AMENDED

AGENDA

COMMITTEE ON AUDIT

Meeting: **11:25 a.m., Tuesday, July 11, 2023**
Glenn S. Dumke Auditorium

Yammilette Rodriguez, Chair
Jean Picker Firstenberg, Vice Chair
Leslie Gilbert-Lurie
Lillian Kimbell
~~Romey Sabalius~~
Lateefah Simon
Christopher Steinhauser

Consent

1. Approval of Minutes of the Meeting of May 24, 2023, *Action*
2. Status Report on Audit and Advisory Services Activities, *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 24, 2023

Members Present

Lateefah Simon, Chair
Yammilette Rodriguez, Vice Chair
Diana Aguilar-Cruz
Jack Clarke, Jr.
Lillian Kimbell
Jack McGrory
Wenda Fong, Chair of the Board

Trustee Lateefah Simon called the meeting to order.

Approval of the Consent Agenda

The minutes of the March 21, 2023, meeting of the Committee on Audit were approved as submitted.

Item two, Status Report on Audit and Advisory Services Activities, was an information item.

Fiscal Year 2023-2024 Audit Plan

Vlad Marinescu, vice chancellor and chief audit officer, presented the annual audit plan for fiscal year 2023-2024 for review and approval. The primary objective of the audit plan is to provide assurance that risks are being mitigated and that CSU controls are designed and operating effectively. Each year, Audit and Advisory Services engages in an annual audit planning process to develop a comprehensive risk-based audit plan that addresses both systemwide risks and individual campus-specific risks.

The foundation of the assurance audit plan is focused on the core support areas of Administration and Compliance; Business and Finance; and Information Technology. The second segment of the plan is focused on Academic Administration; Student Activities and Services; and University

Relations and Advancement. The final segment of the plan focuses on auxiliary organizations. A brief description of each planned audit topic is included in Appendix A of the agenda item.

The assurance audits portion of the audit plan also includes data analytics. Audit and Advisory Services' data analytics program includes four core areas: assurance audit support, data analytics projects, periodic monitoring of analytic results, and database and dashboard management. The data analytics plan includes seven major projects. These projects cover a range of topics and are in various stages of the development cycle which includes design, build, analyze, and monitor. A brief description of each planned data analytics project is included in Appendix B of the agenda item.

The 2023-2024 audit plan consists of five primary functional areas: assurance audits and data analytics, advisory services, investigations and intergovernmental audits, outreach and engagement, and audit support. Sixty-five percent of staff resources are allocated toward assurance audits and data analytics. Resources are also allocated toward advisory services, investigations and the coordinating of intergovernmental audit, outreach and engagement, and audit support.

The Fiscal Year 2023-2024 Audit Plan was approved.

Audited Financial Statements and Single Audit Report

Tracey Richardson, assistant vice chancellor and controller, presented the fiscal year (FY) 2021-2022 CSU Financial Statements, Single Audit Report, and results of the annual external audit performed by KPMG.

Ms. Richardson shared a summary of the revenues for the year ended June 30, 2022, compared to the prior year. Total revenues from all sources were $14 billion for FY 2021-2022, which was $1.5 billion higher than the previous year. The largest source of revenue was state appropriations of $5.6 billion, or 40 percent of total revenues. Grants, contracts, and gifts constituted $4.9 billion, which represented 35 percent of total revenues, and included $1.6 billion in Higher Education Emergency Relief Funds (HEERF). Student tuition and fees net of scholarship allowance represented 17 percent of total revenues.

A comparative summary of the expenditures for 2021-2022 in comparison with the 2020-2021 fiscal year was also presented. Operating and nonoperating expenses totaled $12.6 billion for 2021-2022, of which the largest component was salaries and benefits. Total expenses increased by approximately $600 million from the prior year.

Ms. Richardson reported that the audited financial statements also include information on the CSU's liabilities and assets, which are presented in the statement of net position. The overall net deficit position of $9.6 billion improved by $1.4 billion over the prior year. Government entities are required to report long-term post-employment and pension benefit obligations and this is reflected as a negative $22.9 billion as of June 30, 2022. CSU's positive unrestricted other net

position of $6.1 billion as of June 30, 2022, increased by $1.1 billion over the prior year. Increases in state appropriations contributed to the growth in net position. Designated balances and reserves are a component of the $6.1 billion of unrestricted net position. Designated balances include short-term obligations, capital needs, and catastrophic events. As of June 30, 2022, the amount set aside for economic uncertainty by the 23 universities and the chancellor's office was $713 million, or about 1 month of operating expenses.

Federal award expenditures for the 23 universities and the chancellor's office amounted to $3.9 billion for FY 2021-2022. The external auditors focused the compliance audit on HEERF grants with $1.6 billion in expenditures and expenditures for research and development grants amounting to $22 million. There were two audit findings. One identified untimely and incomplete quarterly reporting requirements for HEERF at three universities. Another found noncompliance with the federal requirement to conduct physical inventory of federally funded purchases of equipment and real property at least once every two years at one university. Auxiliaries issue stand-alone single audit reports and one auxiliary had two audit findings regarding a lack of internal control to ensure documentation compliance with the grant requirements. There were no questioned costs identified during the audit. The audit findings are significant deficiencies and did not rise to a material weakness and KPMG issued an unmodified audit opinion.

The CSU prepares annual financial statements that consolidate financial information for all 23 universities, the chancellor's office and 93 component units (mostly auxiliaries). The universities and chancellor's office have no audit findings and KPMG issued an unmodified audit opinion. Each component unit also conducts its own financial statement audit. Of the 93 component units, seven had a combined four material weaknesses and five significant deficiencies. The corrective actions for all audit findings have been submitted and accepted. All 93 component units also received an unmodified audit opinion and fewer audit findings than last year.

Chris Ray, audit partner at KPMG, reported that the results of the CSU audit include an unmodified audit opinion on the financial statements and single audit reports. The accounting principles for the CSU system are summarized in footnote 2 of the financial statements and there was one change this year related to the adoption of GASB 87, a requirement related to the accounting of leases. Mr. Ray noted that the CSU's actuarial assumptions that are used as part of the pension and OPEB liabilities are tested by KPMG. There were no corrected misstatements to the financial statements. There were a couple of uncorrected misstatements that were considered immaterial to the financial statements. The report on government auditing standards and internal controls related to financial reporting had no audit findings. For the Single Audit there were two audit findings, which were discussed in Ms. Richardson's presentation.

Trustee Rodriguez adjourned the Committee on Audit.

COMMITTEE ON AUDIT

Status Report on Audit and Advisory Services Activities

Presentation By

Vlad Marinescu
Vice Chancellor and Chief Audit Officer
Audit and Advisory Services

Summary

This item provides an update on internal audit activities and initiatives. It also includes a status report on the 2022-23 and 2023-24 audit plans. Follow-up on current and past assignments is being conducted on approximately 40 completed campus reviews. Attachment A summarizes the status of audit assignments by campus.

For the current year audit plan, assignments were made to execute individual campus audit plans and conduct financial, operational, compliance, and information technology audits; use continuous auditing techniques and data analytics tools; provide advisory services; support intergovernmental audits; and perform investigation reviews, as needed.

ASSURANCE AUDITS AND DATA ANALYTICS

Status of In-Process and Completed Audits

Audit and Advisory Services is wrapping up work on the 2022-2023 audit plan and has commenced work on the 2023-24 audit plan. Thirty-seven audits have been completed as part of the 2022-23 audit plan and the remaining 13 audits are anticipated to be completed by September 2023. Audits for 2023-24 have commenced, with fieldwork for eight campus audits starting by the end of July 2023. Completed audit reports are posted on the California State University website at https://www2.calstate.edu/csu-system/transparency-accountability/audit-reports.

The status of campus progress toward implementing recommendations for completed audits is included in Attachment A. Prior year audits that have open recommendations are also included in Attachment A and are removed from the report once all recommendations are completed.
Both campus management and audit management are responsible for tracking the implementation/completion status of audit recommendations contained in campus audit reports. During the audit process, campus management identifies a target completion date for addressing each audit recommendation. Target completion dates are subject to approval by audit management prior to the audit report being finalized. Implementation timelines are reviewed for appropriateness, reasonableness, and timeliness, which also includes evaluating the nature and

level of risk and whether any mitigating controls can or should be put in place on an interim basis while audit recommendations are being implemented.

If there are difficulties or unexpected delays in addressing/completing audit recommendations within the agreed upon timeframes, escalation processes for resolution are followed by audit management. Audit management first contacts the campus senior leadership team (president and/or VP/CFO) to resolve any delays. In rare instances in which delays cannot be resolved during discussions between campus and audit management, the chancellor and audit committee chair and/or vice chair may help resolve delays, as needed.

Data Analytics

The data analytics team is continuing its effort to monitor credit card data by reviewing potential anomalies and policy exceptions. The team is finalizing the credit card dashboards that will be shared with campus liaisons. The dashboards will provide campuses with an overview of the campus credit card program, including trends and activities, and increase effort to proactively address any potential anomalies. For Concur travel expenditures, the data analytics team is preparing for the next quarterly dashboard data upload.

Additionally, work continues on the new risk indicator and payroll dashboards. Student and auxiliary data continue to be evaluated for possible use on future dashboards.

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.

INVESTIGATIONS AND INTERGOVERNMENTAL AUDITS

Audit and Advisory Services is periodically called upon to provide investigative reviews of alleged fiscal improprieties. Investigations are performed both at the request of an individual campus or the chancellor's office and by referral from the state auditor.

Additionally, Audit and Advisory Services assists with tracking external audits being conducted by state and federal agencies, offers assistance to campuses undergoing such audits, and acts as a liaison for the California State University system throughout the audit process when appropriate.

The Joint Legislative Audit Committee (JLAC) held a hearing on June 26, 2023, to consider audit requests from legislators. At the hearing, JLAC approved an audit of the California State University and University of California related to community college transfers. The scope and objectives of the audit are available on the State Auditor's website (https://www.auditor.ca.gov/pdfs/analyses/2023-123.pdf).

On June 27, 2022, JLAC approved two audits of the California State University: 1) an audit of California State University's handling of sexual harassment complaints (Title IX); 2) an audit of the California State University's compliance with the Native American Graves Protection and Repatriation Act (NAGPRA). The California State Auditor (CSA) began both audits in November 2022.

For the Title IX audit, the CSA audit team is concluding its report writing process. The report is scheduled to be released on July 18.

The NAGPRA audit report was issued on June 29, 2023. The audit directed six recommendations to the Chancellor's Office and one to the California Legislature. The CSA requires detailed follow-up responses on the implementation of the report's recommendations at 60 days, six months, and one year after the report's release, and annually thereafter if recommendations are still open. Audit and Advisory Services is responsible for coordinating the CSU's follow-up responses to the audit. A copy of the full report can be found on the State Auditor's website (https://www.auditor.ca.gov/pdfs/reports/2022-107.pdf).

In addition to the JLAC approved audits described previously, the CSA prepares biennial reports on high-risk issues that "the CSA identifies as high risk for their potential of waste, fraud, abuse or mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness." In 2013, the CSA identified affordability in higher education as a high-risk issue for both the California State University and University of California systems. Since then, the CSA has continued to assess affordability as a high-risk issue every two years. The CSA began the review with an entrance conference on February 10, 2023. The goal of their review is to update the status of high-risk issues from their last report and determine if the issues will stay on the high-risk list. The report is scheduled to be released in August 2023.

The last report was issued in August 2021 and found that although the CSU has taken some steps to improve affordability, those actions have not fully addressed or resolved affordability challenges. The full report can be found at https://www.auditor.ca.gov/pdfs/reports/2021-601.pdf. The "Higher Education – Affordability" section starts on page 9.

Audit and Advisory Services is also responsible for maintaining and administering the CSU policy on Campus Reporting of Fiscal Improprieties (Executive Order 1104) and recently revised the policy to include a reference to the California Public Employees' Pension Reform Act, which states

that members who have been convicted by a state or federal trial court of any felony under the law for conduct arising out of or in the performance of his or her official duties, in pursuit of the office or appointment, or in connection with obtaining salary, disability, service retirement, or other benefits, must forfeit all accrued rights and benefits in any public retirement system they are a member of at the time the felony is committed retroactive to the first commission. If the employee is convicted of a felony for the misconduct at work, the campus must notify CalPERS within 90 days of the employee's conviction. The policy can be found in the CSU Policy Library (https://www.calstate.edu/policies).

OUTREACH AND ENGAGEMENT

Audit and Advisory Services continues to partner and work with our campus and system stakeholders beyond what would be the usual course of business for an audit or advisory review in order to find opportunities to add value to the organization when possible. This includes partnering activities such as participating and leading affinity groups, providing support to campus and chancellor's office management, sharing information and common themes across campuses, and acknowledging feedback and insights provided by management.

After the CSU Board of Trustees Committee on Audit approved the annual audit plan for fiscal year 2023-24, audit management provided each campus with their customized audit plan. Additionally, audit management presented the overall audit plan to the campus CFO affinity group in June 2023.

STATUS REPORT ON CURRENT AND PAST AUDIT ASSIGNMENTS

Campus	Category	Audit Topic	Audit Plan Year	Total # of Recommendations	*Status
Bakersfield	Status of Recommendations	Academic Department Fiscal Review	2022	5	5
Chancellor's Office	Audits Currently in Progress	Emergency Management	2023		
Channel Islands	Status of Recommendations	IT Disaster Recovery	2022	6	6
	No Reportable Recommendations	Police Services	2022	n/a	
Chico	Audits Currently in Progress	Associated Students, Inc.	2022		
	Status of Recommendations	Chico State Enterprises	2021	4	4
		Academic Department Fiscal Review	2022	2	2
		Information Security	2022	14	14
Dominguez Hills	Audits Currently in Progress	Associated Students, Inc.	2022		
		Property and Equipment Management	2023		
	Status of Recommendations	Information Security	2022	8	8
East Bay	Status of Recommendations	Executive Travel and Hospitality	2022	1	1
		Student Health Services	2022	5	3 2
Fresno	Audits Currently in Progress	Association	2022		
	Status of Recommendations	Human Resources and Training Compliance	2022	5	5
	No Reportable Recommendations	Construction Management	2022	n/a	
Fullerton	Audits Currently in Progress	Executive Travel and Hospitality	2022		
	Status of Recommendations	Construction Management	2022	4	4
		Procurement and Inventory	2022	3	3
Humboldt	Audits Currently in Progress	Executive Travel and Hospitality	2022		
		International Programs	2023		
	Status of Recommendations	Human Resources and Training Compliance	2022	14	4 10
Long Beach	Audits Currently in Progress	Youth Programs	2023		
	Status of Recommendations	Athletics Fiscal Administration	2022	5	1 4
	No Reportable Recommendations	Executive Travel and Hospitality	2022	n/a	
Los Angeles	Status of Recommendations	Computer Security Incident Response	2022	5	3 2
		University Auxiliary Services	2022	8	8
Maritime Academy	Status of Recommendations	Information Security	2021	10	9 1
		Vendor Administration and Payments	2022	3	3
Monterey Bay	Status of Recommendations	Accessible Technology Initiative	2022	6	6
		Procurement and Vendor Administration	2022	4	4
Northridge	Audits Currently in Progress	Athletics Fiscal Administration	2022		
	Status of Recommendations	The University Corporation	2022	7	7
Pomona	Status of Recommendations	Academic Department Fiscal Review	2022	2	2
		Foundation	2022	3	2 1
		Information Security	2022	6	6
Sacramento	Audits Currently in Progress	Capital Public Radio	2022		
		Computer Security Incident Response	2022		
	Status of Recommendations	Athletics Fiscal Administration	2022	5	4 1

*Status
Closed (green) - Recommendations have been satisfactorily implemented
Open (blue) - Implementation of recommendations is in progress and within the agreed upon timeframe
Exceeds Agreed Upon Timeframe (red) - Recommendations have not been implemented within the agreed upon timeframe

STATUS REPORT ON CURRENT AND PAST AUDIT ASSIGNMENTS

Campus	Category	Audit Topic	Audit Plan Year	Total # of Recommendations	*Status
San Bernardino	Audits Currently in Progress	Police Services	2022		
	Status of Recommendations	Centers and Institutes	2021	5	5
		Human Resources	2021	13	13
		Information Security	2022	6	2 4
San Diego	Audits Currently in Progress	Aztec Shops	2022		
		Academic Department Fiscal Review	2023		
	Status of Recommendations	Student Organizations	2022	2	2
San Francisco	Status of Recommendations	Construction Management	2022	2	2
		Training Compliance	2022	3	3
San Jose	Audits Currently in Progress	Information Security	2022		
	Status of Recommendations	Decentralized Computing	2021	9	8 1
		Athletics Fiscal Administration	2022	6	6
		Vendor Administration and Payments	2022	1	1
San Luis Obispo	Audits Currently in Progress	Youth Programs	2023		
	Status of Recommendations	Information Security	2020	12	12
		Athletics Fiscal Administration	2022	7	7
		IT Disaster Recovery	2022	3	3
San Marcos	Audits Currently in Progress	Accessible Technology Initiative	2022		
		Counseling and Psychological Services	2023		
	Status of Recommendations	Human Resources and Training Compliance	2022	5	1 4
Sonoma	Audits Currently in Progress	Business Continuity and IT Disaster Recovery	2023		
	Status of Recommendations	Academic Department Fiscal Review	2022	5	5
		Philanthropic Foundation	2022	1	1
Stanislaus	Status of Recommendations	Student Health Services	2022	3	3

*Status
Closed (green) - Recommendations have been satisfactorily implemented
Open (blue) - Implementation of recommendations is in progress and within the agreed upon timeframe
Exceeds Agreed Upon Timeframe (red) - Recommendations have not been implemented within the agreed upon timeframe

CSU The California State University

AUDIT HIGHLIGHTS

2022-23 ASSURANCE AUDITS

COMPLETED

IN-PROGRESS

- 17% Academic Administration
- 16% Auxiliary Organizations
- 13% Compliance, HR and Risk Management
- 22% Finance and Administration
- 23% Information Technology
- 8% Student Activities and Services
- 1% University Relations and Advancement

2021-22 AUDIT RECOMMENDATIONS

49	235	233
AUDITS	TOTAL RECS	CLOSED

2022-23 ADVISORY PROJECTS

10
CAMPUSES SERVED

CALIFORNIA STATE AUDITOR (CSA)

THE CSA AUDIT REPORT ON CSU COMPLIANCE WITH NAGPRA WAS RELEASED ON JUNE 29. THE CSA REPORT ON CSU COMPLIANCE WITH TITLE IX IS ANTICIPATED TO BE RELEASED ON JULY 18.

FRAUD PREVENTION

THE CSU POLICY ON THE REPORTING OF CAMPUS FISCAL IMPROPRIETIES HAS BEEN UPDATED TO INCLUDE INFORMATION PERTAINING TO CALPERS BENEFIT FORFEITURE REQUIREMENTS.

KEY MILESTONES

WRAPPING UP THE 2022-23 AUDIT PLAN

PRESENTED THE 2023-24 AUDIT PLAN TO CAMPUS CFO'S

COMMENCED WORK ON THE 2023-24 AUDIT PLAN