

AGENDA

COMMITTEE ON AUDIT

Meeting: 8:40 a.m., Wednesday, July 22, 2020
Virtually via Teleconference

Adam Day, Chair
Jane W. Carney, Vice Chair
Silas H. Abrego
Jean P. Firstenberg
Jack McGrory
Hugo N. Morales
Peter J. Taylor

- Consent**
1. Approval of Minutes of the Meeting of May 12, 2020, *Action*
 2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
 3. Report on Financial Statements Audit Corrective Actions, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON AUDIT**

**Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Auditorium*
401 Golden Shore
Long Beach, California**

May 12, 2020

Members Present

Jack McGrory, Chair
Hugo N. Morales, Vice Chair
Silas H. Abrego
Jane W. Carney
Douglas Faigin
Jean P. Firstenberg
Wenda Fong
Lateefah Simon
Adam Day, Chair of the Board

Trustee McGrory called the meeting to order.

Approval of Minutes

The minutes of March 24, 2020, were approved as submitted.

Status Report on Current and Follow-up Internal Audit Assignments

Trustee Jane W. Carney requested that agenda item 2 be removed from the consent agenda for discussion and inquired about the status of the continuous audit program. Trustee Carney suggested that going forward there could be additional emphasis on more rigorous continuous audit and data analytic activities in light of COVID-19 social distancing measures. Vice Chancellor and Chief Audit Officer Larry Mandel noted that work is in process on various continuous audit programs. Trustee McGrory added that a pilot of payroll and human resources data reviews to look at potential risks is underway.

Trustee McGrory adjourned the Committee on Audit.

***PLEASE NOTE: Due to the Governor's proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor's Executive Orders N-25-20 and N-29-20 issued on March 12, 2020 and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor's Office staff, the May 12, 2020 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

COMMITTEE ON AUDIT

Status Report on Current and Follow-up Internal Audit Assignments

Presentation By

Vlad Marinescu
Interim Chief Audit Officer
Audit and Advisory Services

Summary

This item includes both a status report on the 2020 audit plan and follow-up on past assignments. For the 2020 year, assignments were made to execute individual campus audit plans; conduct audits of information technology (IT), sponsored programs and construction; use continuous auditing techniques and data analytics tools; and provide advisory services and investigation reviews. Follow-up on current and past assignments is being conducted on approximately 46 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

Audit and Advisory Services is currently operating under the Interim Guidelines/Temporary Operating Procedures for Audit and Advisory Services During the COVID-19 Public Health Emergency (<https://calstate.policystat.com/policy/8001072/latest/>). These procedures were developed by audit management in consultation with the Board of Trustees Audit Committee Chair and the Chancellor.

Due to the COVID-19 pandemic, the scope of the audits portion of the 2020 audit plan has inevitably been reduced. This is primarily due to the fact that no new audits were commenced between the period of March 16 through May 30. Additionally, some audit topics are more difficult than others to perform remotely given that under current circumstances both the auditor and campus personnel are working remotely. However, alternative topics have been identified, when necessary, and new audits commenced in early June. The timing and logistics of new audits are being planned in consultation with the respective campus vice president for administration and finance/CFO and are being performed remotely to the extent possible due to interim limitations of the COVID-19 health emergency. On-campus audit and advisory activity will resume when it is safe and appropriate to do so. During the period of March 16 through May 30 audit staff was able to continue progress on audits with completed fieldwork, attend virtual trainings, expand the use of existing data analytics software, develop new audit programs, and prepare for upcoming scheduled audits.

It should also be noted that Audit and Advisory Services has assigned five staff members (auditors/advisory services consultants) to assist campuses with preparing and reviewing documentation for a future FEMA claim associated with the COVID-19 health emergency. Auditors assigned to assist with this special project will be able to concurrently balance performing various audit-related duties. Audit and Advisory Services is pleased to partner with management on this important special project.

AUDITS

General Audits

The initial audit plan indicated that reviews would be performed for audit topics including, but not limited to, auxiliary organizations, conference and event services, emergency management, facilities management, housing and residential services, minors on campus, professional and continuing education, and service learning and internships. Reviews for these topics are either in process or complete. Seven campus reports have been completed, fieldwork is being performed at five campuses, and two reports are awaiting a campus response prior to finalization.

Information Technology Audits

The initial audit plan indicated that reviews of accessible technology, cloud computing, IT disaster recovery, and information security would be performed at those campuses where a greater degree of risk was perceived for each topic. Reviews of accessible technology and information security are currently in process or complete. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues. One campus report has been completed, two reports are awaiting a campus response prior to finalization, and fieldwork is being performed at one campus.

Sponsored Programs

The initial audit plan indicated that reviews of post-award activities would be performed. Post-award reviews emphasize review of operational, administrative, and financial controls to determine whether processes and expenditures are in accordance with both sponsor terms and conditions, and applicable policies, procedures, and regulations. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. One campus report has been completed.

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, but are not limited to approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting. Fieldwork is being conducted at two campuses.

Continuous Auditing and Data Analytics

The initial audit plan indicated that continuous auditing techniques would be employed using data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing audit process. Continuous auditing and data analytics programs endeavor to partner with management to proactively enhance awareness of risk, control and compliance issues.

In 2018 and 2019, Audit and Advisory Services completed reviews of credit card data for all 23 campuses and the Chancellor's Office. In the current audit year, credit card information management tools (dashboards) have been created, with quarterly updates now available to all campuses. Some of the dashboard reports that are available to campuses include a report of transactions over approved limits, instances of potential transaction splitting, and instances of unallowable expenditures for travel.

Human resource and payroll data have been obtained from PeopleSoft HR and systemwide Human Resources, and continuous audit tests in this area are currently being piloted on three campuses. Some of the tests being performed as part of the pilot include examining duplicate employees; processing of salary changes; unusually high or duplicated payments; controls over overtime payments; additional employment limitations; and appropriate leave accruals.

Data analytics tools are also being expanded for internal use, providing audit management with valuable information to enhance risk assessments and engagement planning. In addition to the credit card dashboards, management tools have been developed to review travel and hospitality reimbursements, as well as overall campus revenues and expenditures.

Due to the impact of COVID-19 on the campuses and the audit plan, Audit and Advisory Services is currently in the process of evaluating opportunities to further expand the use of data analytics in audit engagements and in order to allow for greater audit coverage. The division has increased the number of staff with access to data analytics software and provided staff with in-house training. In addition, we are developing repeatable analytics tests to review procurement and disbursement transactions, with the goal of reviewing these areas on a routine basis for each campus. However, there are challenges and limitations to be considered, including data availability and the lack of campus personnel available to review and validate analytics results.

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. Despite the challenges presented by COVID-19, campuses have continued to request advisory reviews 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. Further, whistleblower investigations are being performed on an ongoing basis, both by referral from the state auditor and directly from the CSU Chancellor's Office.

In addition, 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. For example, the unit served as the liaison with the California State Auditor's Office for the audit of campus-based student fees, issued on May 14, 2020, and is also responsible for coordinating the CSU's follow-up responses to the audit. Follow-up responses are due 60 days, six months, and one year after the report's release, and annually thereafter if recommendations are still open. The 60-day response is due in July 2020. In this latest audit, the State Auditor recommended additional oversight from the Chancellor's Office for proposed campus-based mandatory fees or increases to existing fees. A copy of the full report can be found on the State Auditor's website (<http://www.auditor.ca.gov/pdfs/reports/2019-114.pdf>).

COMMITTEES/SPECIAL PROJECTS

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.

As previously described, five auditors/advisory services consultants have been assigned to assist campuses with preparing and reviewing documentation for a future FEMA claim prior to its submission.

AUDIT SUPPORT

Annual Audit Planning Process

Audit and Advisory Services performs an annual audit planning process using risk questionnaires and other surveys, management interviews, audit history, and other factors. Periodically, other audit topics are selected for review due to their high profile nature in order to assure the board that appropriate policies and procedures are in place to mitigate risk to the system.

Administration

Day-to-day administration of the Audit and Advisory Services division 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 7/9/2020)**

| Campus | Audit Topic | Audit Plan Year | Audit Status | Follow-up on Current and Past Audit Assignments | |
|------------------|---|--------------------|-----------------|--|-----------------|
| | | | | *Recs | **Mo. |
| Bakersfield | Student Union | 2019 | AC | 4/6 | 6 |
| | Housing and Residential Services | 2020 | FW | | |
| Channel Islands | Health and Safety | 2019 | AC | 0/6 | 7 |
| | Faculty Reassigned Time & Addtl. Employ. | 2019 | AC | 0/4 | 4 |
| | Information Security | 2020 | AI | | |
| | Conference and Event Services | 2020 | FW | | |
| Chico | Special Investigation - Misuse of Campus Resources and Improper Reim. Claims | 2018 | AC | 7/7 | - |
| | Housing and Residential Services | 2019 | AC | 3/11 | 9 |
| Dominguez Hills | International Activities | 2018 | AC | 8/9 | 21 ¹ |
| | Health and Safety | 2019 | AC | 3/15 | 8 |
| East Bay | IT Disaster Recovery | 2019 | AC | 0/4 | 4 |
| Fresno | Associated Students, Inc. | 2019 | AC | 7/9 | 6 |
| | Professional and Continuing Education | 2020 | FW | | |
| Fullerton | Associated Students, Inc. | 2019 | AC | 2/11 | 8 |
| | Accessible Technology | 2019 | AC | 1/2 | 4 |
| | Service Learning | 2020 | FW | | |
| Humboldt | Facilities Management | 2020 | AC | 0/6 | 3 |
| Long Beach | Health and Safety | 2019 | AC | 13/15 | 11 |
| | Emergency Management | 2019 | AC | 3/6 | 8 |
| | Special Investigation - Inaccuracies in Time Reporting for Grant Program | 2019 | AC | 0/5 | 7 |
| | Const. - College of Continuing Professional Education Classroom Bldg. | 2019 | AI | | |
| | 49er Foundation | 2020 | AC | 0/3 | 3 |
| Los Angeles | Information Security | 2020 | FW | | |
| Maritime Academy | IT Disaster Recovery | 2019 | AC | 0/3 | 4 |
| | Foundation | 2020 | AI | | |
| Monterey Bay | Health and Safety | 2019 | AC | 3/13 | 6 |
| | Information Security | 2020 | AI | | |
| Northridge | Cloud Computing | 2019 | AC | 0/3 | 5 |
| | Emergency Management | 2019 | AC | 0/5 | 3 |
| Pomona | Professional and Continuing Education | 2019 | AC | 7/7 | - |
| | Health and Safety | 2019 | AC | 3/7 | 5 |
| | Housing and Residential Services | 2020 | FW | | |
| Sacramento | Associated Students of CSU, Sacramento | 2018 | AC | 9/10 | 17 ² |
| | Emergency Management | 2019 | AC | 7/7 | - |
| | Health and Safety | 2019 | AC | 3/5 | 6 |
| San Bernardino | Information Security | 2019 | AC | 4/4 | - |
| | Sponsored Programs - Post Award | 2020 | AC | 0/6 | 2 |

**Status Report on Current and Past
Audit Assignments
(as of 7/9/2020)**

| Campus | Audit Topic | Audit Plan Year | Audit Status | Follow-up on Current and Past Audit Assignments | |
|---|---|-----------------|--------------|---|-----------------|
| | | | | *Recs | **Mo. |
| San Diego | Health and Safety | 2019 | AC | 5/6 | 11 ³ |
| | Emergency Management | 2020 | AC | 0/7 | 2 |
| San Francisco | Information Security | 2019 | AC | 6/9 | 6 |
| | Emergency Management | 2019 | AC | 0/11 | 6 |
| | Minors on Campus | 2020 | AC | 0/5 | 2 |
| San Jose | Information Security | 2019 | AC | 3/4 | 8 |
| | Facilities Management | 2019 | AC | 0/5 | 5 |
| | Special Investigation - Athletics Donations, Scholarships, & Endowments | 2019 | AC | 0/8 | 4 |
| | Professional and Continuing Education | 2020 | AI | | |
| | Const. - Student Rec. and Aquatics Center | 2020 | FW | | |
| San Luis Obispo | Sponsored Programs | 2019 | AC | 0/5 | 7 |
| | Housing and Residential Services | 2020 | AC | 0/12 | 2 |
| | Const. - Student Housing South | 2020 | FW | | |
| San Marcos | IT Disaster Recovery | 2019 | AC | 1/4 | 8 |
| | Special Investigation - Fraudulent Reim. Claims and Excessive Spending | 2019 | AC | 6/6 | - |
| | Emergency Management | 2020 | AC | 0/6 | 3 |
| Sonoma | Health and Safety | 2019 | AC | 0/11 | 5 |
| | Accessible Technology | 2020 | AC | 0/5 | 2 |
| Stanislaus | Sponsored Programs - Post Award | 2019 | AC | 3/4 | 5 |
| | Emergency Management | 2020 | AC | 0/4 | 3 |
| Chancellor's Office | Accessible Technology | 2019 | AC | 4/7 | 12 ⁴ |
| | Health and Safety | 2019 | AC | 0/5 | 5 |
| <p>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</p> <p>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.</p> <p>¹ Approved extended completion date of 7/31/20. ² Approved extended completion date of 10/1/20. ³ Approved extended completion date of 12/31/20. ⁴ Approved extended completion date of 11/30/20.</p> | | | | | |

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 January 2020 California State University Board of Trustees meeting, there was an audit finding related to the accuracy of employee census data provided by the State Controller's Office (SCO) and CalPERS for actuarial valuation that resulted in overstatement of the Other Post-Employment Benefits (OPEB) liability. We continue to work with the SCO and CalPERS to improve data sharing across the three entities and develop a reliable process for the future.

Additionally, each auxiliary organization conducts individual audits and 17 of the 90 auxiliaries identified material weaknesses and significant deficiencies in internal controls over financial reporting. All auxiliary organizations have provided documentation of corrective actions taken.

Finally, 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 auxiliary organization audits and the Single Audit.