or finance officers rather than the VCCAO. These positions do not have a reporting line to the VCCAO. The campus auditors are also responsible for matters other than traditional internal auditing, and they do not follow all auditing standards.

As a result of the current structure, ambiguity of the roles and duplication of efforts can occur, and the VCCAO may not be aware of issues and risks occurring at the campus level.

Recommendation for Enhancement #2: *The current organization structure should be reviewed to determine if a reporting relationship should be established between campus auditors and the VCCAO in order to strengthen the effectiveness of the audit function and provide increased assurance to the Chancellor and the Board of Trustees*

that significant risks of the System are sufficiently understood and assessed, and are receiving appropriate audit coverage.

OAAS Management Response:

We concur. A review will be conducted to determine the optimum organization structure (within existing resources) to strengthen the effectiveness of the audit function and provide increased assurance to the Chancellor and the Board of Trustees that significant risks of the System are sufficiently understood and assessed, and are receiving appropriate audit coverage.

Standard 2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Observation #3: Information technology is an integral part of the university's operations and these activities are typically considered one of the highest risk areas in an organization. In preparing the risk assessment for the annual internal audit plan, a detailed information technology (IT) risk assessment is not currently being conducted.

Given the size of the CSU and the number of individual campuses with unique IT environments, limited IT activities are audited. It is important to identify IT risks and controls as part of an overall risk assessment process that includes identifying the entire IT audit universe. A more comprehensive IT audit risk assessment should be performed to ensure an effective audit plan is prepared and IT risks receive adequate coverage. The IIA's Global Technology Audit Guide (GTAG) 11, *Developing the IT Audit Plan*, is an excellent resource to follow in developing a more formalized IT audit plan.

Recommendation for Enhancement #3: *A separate IT audit risk assessment should be prepared as part of the annual audit plan risk assessment process. IT audits should be performed based on this risk assessment. Staff resources should be allocated and the need for additional resources should be identified as part of the planning effort.*

OAAS Management Response:

We concur. In conjunction with the evaluation of the current risk assessment process (noted below), we will evaluate the benefits of conducting an independent IT risk assessment.

Observation #4: Currently, the annual audit risk assessment process for performing the campus audits consists of meeting with the executive vice chancellors/vice chancellors to obtain their input on risks in their areas and for the system; sending a quantitative survey to the assistant vice chancellors and any others that the executives indicated should be included in the risk assessment process; and meeting with the audit committee chair to discuss system-wide risks and concerns. At the campus level, input is gained via the use of an audit

universe/questionnaire and a supplemental survey that is sent to the campus presidents for distribution to their vice presidents.

While input is gained from high-level managers, not all managers and staff within the enterprise are involved. After the input is received, the results are reviewed by OAAS senior management including the VCCAO, and the audit subjects are selected and presented to the audit committee and the Board of Trustees. Using factors such as campus risk rankings, the collective knowledge of the OAAS senior directors and the VCAAO, and the VCAAO's own judgment of risks after consideration of input from senior and executive management and the audit committee chair, an audit plan is prepared

In developing the annual audit plan, a large percentage of audit resources are utilized on auxiliary enterprise audits that are required per a 1999 board policy, Executive Order 698. These audits have been performed on a cyclical basis at all campuses for the past 15 years, and the value of these audits as well as the risks may have changed since the policy began.

Recommendation for Enhancement #4: *The current risk assessment and audit planning approach should be re-evaluated.*

OAAS Management Response:

We concur. The current risk assessment and audit planning approach for the campus audits will be re-evaluated to determine if the current format provides the necessary input to ascertain the highest risks to the system. We currently have plans to meet with auxiliary executive leadership to determine how we might add more value to the auxiliary organizations while still providing the Board of Trustees the assurances they require.

Standard 2120.A2 – Risk Management

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

Observation #5: The manager of investigations, reporting to a senior director, is responsible for managing investigations when requested; however, investigations are also being performed by staff at the campus level without communication to the OAAS.

Campuses each have their own method of reporting potential fraudulent activity, such as the use of individual hotlines; however, there is no centralized hotline process in place at the system level. Without adequate communication, including the use of a central hotline, or identification of fraud contacts at the campus level, the OAAS cannot effectively evaluate the potential for the occurrence of fraud.

Recommendation for Enhancement #5: *The evaluation and communication of fraud risks should be reviewed on a system-wide basis.*

OAAS Management Response:

We concur. During 2013, executive management considered the implementation of a system-wide hotline, but concluded that the existing reporting structure for the filing of whistleblower complaints was sufficient. In addition, under Executive Order 813, Reporting of Fiscal Improprieties, campuses are required to notify the Chancellor's Office of all cases of actual or suspected theft, defalcation, or fraud within 24 hours. Nevertheless, in an effort to improve the evaluation and communication of fraud risks at the system-wide level, we plan to incorporate an assessment of fraud risk into our existing annual risk assessment process. Moreover, in alignment with recommendation #2 above, this evaluation and communication process may be further improved if a reporting relationship should be established between campus auditors and the VCCAO in order to strengthen the effectiveness of the audit function.

Standard 2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

Standard 1220.A2 – Due Professional Care

In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis techniques.

Observation #6: The use of an automated working paper system as well as more use of data analytics would enhance the efficiency of the audit process. Currently, the staff is using Microsoft Office products and printing out all working papers. Although they are exploring the use of SharePoint, it is not geared toward auditing. Although some costs of implementation and maintenance would be necessary, the benefits would outweigh the cost savings in time, supplies, sustainability, efficiencies, and storage.

Recommendation for Enhancement #6: The VCCAO should consider implementing an automated working paper system and further evaluate enhancing the use of data analytical software.

OAAS Management Response:

We concur. The division had previously assessed the feasibility of using an automated working paper system, but it was determined that converting to an automated solution was not practical at the time due to budgetary constraints and the lack of trained resources needed to administer and support the system.

Price structures and system support models for these systems have changed dramatically since our initial assessment. This is due in part to changes in how the products are licensed and to the introduction of hosted/cloud offerings. The division is currently re-evaluating the feasibility of using such technology. We will assess the cost/benefits of implementing such a solution at the conclusion of our review.

Observation #7: A survey of audit employees indicated that the majority of employees did not have sufficient access to computer assisted audit techniques/tools (CAATS) or other data analysis tools. These tools are considered common place in today's internal audit repertoire. Their use enhances audits by simplifying the analysis of large volumes of data. Given the size of the university system and the limited resources, the use of audit software could result in enhanced efficiencies as well as additional tools for not only the audit staff but university managers.

Recommendation for Enhancement #7: *The VCCAO should explore options to incorporate the use of CAATS in audits. In addition, the VCCAO should look for ways to train staff in the use of these techniques or tools.*

OAAS Management Response:

We concur. As a general practice, all staff members currently utilize Microsoft Excel and Microsoft Access for data mining and analysis. While these applications have been sufficient to support the current needs of the division, we will review the costs and benefits of using other data analysis tools to determine if they would enhance efficiencies within the division.

CONCLUSION

We appreciate the cooperation and assistance provided to us throughout the course of our review by the members of the OAAS and management at the California State University system.

Sincerely,

Toni Stephens, CPA, CIA, CRMA
Team Leader
Executive Director of Audit and Compliance
The University of Texas at Dallas

Team Members

Beth Buse, CPA, CIA, CISA
Executive Director of the Office of Internal Auditing
Minnesota State Colleges and Universities System

Sheryl Vacca, CHC-F, CCEP-I, CCEP, CHRC, CHPC
Senior Vice President and Chief Compliance and Audit Officer
The University of California System

Appendix 1: Compliance with Auditing Standards

The following table contains our analysis of how Internal Audit activities conform to each section of the *Standards*.

Standard Type and Description	Opinion
<i>Attribute Standards:</i>	
1000 – Purpose, Authority, and Responsibility	Generally Conforms
1100 – Independence and Objectivity	Generally Conforms
1200 – Proficiency and Due Professional Care	Generally Conforms
1300 – Quality Assurance and Improvement Program	Partially Conforms
<i>Performance Standards:</i>	
2000 – Managing the Internal Audit Activity	Generally Conforms
2100 – Nature of Work	Generally Conforms
2200 – Engagement Planning	Generally Conforms
2300 – Performing the Engagement	Generally Conforms
2400 – Communicating Results	Generally Conforms
2500 – Monitoring Progress	Generally Conforms
2600 – Management’s Acceptance of Risks	Generally Conforms
<i>The Institute of Internal Auditors Code of Ethics</i>	Generally Conforms

Appendix 2: Review Team Composition

Beth Buse, CPA, CIA, CISA, Executive Director of Internal Audit for the Minnesota State Colleges and Universities

] Beth Buse was appointed the Executive Director of the Office of Internal Auditing for the Minnesota State Colleges and Universities System in July 2010. She is responsible for providing independent, objective assurance and advisory services on issues and operations that present material risk to the system and its 31 institutions. She is also responsible for the operation and management of the Office of Internal Auditing. Prior to her appointment, she had been the Deputy Director of Internal Auditing for the system for eleven years. She began her career at the Minnesota Office of the Legislative Auditor where she held various positions for nine years. She also worked in system development audit at Norwest Financial Services.

Ms. Buse graduated from St. Cloud State University with a Bachelor of Science Degree in Accounting. Since graduation, she has supplemented her accounting degree with numerous management information system courses. She is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), and passed the GIAC Security Essentials Certification (GSEC) exam in May of 2007.

Ms. Buse is active in many professional organizations, including the Information Systems Audit and Control Association (ISACA). She has held many leadership roles including President of the local ISACA chapter. In addition, she served on the EDUCAUSE Security Task Force Policies and Legal issues working group. She is currently serving a three-year term on the Twin Cities Chapter of the Institute of Internal Auditors Board of Governors.

Toni Stephens, CPA, CIA, CRMA, Executive Director of Audit and Compliance at The University of Texas at Dallas (UTD)

Toni received her BBA degree in Accounting from Texas A&M University. She has over 25 years of experience auditing institutions of higher education, including seven years at the Texas State Auditor's Office. Toni is a former president of the Association of College and University Auditors (ACUA), a member of the ACUA Faculty, and has also been a board member, the Professional Education Chair, and the Annual Conference Director. Toni has been active with the Dallas Institute of Internal Auditors (IIA) on the board and the certifications committee. She has worked with the UTD Internal Auditing Education Partnership (IAEP) Program since 2003 by giving presentations to students, mentoring them, and providing them with experience working on actual audits. She is also a member of the UTD School of Management IAEP Advisory Board. Honors include the ACUA Excellence in Service Award and the Dallas Chapter of the IIA Aaron Saylor's Award for Outstanding Contribution to the Chapter. She has been performing quality assurance reviews on higher education institutions over 15 years.

Sheryl Vacca, CCEP-I, CCEP, CHC-F, CHRC, CHPC, MS, Senior Vice President/Chief Compliance and Audit Officer for the University of California

Sheryl is the Senior Vice President/Chief Compliance and Audit Officer for the University of California appointed by the Board of Regents in 2007. In this role, Sheryl directs and oversees the University's system-wide compliance and internal audit programs applicable to all UC communities including ten campuses, five medical centers, the Berkeley National Laboratory, (Lawrence Livermore National Lab and Los Alamos National Lab LLP (indirect)), ANR and the Office of the President. Specific functions include oversight of UC's Internal Audit services; audit and compliance standards, internal and external audits; investigations; program evaluation, monitoring and communications; and the whistleblower reporting mechanisms; Regental and UC policy compliance; risk assessment; statutory and regulatory compliance and special area compliance (such as research, health care, retail, labs, athletics, etc.). Sheryl has published and presented nationally and internationally on compliance and internal audit topics. Sheryl has also worked in multiple arenas with private and public governing boards related to their roles and responsibilities around compliance and internal audit.

Sheryl has her BS and Masters and served as an Officer in the USAR, Nurse Corps where she received accommodations and achievement medals during reserve and active duty. In 2012, Sheryl received an award from the Society of Corporate Compliance and Ethics, as well as the Pinnacle award from the Health Care Compliance Association for her contributions to the compliance profession. Sheryl has served as President and board member in the Compliance Professional Association. Sheryl is an established and effective leader in internal audit and compliance functions.

COMMITTEE ON AUDIT

Status Report on Current and Follow-Up Internal Audit Assignments

Presentation By

Larry Mandel
Vice Chancellor and
Chief Audit Officer

Summary

This item includes both a status report on the 2014 audit plan and follow-up on past assignments. For the 2014 year, assignments were made to conduct reviews of Auxiliary Organizations, high-risk areas (Information Security, Accessible Technology, and Conflict of Interest), high profile areas (Sponsored Programs – Post Awards, Continuing Education, and Executive Travel), core financial area (Lottery Funds), and Construction. In addition, follow-up on current/past assignments (Auxiliary Organizations, Facilities Management, Police Services, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, Student Health Services, and Conflict of Interest) was being conducted on approximately 30 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form. An up-to-date Attachment A will be distributed at the committee meeting.

Status Report on Current and Follow-up Internal Audit Assignments

Auxiliary Organizations

The initial audit plan indicated that approximately 273 staff weeks of activity (26.6 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. One campus/five auxiliaries reports are awaiting a campus response prior to finalization, and report writing is being completed for two campuses/seven auxiliaries.

High-Risk Areas

Information Security

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of the systems and managerial/technical measures for ongoing evaluation of data/information collected; identifying confidential, private or sensitive

information; authorizing access; securing information; detecting security breaches; and security incident reporting and response. Six campuses will be reviewed. Fieldwork is being conducted at one campus.

Accessible Technology

The initial audit plan indicated that approximately 51 staff weeks of activity (5.0 percent of the plan) would be devoted to a review of compliance with laws and regulations specific to the Americans with Disabilities Act of 1990 as it applies to accessible technology requirements and program access. Six campuses will be reviewed. Report writing is being completed for three campuses, and fieldwork is being conducted for one campus.

Conflict of Interest

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

High Profile Areas

Sponsored Programs – Post Awards

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

Continuing Education

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

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

Executive Travel

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

Core Financial Area

Lottery Funds

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

Construction

The initial audit plan indicated that approximately 39 staff weeks of activity (3.8 percent of the plan) would be devoted to a review of design budgets and costs; the bid process; invoice processing and change orders; project management, architectural, and engineering services; contractor compliance; cost verification of major equipment and construction components; the closeout process and liquidated damages; and overall project accounting and reporting. Five projects will be reviewed. One report is awaiting a campus response prior to finalization.

Advisory Services

The initial audit plan indicated that approximately 209 staff weeks of activity (20.3 percent of the plan) would be devoted to partnering with management to identify solutions for business issues, offering opportunities to improve the efficiency and effectiveness of operating areas, and assisting with special requests, while ensuring the consideration of related internal control issues. Reviews are ongoing.

Information Systems

The initial audit plan indicated that approximately 13 staff weeks of activity (1.3 percent of the plan) would be devoted to technology support for all high-risk and auxiliary audits. Reviews and training are ongoing.

Investigations

The Office of Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged defalcations or conflicts of interest. In addition, whistleblower investigations are being performed on an ongoing basis, both by referral from the State Auditor and directly from the CSU Chancellor's Office. Forty-three staff weeks have been set aside for this purpose, representing approximately 4.2 percent of the audit plan.

Committees/Special Projects

The Office of Audit and Advisory Services is periodically called upon to provide consultation to the campuses and/or to perform special audit requests made by the chancellor. Twenty-nine staff weeks have been set aside for this purpose, representing approximately 2.8 percent of the audit plan.

Follow-ups

The audit plan indicated that approximately 16 staff weeks of activity (1.6 percent of the plan) would be devoted to follow-up on prior audit recommendations. The Office of Audit and Advisory Services is currently tracking approximately 30 current/past assignments (Auxiliary Organizations, Facilities Management, Police Services, International Programs, Credit Cards, Sensitive Data Security, Centers and Institutes, Hazardous Materials Management, Sponsored Programs, Student Health Services, and Conflict of Interest) to determine the appropriateness of the corrective action taken for each recommendation and whether additional action is required.

Annual Risk Assessment

The Office of Audit and Advisory Services annually conducts a risk assessment to determine the areas of highest risk to the system. Five staff weeks have been set aside for this purpose, representing approximately 0.5 percent of the audit plan.

Administration

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

Status Report on Current and Follow-Up Internal Audit Assignments
 (as of 5/19/2014)

2014 ASSIGNMENTS										FOLLOW-UP PAST/CURRENT ASSIGNMENTS									
Aux Orgs	Conflict of Interest	Lottery Funds	Access Tech	Exec Travel	Spon Prog-Post	Info Security	Cont Educ	Auxiliary Organizations	Facilities Management	Police Services	International Programs	*No.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	
BAK		AI						4	16/16	-	5/5	-							
CHI	RW							4	25/25	-						6/6	-		
CI								3			4/4	-							
DH			RW					3	19/19	-				7/7	-				
EB		AC						3						12/12	-				
FRE	AI	RW						6	25/25	-				6/6	-				
FUL	RW							4	28/28	-						4/4	-		
HUM		AI				FW		4	21/30	4						7/7	-		
LB								3	27/27	-						8/8	-		
LA								4	18/18	-						4/4	-		
MA								2	4/4	-	6/6	-							
MB	AC							3	16/16	-									
NOR								5	22/22	-						8/8	-		
POM			RW					2	11/11	-	4/4	-							
SAC	AI	FW						5			4/4	-				4/5	11		
SB								4	28/28	-						13/13	-		
SD			RW					4	24/24	-				9/9	-	1/1	-		
SF			FW					5	19/19	-						8/8	-		
SJ				RW				5	26/26	-	4/4	-							
SLO								3	12/12	-				5/5	-				
SM								4	22/22	-									
SON		AI						3	5/5	-						3/3	-		
STA					FW			4	14/14	-						5/5	-		
CO	AI	FW						2	0/5	3									
SYS											2/2	-				3/3	-		2

* 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.
Numbers/letters in green are updates since the agenda mailout.

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 5/19/2014)

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

* 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.

Numbers/letters in green are updates since the agenda mailout.

COMMITTEE ON AUDIT

Review and Approval of the California State University External Auditor

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

This item requests the California State University Board of Trustees to approve the selection of KPMG as the audit firm to provide a variety of audit functions for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years, and to authorize the chancellor, or his designees, to finalize negotiations for a master service contract with said firm.

Background

In January, the California State University posted a Request for Proposal (RFP) to solicit proposals from qualified independent public accounting firms for the purposes of establishing a CSU master service contract for the performance of a variety of audit functions for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years. The firm or firms awarded would also perform optional tasks or optional services for individual campuses on an as-requested basis in accordance with the provisions of the RFP and any subsequent contract.

Three audit firms (Grant Thornton, KPMG, and PricewaterhouseCoopers) submitted proposals in response to the RFP, which were carefully analyzed in Phase I of the process by the evaluation team based on the criteria specified in the RFP, consisting of:

- the firm's experience, organizational resources, and sustainability;
- qualification and experience of the proposer's project team;
- work plan and methodology;
- technical experience;
- overall capability, stability, size, and structure of the firm.

All three firms were then advanced from the first phase of the review to the second phase for final evaluation based on total five year pricing for required tasks. Based on the second phase criteria of price, KPMG was chosen with the lowest bid submitted.

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the Trustees:

1. Acknowledge their review of the Request for Proposal (RFP 4422) process in soliciting proposals from qualified independent public accounting firms for the purposes of performing financial statements and other audits for the CSU system, beginning with the 2014-2015 fiscal year audit.
2. Authorize the chancellor, or his designees, to finalize negotiations for the master service contract with KPMG for the performance of a variety of audit tasks for five fiscal years, beginning July 1, 2014 and ending June 30, 2019, with optional one-year extensions for up to three additional years.