

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting: 1:30 p.m., Tuesday, November 15, 2016**  
**Glenn S. Dumke Auditorium**

Douglas Faigin, Chair  
John Nilon, Vice Chair  
Lillian Kimbell  
Hugo N. Morales  
Lateefah Simon

#### **Consent Items**

Approval of Minutes of the Meeting of September 20, 2016

1. Status Report on Current and Follow-up Internal Audit Assignments, *Information*

#### **Discussion Item**

2. Report on the New Organization Structure of the Office of Audit and Advisory Services, *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**

**September 20, 2016**

**Members Present**

Douglas Faigin, Chair  
John Nilon, Vice Chair  
Lillian Kimbell  
Hugo N. Morales  
Lateefa Simon  
Rebecca Eisen, Chair of the Board  
Timothy P. White, Chancellor

Trustee Faigin called the meeting to order.

**Approval of Minutes**

The minutes of July 19, 2016, were approved as submitted.

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

With the concurrence of the committee, Trustee Faigin presented agenda item 1 as a consent information item.

**Report on Responsibilities of the Office of Audit and Advisory Services**

Mr. Larry Mandel, Vice Chancellor and Chief Audit Officer, provided information regarding responsibilities of the Office of Audit and Advisory Services.

Trustee Nilon commended Mr. Mandel on his report and asked whether there is a systemwide hotline. Mr. Mandel responded that, while there is not a systemwide hotline, some campuses do have their own. Whistleblower complaints are periodically received at the chancellor's office and handled by either internal audit or human resources depending upon the nature of the complaint.

Trustee Eisen inquired about the amount of resources dedicated to audits of auxiliary organizations. Mr. Mandel responded that audits of auxiliary organizations have been done on a cyclical basis since 1998 per Board of Trustees direction, and the redesign of the audit function would be brought forward to the next meeting, which includes performing audits of auxiliaries based on risk versus time thereby making better use of audit resources.

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Aud

Trustee Eisen further inquired about investigations of misappropriations of funds, specifically whether audit works with the legal department. Mr. Mandel explained that although audit receives notifications from the campuses, the campuses complete the investigations and keep audit informed. Mr. Fram Virjee, Executive Vice Chancellor and General Counsel, added that campus counsel would be involved at the campus level.

Trustee Faigin shared his thoughts on the degree of involvement by both the campuses and the audit office with respect to wrongdoing and the recently initiated audit of International Activities.

Trustee Faigin 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 2016 audit plan and follow-up on past assignments. For the 2016 year, assignments were made to conduct reviews of Auxiliary Organizations, Delegations of Authority, Academic Departments, Emergency Management, International Activities, Construction, Student Activities, Information Security, Cloud Computing, and Information Technology (IT) Disaster Recovery Planning. In addition, follow-up on current/past assignments (Auxiliary Organizations, Information Security, Student Activities, Academic Departments, Delegations of Authority, Cloud Computing, and Emergency Management) was being conducted on approximately 35 prior campus/auxiliary reviews. Attachment A summarizes the reviews in tabular form.

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

#### Auxiliary Organizations

The initial audit plan indicated that approximately 267 staff weeks of activity (26.1 percent of the plan) would be devoted to auditing internal compliance/internal control at eight campuses/29 auxiliaries. Five campus/16 auxiliary reports have been completed, and report writing is being completed for two campuses/eight auxiliaries.

#### Delegations of Authority

The initial audit plan indicated that approximately 48 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of the management of processes for administration of purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. Six campuses will be reviewed. Six campus reports have been completed.

*Operational/Financial Reviews*

Academic Department Fiscal Review

The initial audit plan indicated that approximately 47 staff weeks of activity (4.7 percent of the plan) would be devoted to a review of college/department administrative and financial controls. Six campuses will be reviewed. Five campus reports have been completed, and fieldwork is being conducted at one campus.

Emergency Management

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus emergency management policies and procedures to ensure compliance with CSU and state and federal compliance requirements. Six campuses will be reviewed. Two campus reports have been completed, report writing is being completed for two campuses, and fieldwork is being conducted at two campuses.

International Activities

The initial audit plan indicated that approximately 50 staff weeks of activity (4.8 percent of the plan) would be devoted to a review of campus international programs and activities to ensure compliance with CSU policies and other regulatory requirements. Six campuses will be reviewed. Report writing is being completed for five campuses, and fieldwork is being conducted at one campus.

Construction

The initial audit plan indicated that approximately 47 staff weeks of activity (4.6 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. Six projects will be reviewed. Three campus reports have been completed, one report is awaiting a campus response prior to finalization, report writing is being completed for one project, and fieldwork is being conducted for one project.

### Student Activities

Due to resource constraints, we were unable to complete three Student Activities audits in 2015. The 2016 audit plan indicated that approximately 25 staff weeks of activity (2.5 percent of the plan) would be devoted to completion of these reviews that ensure compliance with CSU policies and other regulatory requirements. Three campuses will be reviewed. Three campus reports have been completed.

### *Information Technology Reviews and Support*

#### Information Security

The initial audit plan indicated that approximately 46 staff weeks of activity (4.5 percent of the plan) would be devoted to a review of the activities and measures undertaken to protect the confidentiality, integrity, access to, and availability of information. Six campuses will be reviewed. Two campus reports have been completed, two campus 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.

#### Cloud Computing

The initial audit plan indicated that approximately 26 staff weeks of activity (2.5 percent of the plan) would be devoted to a review of activities pertaining to the use of third-party cloud computing/internet service providers, including a review of contractual provisions related to service availability, data ownership, backup and recovery, and protection of sensitive and/or proprietary information. Four campuses will be reviewed. Two campus reports have been completed, one campus report is awaiting a campus response prior to finalization, and report writing is being completed for one campus.

#### Information Technology Disaster Recovery Planning

The initial audit plan indicated that approximately 26 staff weeks of activity (2.6 percent of the plan) would be devoted to a review of program and facility readiness and resource planning for the recovery of data processing services following a catastrophic event. Four campuses will be reviewed. Report writing is being completed for three campuses.

### Technology Support

The initial audit plan indicated that approximately 17 staff weeks of activity (1.6 percent of the plan) would be devoted to technology support for non-information technology specific audits and advisory services reviews. The provision of support is ongoing.

### *Advisory Services*

The initial audit plan indicated that approximately 220 staff weeks of activity (21.6 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.

### *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 participate on committees such as those related to information systems implementation and policy development, and to perform special projects. Thirty-eight weeks have been set aside for this purpose, representing approximately 3.8 percent of the audit plan.

### *Audit Support*

### Audit Follow-up

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 35 current/past assignments (Auxiliary Organizations, Information Security, Student Activities, Academic Departments, Delegations of Authority, Cloud Computing, and Emergency Management) 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. Eleven staff weeks have been set aside for this purpose, representing approximately 1.1 percent of the audit plan.

Administration

Day-to-day administration of the Office of Audit and Advisory Services represents approximately 4.3 percent of the audit plan.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 11/3/2016)

	<b>2016 ASSIGNMENTS</b>									<b>FOLLOW-UP PAST/CURRENT ASSIGNMENTS</b>				
	Aux Orgs	Info Security	Student Activities	Acad Dept Fiscal Review	Deleg of Auth	Cloud Comptg	Emerg Mgmt	IT Dis Recov	Intl Activities	Auxiliary Organizations			Information Security	
										●No.	*Recs	**Mo.	*Recs	**Mo.
BAK			AC					RW		4	35/35	-	10/10	-
CHI						AC			RW	3	22/32	7	21/21	-
CI		AI	AC		AC					3	32/32	-		
DH				AC			AC			3	31/36	8		
EB		AC					FW			3	31/31	-	0/9	2
FRE				AC				RW		6	36/36	-	11/11	-
FUL						AC	FW			4	30/30	-		
HUM	AC						RW			4	0/14	1	4/4	-
LB				AC						4	18/18	-	6/6	-
LA	RW	AI								4				
MA					AC					2	13/13	-	7/7	-
MB		RW							RW	2	23/23	-		
NOR		AC							RW	5	19/19	-	0/8	2
POM	AC		AC						FW	2	17/20	4		
SAC					AC					5	41/41	-		
SB									RW	4	23/23	-	10/10	-
SD	AC								RW	4	4/15	3	6/7	6
SF					AC	AI				3	17/17	-	9/9	-
SJ							RW			5	26/26	-	17/17	-
SLO		FW					AC			3	11/11	-		
SM	AC			FW		RW				4	17/17	-		
SON				AC	AC					3	4/4	-		
STA	RW			AC				RW		4			21/21	-
CO	AC				AC					2	1/1	-		
SYS														

FW = Field Work In Progress  
RW = Report Writing in Progress  
AI = Audit Incomplete (awaiting formal exit conference and/or campus response)  
AC = Audit Complete

\* 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.  
● The number of auxiliary organizations reviewed.

**Status Report on Current and Follow-Up Internal Audit Assignments**  
(as of 11/3/2016)

	FOLLOW-UP PAST/CURRENT ASSIGNMENTS									
	Student Activities		Academic Dept. Fiscal Review		Delegations of Authority		Cloud Computing		Emergency Management	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	3/4	3								
CHI							0/4	3		
CI	2/2	-			0/6	2				
DH			0/10	4					0/4	2
EB										
FRE			2/7	4						
FUL	5/5	-					1/4	3		
HUM										
LB			2/4	6						
LA										
MA					0/6	1				
MB										
NOR										
POM	3/3	-								
SAC	1/1	-			0/3	1				
SB										
SD										
SF					3/4	5				
SJ										
SLO									0/3	1
SM	2/2	-								
SON			5/5	-	0/1	1				
STA			0/6	4						
CO					0/4	1				
SYS										

\* 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.

- The number of auxiliary organizations reviewed.



## **COMMITTEE ON AUDIT**

### **Report on the New Organization Structure of the Office of Audit and Advisory Services**

#### **Presentation By**

Larry Mandel  
Vice Chancellor and Chief Audit Officer  
Office of Audit and Advisory Services

#### **Summary**

At the May 2016 meeting of the Committee on Audit, a plan was put forth for implementation of the remaining recommendations contained in the quality assurance review of the Office of Audit and Advisory Services (OAAS). The plan strengthens the effectiveness of the audit function and provides increased assurance to the chancellor and the Board of Trustees that significant risks to the system are sufficiently understood and assessed and are receiving appropriate audit coverage, while adding value to both campuses and auxiliary organizations and further mitigating risk.

There are numerous elements to the new effort, but high on the list are: a) identifying risk in a more targeted fashion, b) a change in focus from the entire system to individual campuses, c) an increased focus on greater potential risks, rather than relying on arbitrary, routine schedules, d) an increase in the number of auditing staff members to carry out these new directives, e) new auditing procedures to review auxiliary organizations and sponsored programs, f) new directives to employ continuous auditing techniques for more focused and higher quality audits, and g) a new emphasis on meeting increasing demand for investigative audits.

#### **Current Organization Structure and Resources**

The current organization has a centralized audit staff that travels to each of the 23 campuses to perform audits identified via an annual risk assessment, cyclical internal compliance/internal control reviews of each auxiliary organization, construction audits, advisory services and investigations. Although some campuses have "internal auditors," some of whom do audits while others do audit coordination, there is no reporting relationship between these campus auditors and the OAAS, and there is no assurance that campus work is performed in accordance with professional standards. The positions report organizationally to campus presidents or finance officers. In this current centralized model, the quality assurance team indicated that ambiguity of the roles and duplication of efforts can occur, and the OAAS may not be aware of issues and risks occurring at the campus level.

Current OAAS resources allow for 25 audit positions to perform a wide variety of audit and other activities such as risk assessments, developing audit plans, executing audits and writing reports, reviewing workpapers and reports, conducting exit conferences and follow-up, and performing investigations and advisory services for 23 campuses, the chancellor's office (CO), and 86 auxiliary organizations.

While Education Code Section 89045, enacted by Chapter 1406 of the Statutes of 1969, provides for the establishment of an internal auditing function reporting directly to the Trustees of the CSU, it does not define the organizational structure of the internal auditing function nor the resources needed to sufficiently cover risks to the organization.

### **New Organization Structure, Benefits and Resource Requirements**

The new OAAS organization structure sufficiently addresses quality assurance team concerns and adds value to both campuses and auxiliary organizations. Benefits of the new organization structure include audits and advisory services that are better aligned with campus and auxiliary organization risks and systemwide goals and strategies; improved ability to provide audit and advisory services that enable and facilitate campuses and auxiliary organizations to be successful; enhanced relationships with campuses, auxiliary organizations, and executive management thereby improving awareness of risks and controls; employment of continuous auditing techniques enabling more focused and higher quality audits; enhanced audit coverage for sponsored programs leading to more in-depth and effective audits; and improved investigative resources. The new organization structure includes the following functional and organizational changes:

1. The audit function remains centralized but is reorganized and better resourced to improve awareness of issues and risks occurring at the campus level and within auxiliary organizations. The new plan will align the division to better assist university management in the effective discharge of fiduciary and administrative responsibilities, including management's increased responsibilities for maintaining effective systems of internal control in response to Government Code Sections 13400 through 13407, known as the State Leadership Accountability Act.
2. Information Technology (IT) and Construction audits, Advisory Services and Investigations continue to be handled as they are now, but Auxiliary Organization audits will be handled as any campus audit based upon risk rather than timing. Internal compliance/internal control reviews of auxiliary organizations have been performed by a separate team of auditors on a triennial basis since 1999 and have resulted in notable improvements in internal controls and compliance. Changing the approach to Auxiliary Organization audits is not only timely but also recognizes CSU's increased reliance on their resources, which often come with increased commercial and regulatory risks;

facilitates and provides for more effective reviews of areas with both campus and auxiliary components; and permits more focused and in-depth reviews of selected auxiliary functions.

3. Campus audits will be managed by four audit managers each responsible for six campuses/CO. This concentrated span of responsibility permits each audit manager to work more closely with an individual campus to better understand the nuances and needs of each campus and be a readily available resource for advice on internal controls, risk issues, fraud situations, and sound business practices; fosters a deeper relationship with campus executive management and auditors; improves awareness of individual campus issues and risks; improves knowledge of campus specific policies, procedures and systems; facilitates proactive identification of campus specific/unique topics that could be included in the campus audit plan; permits better scheduling flexibility to reduce scheduling conflicts; and better positions the audit function to perform audits directed towards improved efficiency and effectiveness.
4. The four audit managers will each be staffed with four internal/senior auditors who will execute audits. This concentrated group model permits the internal/senior auditors to also better understand the nuances and needs of each campus and its policies, procedures and systems; fosters a deeper relationship with campus executive management and auditors; and enables the auditors to more efficiently and effectively execute audits and potentially reduce fieldwork. An added benefit of this group model is resource allocation flexibility to effectively provide coverage for big versus small campuses and smooth the effects of travel and staff turnover.
5. Continuous auditing will be designed to spot potential difficulties before they become big problems. Continuous auditing will use computer assisted audit techniques/tools or other data analysis tools. It will be employed on campus data to analyze large volumes of data, look for anomalies and trends, complement the existing risk assessment process and add to our awareness of campus-level/auxiliary organization issues and risks. Continuous auditing enables the audit function to determine more proactively, quickly, and accurately where to focus attention and resources thereby improving the quality of its audits and support of management, and potentially reducing fieldwork.
6. A dedicated internal/senior auditor will be added and be responsible for performing audits of sponsored programs. Sponsored programs are usually research efforts primarily funded through grants, often from the federal government and now amounting to approximately a half-billion dollars. Naturally, the federal government wants to be certain this significant investment is being used properly and most efficiently. The position will be staffed with someone already knowledgeable in the area thereby leading to more in-depth and effective audits of this important area. Current audit resources only

provide for high level reviews during auxiliary organizations audits with more focused reviews of selected campuses every three to five years. This position aligns the audit function to support the university's initiative to increase funding from grants and contracts to improve student achievement and success.

7. A senior IT auditor will be added to provide adequate IT support to campus and auxiliary organization audits, advisory services, and continuous monitoring, as well as ensure adequate coverage of emerging technologies.
8. A senior investigative auditor will be added to meet the increased demands of the investigative function, eliminate the need to borrow resources from the campus audit team, and provide adequate resources to ensure that control failures resulting in campus fiscal improprieties are properly resolved. A more robust investigative function could also implement strategies to improve fraud awareness and education.
9. A current senior audit manager will manage the sponsored programs and construction audits; be responsible for coordination and deployment of the annual risk assessment; develop and maintain the continuous auditing initiative; develop and maintain campus/system risk profiles from information provided by the four audit managers, key campus statistics, perusal of campus websites, and research on current/emerging risks in higher education and CSU strategic initiatives; implement and maintain an independent department quality assurance program in accordance with professional standards; ensure adherence to consistent and best practices throughout the department, and administer the department's automated workpaper system. This position could also develop risk assessments to proactively identify risks for potential advisory services review and control self-assessment tools to support campus management in its responsibility for the design, implementation, and monitoring of internal controls; and might also develop and maintain an internal audit newsletter, which could provide management with valuable information on internal controls and campus best practices.
10. The annual audit plan will include not only audits and advisory services reviews of items of highest risk to the system as a whole but more importantly audits of campus specific/unique risks. The campus specific audits not only add value to the campuses but also improve awareness of campus and auxiliary organization issues and risks.
11. The new OAAS organization structure will be phased in over a four-year period. Two audit managers, a senior sponsored programs auditor, and a senior investigative auditor will be added the first year. A senior IT auditor and an internal/senior auditor will be added in the second year, and two internal/senior auditors will be added in each of the third and fourth years.