April 6, 2016

Mr. Daniel Alvarez
Secretary of the Senate
State Capitol, Room 3044
Sacramento, California 95814

Dear Mr. Alvarez:

In accordance with requirements of Government Code 13405 (b) please find the attached 2015 State Leadership Accountability Act for the California State University.

Sincerely,

Timothy P. White
Chancellor
Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California State University submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Steven W. Relyea, Executive Vice Chancellor and Chief Financial Officer, at (562) 951-4600, srelyea@calstate.edu.

BACKGROUND

The California State University (CSU) is a leader in high-quality, accessible, student-focused higher education. With 23 campuses, 460,000 students, and 47,000 faculty and staff, we are the largest, the most diverse, and one of the most affordable University systems in the country.

CSU Leadership

- Board of Trustees
- Chancellor: Timothy White
- Executive Vice Chancellor and General Counsel: Framroze Virjee
- Executive Vice Chancellor and Chief Financial Officer: Steve Relyea
- Executive Vice Chancellor and Chief Academic Officer: Loren Blanchard
- Vice Chancellor, University Relations and Advancement: Garrett Ashley
- Vice Chancellor, Human Resources: Lori Lamb
- Vice Chancellor and Chief Audit Officer: Larry Mandel
- Campus Presidents
- Campus Vice-Presidents
- Campus Police Chiefs

Campuses

The California State University's 23 campuses have a significant impact in their local communities, in the region, and statewide. Each year, the CSU's campuses provide tens of thousands of job-ready graduates for California's workforce who lead the state's industries, providing new ideas and innovations that fuel California's economy. Moreover, the CSU's campuses have a deep commitment to enriching the experiences of their students and improving the quality of life in the surrounding regions. As integral partners in communities across the state, CSU campuses offer Californians the benefit of an outstanding spectrum of programs and services.
Auxiliary Organizations

There are nearly 90 auxiliary organizations supporting CSU campuses. Auxiliary organizations are nonprofit organizations which are separate legal entities that operate pursuant to written operating agreement with the CSU Board of Trustees, have separate governing boards with close campus linkages, and follow all legal and policy rules established by the CSU system and the respective campus Administration. They were created to perform essential functions associated with a postsecondary educational institution, which under California law were difficult, cumbersome, or legally restricted for the University and were not supported by state funding. These organizations provide supplemental services that complement the core academic programs at each campus and provide the full range of educational experiences expected by its students.

The activities of CSU auxiliary organizations include:
- Student self-governance.
- Student body center/union/recreation center.
- Externally supported research and sponsored programs, including workshops, institutes, or conferences.
- Commercial services such as book stores or food service.
- Philanthropic activities, including acceptance of donor gifts.

CSU Risk Management Authority and Auxiliary Organizations Risk Management Alliance
The Chancellor's Office staff and representatives of Auxiliary Organizations within the CSU have been developing a systematic approach to managing risk exposures now prevalent across CSU campuses. Special legislation was obtained to permit both the CSU as a state agency, and Auxiliary Organizations as separate nonprofit corporations, to create a quasi-public entity to establish and perform pooled group insurance and related risk management functions for the benefit of all who elect to join the new entity and to participate therein.

Systemwide Revenue Bond Program
The CSU Systemwide Revenue Bond Program provides a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees. The program enables the CSU to take advantage of rapidly changing market conditions by refinancing to lower the cost of debt financing for the CSU and its auxiliary organizations.

Mission of the California State University
- To advance and extend knowledge, learning, and culture, especially throughout California.
- To provide opportunities for individuals to develop intellectually, personally, and professionally.
- To prepare significant numbers of educated, responsible people to contribute to California's schools, economy, culture, and future.
- To encourage and provide access to an excellent education to all who are prepared for and wish to participate in collegiate study.
- To offer undergraduate and graduate instruction leading to bachelors and higher degrees in the liberal arts and sciences, the applied fields, and the professions, including the doctoral degree when authorized.
- To prepare students for an international, multi-cultural society.
- To provide public services that enrich the University and its communities.
Values and Principles

- Emphasizes quality in instruction.
- Provides an environment in which scholarship, research, creative, artistic, and professional activity are valued and supported.
- Stresses the importance of the liberal arts and sciences as the indispensable foundation of the baccalaureate degree.
- Requires of its bachelor's degree graduates breadth of understanding, depth of knowledge, and the acquisition of such skills as will allow them to be responsible citizens in a democracy.
- Requires of its advanced degree and credential recipients a depth of knowledge, completeness of understanding, and appreciation of excellence that enables them to contribute continuously to the advancement of their fields and professions.
- Seeks out individuals with collegiate promise who face cultural, geographical, physical, educational, financial, or personal barriers to assist them in advancing to the highest educational levels they can reach.
- Works in partnership with other California educational institutions to maximize educational opportunities for students.
- Serves communities as educational, public service, cultural, and artistic centers in ways appropriate to individual campus locations and emphases.
- Encourages campuses to embrace the culture and heritage of their surrounding regions as sources of individuality and strength.
- Recognizes and values the distinctive history, culture, and mission of each campus.
- Promotes an understanding and appreciation of the peoples, natural environment, cultures, economies, and diversity of the world.
- Encourages free scholarly inquiry and protects the University as a forum for the discussion and critical examination of ideas, findings, and conclusions.
- Offers degree programs in academic and applied areas that are responsive to the needs of the citizens of this state and provides for regular review of the nature and extent of these programs.
- Offers or proposes to offer instruction at the doctoral level jointly with the University of California and with private institutions of postsecondary education, or independently in the field of education where the need is clearly demonstrated.

Business Functions and Activities

Board of Trustees

The Board of Trustees is responsible for the oversight of the California State University. The Board adopts rules, regulations, and policies governing the California State University. The Board has authority over curricular development, use of property, development of facilities, and fiscal and human resources management.

The 25-member Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council.
Academic Affairs

The Division of Academic Affairs concentrates on student success and faculty support while providing leadership and assistance to the CSU campuses. A high-quality educational experience for California’s diverse student body taught and assisted by skilled faculty and staff is the division’s aim. They are committed to excellent teaching and learning, and providing students with research opportunities that will expand their knowledge base and generate innovative discoveries and ideas that contribute to California’s economy, culture, and society.

Academic Affairs concurrently focuses on student services, community engagement, academic programs, special projects, and academic technology. They work with the campuses, Chancellor's Office divisions, the Board of Trustees, other educational segments, and state agencies to respond to the educational needs of students as well as the challenges facing the system and state. The Division also helps CSU campuses provide students with countless opportunities to achieve their current and future educational and career goals.

Office of Audit and Advisory Services

The mission of the Office of Audit and Advisory Services is to assist University management and the Trustees in the effective discharge of their fiduciary and administrative responsibilities by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This assistance is provided through a series of independent and objective operational and compliance audits, internal control reviews, investigations, and advisory services designed to add value and improve operations.

Business and Finance

The Division of Business and Finance enables campuses to fulfill the educational mission of the CSU by providing effective and prudent support for budget and fiscal management, physical plant management, and information technology services, with a focus on public safety while mitigating risks. The division identifies sustainable, long-term budget management strategies; identifies and obtains alternative funding sources; mitigates risks and regulatory compliance; and sets the University on a sustainable trajectory through synergies, shared services, and continuous improvement.

Office of General Counsel

The Office of General Counsel is committed to act with integrity, knowledge of the law, and reason, in support of the dynamic educational environment of the CSU. It is their function to provide, manage, and coordinate all legal services for the CSU, as an institution, to minimize legal risks and costs, and always to do so efficiently, reliably, and professionally.

Systemwide Human Resources

Human Resources provides leadership within the community of faculty, staff, and administrators to ensure that the CSU can recruit, retain, and engage a highly talented and diverse workforce. The division supports an inclusive environment that values equity and diversity, leadership, integrity, trust, excellence, teamwork, and communication is essential. Employees are engaged and productive with the skills and behaviors required to meet the California State University’s mission. The CSU demonstrates concern for the health, well-being, and safety of its employees. Risk and issues of compliance related to human
resources are well managed. The division fosters an environment of continuous human resources improvement. Collective bargaining is focused on accomplishing the California State University’s mission.

University Relations and Advancement

The Division of University Relations and Advancement promotes the CSU by communicating its strengths as a state and national leader in providing high-quality, accessible, affordable education. The division’s goals are to: enhance awareness and understanding of the CSU's significant and positive impact on California's economy, culture and quality of life; advocate for resources needed to maintain quality, improve access, and increase degree attainment; and develop innovative communications and foster partnerships in support of the CSU's role in closing achievement gaps at every stage of the educational pipeline.

History and Statutory Duties

The CSU system was created in 1960 under the California Higher Education Master Plan (Education Code section 66201-66207). The CSU draws its students from the top third of the state’s high school graduates and is California’s primary undergraduate teaching institution. Helping to meet California’s workforce demands for skilled professionals, the CSU offers independent doctor of education, doctor of nursing practice, and doctor of physical therapy degree programs at several campuses. The doctor of philosophy is also being offered through a joint partnership with other public or private universities in California.

The CSU reaches out to California’s growing underserved communities, offering affordable opportunities to pursue a college degree that enables students from diverse backgrounds to succeed. More than a third of CSU students are first generation college students and the CSU provides more than half of all undergraduate degrees granted to California’s Latino, African American, and Native American students.

Rules, Regulations, and Statutes impacting the CSU relate to:

- Affirmative Action
- Athletics/National Collegiate Athletics Association
- Auxiliary Organizations
- Employee Benefits Law
- Public Debt/Bond Law
- California Environmental Quality Act
- Collective Bargaining
- Conflict of Interest Requirements
- Construction Law
- Contracts Law
- Disability/Americans with Disability Act
- Family Medical Leave Act
- First Amendment
- Governance/Open Meetings
- Health Insurance Portability and Accountability Act
- Immigration Law
- Information Security Laws and Regulations
- Intellectual Property
RISK ASSESSMENT PROCESS

CSU leadership manages and assesses risks continuously. Related authorities and responsibilities are formally delegated and are monitored and controlled through various financial and operational policies, practices, and guidelines as well as through formal and informal reporting. Controls related to risks are monitored and improved through a process which includes owners/subject matter experts. Additional feedback is gained through regular internal and external reviews and audits.

Oversight and assessment of risks is administrated both formally and informally through a network of committees and working groups.

Trustees watch and improve controls through the efforts of standing and special committees of the Board.

The Chancellor, through the Executive Leadership Council and the Council of Campus Presidents and associated sub-groups like the Technology Steering Committee. Vice Chancellor’s control through associations of Vice Presidents such as the Chief Administrators and Business Officers, the Academic Affairs Council, the Student Affairs Council, CSU Risk Management Agency Board, etc.

CSU Committees and associations comprised of campus leadership and subject matter experts provide additional control and oversight. These groups include the Financial Officers Association, the Information
Technology Advisory Committee, the Auxiliary Organization Association, and other groups convening to oversee areas such as police chiefs, continuing education, financial aid advising, information security management, budget administration, Title IX compliance, etc.

Risks considered by the CSU include strategic risks, affecting the CSU’s ability to carry out its mission and strategic objectives, financial risks that could involve misappropriation or the loss or theft of assets, operational risks involving the interruption or cessation of business activities, compliance risks involving external sanctions from regulatory authorities, and reputational risks that may tarnish the CSU’s name or reputation. Risks identified within this report were culled from a survey of various documented sources, inquiry of key individuals within the Chancellor’s Office, and information obtained by the CSU Office of Audit and Advisory Services. Formal risk questionnaires and surveys performed specifically for consolidation of systemwide risks are distributed annually by the CSU Office of Audit and Advisory Services.

Factors considered when assessing risks in the CSU include:

- Likelihood of incorrect, untimely, incomplete, or otherwise unreliable information.
- Value of assets and the potential that they could be lost, damaged, or misappropriated.
- Impacts of employee/student dissatisfaction, including negative publicity, and damage to the CSU’s reputation.
- Probability that trustee and campus policies, plans, and procedures are not implemented or that compliance with relevant laws and regulations is not maintained due to lack of clarity or for other reasons.
- Measurement of the effective use of resources.
  - Completeness/appropriateness of reviews and approvals of transactions, accounting entries, or systems output.

This risk assessment focuses on assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds. Consideration of risks associated with meeting the CSU’s primary objectives was also considered. Finally, findings and recommendations were presented by the California State Auditor (https://www.auditor.ca.gov/), CSU External Auditors (http://www.calstate.edu/sfsr/gaap/financial_statements.shtml), and the CSU Office of Audit and Advisory Services (http://www.calstate.edu/audit/Audit_Reports/index.shtml), and CSU Trustees Committee on Audit – Audit Plans (http://www.calstate.edu/bot/agendas/?source=homepage).

**EVALUATION OF RISKS AND CONTROLS**

**Operations- Internal- Physical Resources—Maintenance, Upgrades, Replacements, Security**

Over $2 billion in deferred facilities maintenance backlog exists in the CSU and sufficient funding to remedy the situation has not been identified. Critical deficiencies identified throughout the 23 campuses need to be addressed to ensure campuses can continue essential operations, reduce the likelihood of catastrophic failures, and meet current code requirements to operate safe facilities. Major building systems that have exceeded the expected service life need to be modernized to enable campuses to operate utilities more effectively, improve HVAC system efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions, and extend the useful life of existing facilities.
The CSU continues to improve its understanding of the full significance/impact of existing backlog, balancing the needs of academic programs, and the need to establish and maintain a safe and supportive infrastructure. Priorities have been established and corrective measures have begun. Progress is regularly reviewed by the Board of Trustees, CSU executive leadership and campuses.

Compliance- Internal- Priorities Conflicting with Laws or Regulations

The CSU is challenged to attract, motivate, and retain highly qualified faculty, staff, administrators, and executives. Often more challenging is meeting the array of employer legal and regulatory compliance requirements. A growing range of mandates must be met from those established under the Health Insurance Portability and Accountability Act to those established by Title IX of the Education Amendments to the Civil Rights Act of 1964. These federal requirements are often pooled with mandates created by state and local laws or established by collective bargaining agreements.

The CSU has moved to enhance its monitoring and education efforts to ensure compliance. The Board of Trustees along with CSU Executives and campus leadership regularly discuss the importance of compliance and efficiently/effectively meeting requirements.

Operations- Internal- Risk – Student Success and Completion Rates

CSU Leadership has identified a student achievement gap. A continuous effort is in place to raise graduation rates of CSU students to the top quartile of national averages on each campus. Further, CSU Leadership seeks to halve the existing achievement gap between under-represented CSU students and non-underrepresented CSU students, and has established its Graduation Initiative as part of the nationwide Access to Success project of the National Association of System Heads and The Education Trust. The CSU is among 24 public higher education systems that have pledged to significantly reduce the college-going and graduation gaps for low-income and minority students and reviews its progress on this subject on an annual basis.

Academic and administrative innovations have been instituted. Tools (i.e. dashboards to support student success) are being implemented and improved. Again, the Board of Trustees and CSU executive leadership regularly reviews details of these endeavors.

Operations- Internal- Resource Management

Reduced state funding and the inability to increase tuition fees has increased reliance on resources from enterprise, auxiliary, and ancillary activities and ventures. Sources of funds include gifts, grants, fees/revenues, contracts, and partnership agreements. Revenues come from activities such as housing, student unions, commercial and food service, etc. Certain commercial and regulatory risks come with such activities and ventures. These are generally best weighed at the campus level, although CSU leadership oversight is important.

Enterprise, Auxiliary, and Ancillary activities and ventures are often governed by existing law and regulations as well as Trustee policy. These activities and ventures are often additionally controlled by the oversight of the staff subject matter experts, academic leadership, other governmental entities, and audits (internal, external, financial, and operational). Regular review
and approval processes will continue to be improved with feedback obtained from the Board of Trustees and CSU Leadership.

**Operations- Internal- Resource Management**

For the CSU to fully meet expectations placed upon it by the California Higher Education Master Plan, substantially more resources than presently allocated/available to the University are needed. CSU Trustees and Leadership seek to strikes a balance between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition revenues generated by enrollment growth in order to address the growing demand for a CSU education and the increased spending to support that growth. There are legal limits on opportunities for the University to capitalize on its cash flows. Further, past means/methods for funding capital improvements are proving insufficient for the growing CSU needs.

Presently, various opportunities and measures are being pursued to ensure the future fiscal sustainability of the University. These matters have been regularly discussed by the CSU Trustees, Chancellor’s Office Leadership, and campus presidents and leaders.

**Operations- External- Business Interruption, Safety Concerns**

The CSU seeks to maintain a safe educational environment, and comply with evolving student safety laws and regulations. The University recognizes the critical importance of such, and continues to make progress. Challenges, however, have increased with respect to mental health, violence against women, mass notifications, active shooter, information sharing, use of force by campus law enforcement, access controls, crime reporting including Clery and issues related to Title IX. CSU Trustees and Leadership seek to support and enable campus police departments to find solutions, knowing that a single, simple solution does not exist.

The CSU Leadership is updating safety and security policies and procedures as the law and guidance rapidly change; updating and improving training and prevention efforts to conform to informed good practices; improving staffing and resource constraints; and staying in compliance with federal and state investigations. The CSU Trustees, Chancellor’s Office Leadership, and campus presidents and leaders regularly discuss these.

**Operations- External- Business Interruption, Safety Concerns**

The CSU is confronted with emergencies ranging from active shooter situations to fires, floods, earthquakes, and pandemics. Planning must consider the varied facilities operated by the CSU, including research and development buildings, performing arts venues, athletic areas, agricultural centers, residential complexes, and transportation hubs. It is further challenged by geographic and environmental factors and must consider the unique missions and populations each campus serves.

Planning for these emergencies is a priority for the University. The Chancellor recently asked for a detailed review and gap analysis of all 23 campus emergency operations and continuing operations plans. Various opportunities to improve exist and CSU Leadership is working with campuses to meet those requirements. CSU Trustees and Leadership also discuss and
evaluate current readiness and look for further opportunities to improve plans and mitigate risks.

Operations- External- Technology—Data Security

Endpoint attacks and user awareness continue to be the root cause of the majority of compromises across the CSU. Attacks against executives and staff in positions related to finance and benefits are prevalent. Malware spread by these attacks can result in compromised data, lost productivity and increased risk for litigation. Further, the movement to cloud-based computing improves efficiencies, but introduces a new realm of control risks.

The CSU Leadership has purchased tools to manage/control sensitive data, and has adopted a systemwide framework standard to provide assurance that information is secured in an appropriate, cost effective, and consistent way. Training opportunities are being added, and new technologies are being deployed to continually monitor applications, scan for vulnerabilities, and manage threats to servers and applications. CSU Trustees and Leadership have discussed and evaluated these and other opportunities to further improve controls and reduce risks.

ONGOING MONITORING

Through our ongoing monitoring processes, the California State University reviews, evaluates, and improves our systems of internal controls and monitoring processes. The California State University is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of California State University, Timothy P. White, Chancellor, is responsible for the overall establishment and maintenance of the internal control system. We have identified Michael P Redmond, Assistant Vice Chancellor, Strategic Initiatives and Support Services, as our designated agency monitor(s).

Frequency of Monitoring Activities

We have identified our Strategic Initiatives and Support Services Division as the designated agency monitor. The contact is Michael Redmond, Assistant Vice Chancellor, Strategic Initiatives and Support Services - mredmond@calstate.edu.

Frequency of Monitoring Activities

As described above, regular leadership, advisory, subject matter expert, and governance and committee meetings are routinely held. Executive leadership at the Chancellor’s Office meets weekly at a minimum. The Trustees meet every other month, and on alternating months a Council of Presidents meets with the Chancellor. Meeting topics include discussions of current and potential risks, controls, mandates, guidelines, and best practices, which ensure the quality of CSU programs and activities.
Reporting and Documenting Monitoring Activities

Authorities and responsibilities are formally delegated in the CSU. This starts at the Board of Trustees, goes to the Chancellor, and then to campus leadership. Reporting and documenting monitoring activities follow similarly. Such is deemed appropriate and necessary due to the wide geographic reach of the University and the diversity of operations through the state. Information rolls forward to Chancellor’s Office leadership via meetings and in reports coming through the variety of councils, committees, and subject matter teams.

Moving forward, we intend to implement more formal processes specifically addressing the new SLAA requirements, consistent with guidance provided on the Department of Finance website.

Procedure for Addressing Identified Internal Control Deficiencies

Generally, local/responsible campus/divisional management should determine what a control should be, how and where it will be applied, who will perform it, and who will monitor. The cost-benefit and risk impact of any proposed control is considered before implementation by responsible leadership. Deficiencies are generally remedied within six months or sooner depending on the risk that material errors might occur. Improvements in controls are generally supported by written procedures/guidelines/policies, which ensure such errors are identified timely and corrected. The objective of such procedures/guidelines/policies is a campus/division’s compliance with laws, regulations, rules, and CSU policies and procedures.

Again, we intend to implement more formal processes specifically addressing the new SLAA requirements, consistent with guidance provided on the Department of Finance website.

CONCLUSION

The California State University strives to reduce the risks inherent in our work through ongoing monitoring. The California State University accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Timothy P. White, Chancellor

cc: Department of Finance
    Legislature
    State Auditor
    State Library
    State Controller
    Secretary of Government Operations