

## AGENDA

### COMMITTEE ON AUDIT

**Meeting:** 3:20 p.m., Tuesday, March 20, 2018  
Glenn S. Dumke Auditorium

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

- Consent** 1. Approval of Minutes of the Meeting of January 31, 2018, *Action*
- Discussion** 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  
  
January 31, 2018**

**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.

**Approval of Minutes**

The minutes of November 8, 2017, were approved as submitted.

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

With the concurrence of the committee, Trustee Morales presented agenda item 2 as a consent information item.

**Calendar Year 2018 Plan for Audits, Advisory Services, and Investigations**

Vice Chancellor and Chief Audit Officer, Larry Mandel, provided information regarding the 2018 calendar year plan for audits, advisory services, and investigations. He indicated that the audit plan for calendar year 2018 constitutes year two of the phase-in of the new organization structure.

Mr. Mandel provided an overview of the audit plan allocation, with audits representing the largest portion of the plan at 72 percent and consisting of general audits, information technology audits, sponsored programs audits, and construction audits. Mr. Mandel explained that the next largest portion of the plan representing 12 percent is advisory services. He reminded the trustees that advisory services was introduced as a new function in 2013 and continues to be well received within the system. He explained that its goal is to essentially prevent risk, rather than detecting problems after the fact. Mr. Mandel noted that the final components of the plan are investigations representing 6 percent, staff time for committees and special projects representing 1 percent, and audit support representing 9 percent.

Trustee Morales called for a motion to approve the committee resolution (RAUD 01-18-01). A motion was made, there was a second, and the resolution was approved.

### **Report of the Systemwide Financial Statements and Single Audit of Federal Awards Including the Report to Management**

Assistant Vice Chancellor and Controller Mary Ek presented a summary of revenues and expenses from fiscal year 2016-2017 by category. The total net position as of June 30, 2017 decreased by \$3 billion from the previous year. There were no audit findings in the systemwide financial statements. Out of the 90 auxiliary organizations there were six auxiliary organizations that had audit findings in fiscal year 2016-2017. The Chancellor's Office is following up with each auxiliary organization's board of directors to ensure appropriate corrective actions are taken.

Ms. Ek noted that the Office of Management and Budget requires a separate audit of federal funds received by the system and indicated that the audit findings overall were of minor financial materiality. There were three systemwide findings related to the administration of financial aid programs and two auxiliary organizations had errors in their schedule of expenditures of federal awards. Corrective actions are in progress and a status update will be provided at a future board meeting.

Mark Thomas of KPMG reported that the results of the California State University audit include an unmodified opinion on the financial statements, which is a clean opinion. There were no significant findings and no significant items to report. Mr. Thomas next reported on the single audit. There was one significant deficiency for an over award which is considered a minor finding for context purposes. The other two findings were in the administrative category and not considered substantial. Clean opinions were also received for the single audit.

Following the presentation the trustees asked questions relating to a net decrease of \$19.50 million in student and tuition fees and the percentage of revenues attributed to state appropriations. The trustees also expressed concern regarding the substantial jump in non-current liabilities which were primarily attributed to the net pension liability increase. Mr. Thomas also noted that an additional post-employment benefit will be required to be recorded in the financial statements as of June 30, 2018 for retiree medical costs.

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 2018 audit plan and follow-up on past assignments. For the 2018 year, assignments were made to develop and execute individual campus audit plans; conduct audits of Information Technology (IT), Sponsored Programs and Construction; implement continuous auditing techniques; and to provide advisory services and investigation reviews. Follow-up on current and past assignments was also being conducted on approximately 30 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

### **AUDITS**

#### General 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. Fieldwork is being conducted at one campus, and report writing is being completed for eight campuses.

#### Information Technology Audits

The initial audit plan indicated that reviews of Information Security, IT Disaster Recovery, Cloud Computing, and Decentralized Computing 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. Fieldwork is being conducted at one campus, and report writing is being completed for three campuses.

#### Sponsored Programs

The initial audit plan indicated that reviews of both post-award and pre-award activities would be performed. Post-award areas to be reviewed include operational, administrative, and financial controls to determine adherence to both sponsor terms and conditions, and applicable policies, procedures, and regulations. Pre-award reviews emphasize compliance with conflict-of-interest

and training requirements. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Fieldwork is being conducted at one campus, and report writing is being completed for one campus.

### 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. Report writing is being completed 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.

### CONTINUOUS AUDITING TECHNIQUES

The initial audit plan indicated that continuous auditing techniques for more focused and higher quality audits would be implemented and used to review credit card data for twelve campuses. Continuous auditing uses data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing risk assessment process. Credit card data has been requested.

## 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 3/15/2018)**

| Campus           | Audit Topic   | Audit Plan<br>Year | Audit<br>Status | Follow-up on Current and<br>Past Audit Assignments |       |
|------------------|---|--------------------|-----------------|--|-------|
|                  |   |                    |                 | *Recs  | **Mo. |
| Bakersfield      | Athletics Fund-Raising  | 2017               | AC              | 0/5  | 3     |
| Channel Islands  | Fund-Raising and Gift Processing  | 2017               | AC              | 9/9  | -     |
| Chico            | Logical Access and Security   | 2017               | AC              | 3/3  | -     |
|                  | Facilities Management   | 2017               | AC              | 1/7  | 2     |
|                  | Academic Department Fiscal Review   | 2018               | FW              |  |       |
| Dominguez Hills  | Information Security  | 2017               | AC              | 10/10  | -     |
|                  | Business Continuity   | 2017               | AC              | 1/2  | 7     |
|                  | Student Organizations   | 2017               | AC              | 0/6  | 1     |
|                  | Const. - Central Pt. Cooling Twr. &<br>Domestic and Fire Water Line Repl. | 2018               | RW              |  |       |
| East Bay         | Sponsored Programs - Post Award   | 2017               | AC              | 0/5  | 3     |
|                  | International Activities  | 2018               | RW              |  |       |
| Fresno           | Hazardous Materials Management  | 2017               | AC              | 2/7  | 4     |
|                  | Const. - Jordan Research Building   | 2017               | AI              |  |       |
|                  | Student Organizations   | 2018               | RW              |  |       |
| Fullerton        | Academic Department Fiscal Review   | 2017               | AC              | 4/4  | -     |
|                  | Cashiering  | 2017               | AC              | 0/7  | 2     |
|                  | Information Security  | 2018               | RW              |  |       |
| Humboldt         | Extended Education  | 2017               | AC              | 0/5  | 3     |
|                  | Information Security  | 2018               | FW              |  |       |
| Long Beach       | Sponsored Programs - Post Award   | 2017               | AC              | 3/4  | 6     |
|                  | Student Organizations   | 2018               | RW              |  |       |
| Los Angeles      | Student Health Services   | 2017               | AC              | 0/4  | 3     |
|                  | Student Organizations   | 2017               | AC              | 0/4  | 2     |
| Maritime Academy | Information Security  | 2017               | AC              | 7/7  | -     |
|                  | Police Services   | 2017               | AC              | 4/4  | -     |
|                  | Hazardous Materials Management  | 2018               | RW              |  |       |
| Monterey Bay     | Police Services   | 2017               | AC              | 6/6  | -     |
|                  | Hazardous Materials Management  | 2018               | RW              |  |       |
| Northridge       | Facilities Management   | 2017               | AC              | 4/4  | -     |
|                  | Student Organizations and Sport Clubs                                     | 2017               | AI              |  |       |
| Pomona           | Student Disability Support  | 2017               | AC              | 8/8  | -     |
|                  | Emergency Management  | 2017               | AI              |  |       |
|                  | Cashiering  | 2018               | RW              |  |       |
| Sacramento       | Information Security  | 2017               | AC              | 8/11   | 5     |
|                  | Centers and Institutes  | 2017               | AC              | 0/4  | 3     |
|                  | Sponsored Programs - Post Award   | 2018               | FW              |  |       |

**Status Report on Current and Past  
Audit Assignments  
(as of 3/15/2018)**

| Campus              | Audit Topic   | Audit Plan Year | Audit Status | Follow-up on Current and Past Audit Assignments |       |
|---------------------|---|-----------------|--------------|---|-------|
|                     |   |                 |              | *Recs   | **Mo. |
| San Bernardino      | Police Services   | 2017            | AC           | 0/3   | 1     |
|                     | Logical Access and Security   | 2017            | AC           | 0/0   | -     |
| San Diego           | Facilities Management   | 2017            | AC           | 5/7   | 9     |
|                     | Const. - Open Air Theater Improvements and Confucius Institute Renovation | 2017            | AC           | 0/6   | 1     |
|                     | Student Disability Support  | 2018            | RW           |   |       |
| San Francisco       | International Activities  | 2017            | AC           | 1/2   | 7     |
|                     | Academic Department Fiscal Review   | 2017            | AC           | 0/4   | 4     |
|                     | Special Investigation   | 2017            | AC           | 1/2   | 5     |
|                     | Decentralized Computing   | 2017            | AI           |   |       |
| San Jose            | Associated Students   | 2017            | AC           | 5/5   | -     |
|                     | Tower Foundation  | 2017            | AC           | 1/3   | 3     |
|                     | Sponsored Programs - Post Award   | 2017            | AC           | 0/1   | 1     |
|                     | Decentralized Computing   | 2018            | RW           |   |       |
| San Luis Obispo     | IT Disaster Recovery  | 2018            | RW           |   |       |
| San Marcos          | Information Security  | 2017            | AC           | 0/5   | 3     |
|                     | Service Learning and Internships  | 2017            | AC           | 0/2   | 4     |
|                     | Student Health Services   | 2018            | RW           |   |       |
| Sonoma              | Cashiering  | 2017            | AC           | 3/3   | -     |
|                     | Information Security  | 2017            | AC           | 0/7   | 2     |
| Stanislaus          | Service Learning and Internships  | 2017            | AC           | 3/3   | -     |
|                     | Student Disability Support  | 2017            | AC           | 0/7   | 1     |
| Chancellor's Office | Special Investigation   | 2017            | AC           | 5/5   | -     |
|                     | Information Security  | 2017            | AI           |   |       |
|                     | Sponsored Programs - Post Award   | 2018            | RW           |   |       |
| Systemwide          | Sponsored Programs - Indirect Costs                                       | 2017            | AI           |   |       |
|                     | Student Organizations   | 2017            | AI           |   |       |

**Status**

FW - Field Work In Progress

RW - Report Writing in Progress

AI - Audit Incomplete (awaiting formal exit conference and/or campus response)

AC - Audit Complete

**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.