

AGENDA

COMMITTEE ON AUDIT

Meeting: 4:00 p.m., Tuesday, May 21, 2019
Glenn S. Dumke Auditorium

Douglas Faigin, Chair
Hugo N. Morales, Vice Chair
Jack McGrory
Lateefah Simon

- Consent**
1. Approval of Minutes of the Meeting of March 19, 2019, *Action*
 2. Status Report on Current and Follow-up Internal Audit Assignments, *Information*
 3. Status Report on Corrective Actions for the Findings in the California State University and Auxiliary Organizations Audit Reports for the Fiscal Year Ended June 30, 2018, *Information*
- Discussion**
4. Individual Consequences for Intentional Fiscal Improprieties at the CSU Improprieties, *Action*

**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**

March 19, 2019

Members Present

Douglas Faigin, Chair
Hugo N. Morales, Vice Chair
Jack McGrory
Lateefah Simon
Adam Day, Chairman of the Board

Trustee Douglas Faigin called the meeting to order.

Public Comments

The committee heard from Ejmin Hakobian who commented on the role of internal audit within the California State University (CSU).

Approval of Minutes

The minutes of January 22, 2019, 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 2 as a consent information item.

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

Steve Relyea, executive vice chancellor and chief financial officer, introduced the presentation by noting that trustees will observe a significant change in the CSU net position based on the incorporation of a new Government Accounting Standards Board (GASB) pronouncement—Statement No. 75—related to accounting and financial reporting for postemployment benefits other than pensions.

Mark Thomas of KPMG commented on the significant impact that GASB pronouncements have had on government financial statements, including the CSU. Several years ago, implementation of the new standard for pension—GASB Statement No. 68—resulted in a net pension liability of \$9.8 billion being recorded on the CSU’s financial statements. With the implementation of the new standard for other postemployment benefits, a liability of \$13.9 billion for retiree health benefits was recorded on the CSU’s financial statements. Mr. Thomas indicated that the complexity of the audit has grown as a result of the implementation of GASB 75 due to the interplay between the CSU, State Controller’s Office, CalPERS, and CalPERS actuaries. During audit test work it was discovered that the CalPERS census data file that drives the calculation of the other postemployment benefit liability contained errors. This area was identified as a significant deficiency in internal controls that needs to be addressed. However, the liability amount ultimately posted was deemed materially accurate enough to be posted to the financial statements. The CSU is working with CalPERS and other parties to resolve the issue.

Mr. Thomas reported that the results of the CSU audit include an unmodified opinion on the financial statements. There was one finding related to the census data for other postemployment benefits. Mr. Thomas also reported on the CSU single audit report of federal funds. The single audit included two administrative findings that are not considered substantial. Clean opinions were also received for the single audit.

Mary Ek, assistant vice chancellor and controller, presented a summary of the financial statements and discussed key drivers in financial position changes. The total net position as of June 30, 2018, is a \$14.2 billion deficit due to the incorporation of other postemployment benefits liability. Other key drivers in financial position changes include a one-time \$6 billion supplemental contribution by the State of California to CalPERS to reduce pension liability and a decrease in the CalPERS discount rate from 7.5 percent to 7.0 percent.

Ms. Ek reported that of the 89 CSU auxiliary organizations, there were five that had audit findings in fiscal year 2017-2018. The Chancellor’s Office is following up with each auxiliary organization’s board of directors to ensure appropriate corrective actions are taken. Ms. Ek explained that the Office of Management and Budget requires a separate audit of federal funds received by the system and indicated that the audit findings overall were of minor financial materiality. There were two repeat systemwide findings related to the administration of financial aid programs. Corrective actions are in progress and a status update will be provided at a future board meeting.

Following the presentation the trustees discussed the CSU’s pension and other postemployment benefits liability, the systemwide audit finding related to the accuracy of CalPERS’ employee census data, the single audit findings related to the administration of financial aid, and other matters related to the systemwide financial statements and CSU’s financial position.

Individual Consequences for Intentional Fiscal Improprieties at the CSU

Mr. Larry Mandel introduced the action item and iterated that the vast majority of CSU personnel are well-intentioned and have a desire to conduct business activities with the utmost propriety. However, even the best systems of internal controls and operating procedures cannot provide absolute safeguards against fiscal irregularities. Mr. Mandel explained that the item proposes an addition to the existing systemwide policy on reporting of fiscal improprieties in order to require that campus presidents and the chancellor (in instances of fiscal improprieties occurring at the Office of the Chancellor) contact the appropriate prosecuting authority and present the evidence for any intentional fiscal impropriety such as fraud, theft, or intentional misuse of funds resulting in a loss to the CSU or a recognized auxiliary greater than \$20,000. Additionally, in such instances in which an individual is identified as responsible for an intentional act of fiscal impropriety resulting in a loss to the CSU or a recognized auxiliary in any amount, campuses are to evaluate seeking repayment or restitution for such losses. Employee discipline, up to and including dismissal, should also be evaluated and imposed when appropriate. Lastly, the item seeks to strengthen the existing reporting process for fiscal improprieties through the addition of an annual certification process for campus presidents and the chancellor.

Following the presentation, trustees sought clarification on existing reporting procedures and the proposed additions. Trustees discussed the dollar threshold for referring cases to a prosecuting authority, the standards for investigations and determining culpability, the effects of incarceration resulting from criminal prosecution, and various administrative/procedural considerations. Andrew Jones, executive vice chancellor and general counsel, summarized and clarified key elements of the proposal and also clarified the role of the Chancellor's Office in the process. The item was moved and seconded. Chancellor Timothy P. White suggested that the committee consider tabling the item to the next meeting based on discussion points posed by several trustees. The motion and second were withdrawn. Trustee Faigin indicated that the item would be tabled to the next committee meeting.

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
Audit and Advisory Services

Summary

This item includes both a status report on the 2019 audit plan and follow-up on past assignments. For the 2019 year, assignments were made to develop and execute individual campus audit plans; conduct audits of Information Technology (IT), Sponsored Programs and Construction; use continuous auditing techniques; provide advisory services and investigation reviews; and continue implementation activities for the redesign of Audit and Advisory Services. Follow-up on current and past assignments was also being conducted on approximately 38 completed campus reviews. Attachment A summarizes the audit assignments in tabular form.

AUDITS

General Audits

The organizational redesign for Audit and Advisory Services provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks and systemwide goals and strategies. Risk assessments and initial audit plans have been completed for all campuses. Audit plans include a Health and Safety audit at each campus as a follow-up to the health and safety audits performed by the California State Auditor in 2018. Four campus reports have been completed, fieldwork is being conducted at five campuses, report writing is being completed for five campuses, and four reports are awaiting a campus response prior to finalization.

Information Technology Audits

The initial audit plan indicated that reviews of Information Security, IT Disaster Recovery, Cloud Computing, and Accessible Technology would be performed at those campuses where a greater degree of risk was perceived for each topic. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues. Fieldwork is being completed at one campus, report writing is being completed for two campuses, and one report is awaiting a campus response prior to finalization.

Sponsored Programs

The initial audit plan indicated that reviews of both post-award and pre-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. Pre-award reviews emphasize compliance with conflict-of-interest and training requirements. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. One campus report has been completed and report writing is being completed for one campus.

Construction

The initial audit plan indicated that reviews of recently completed construction projects, including activities performed by the campus, general contractor, and selected subcontractors would be performed. Areas to be reviewed include, 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. One campus report has been completed and report writing is being completed for one review.

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

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.

CONTINUOUS AUDITING TECHNIQUES

The initial audit plan indicated that continuous auditing techniques would be used to review credit card data for the 12 campuses not reviewed in 2018 to identify potential risks and to evaluate compliance with policies and procedures. Continuous auditing uses data analytics tools and techniques to analyze large volumes of data, look for anomalies and trends, and complement the existing risk assessment process. Reviews are ongoing.

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.

AUDIT SUPPORT

Annual Risk Assessment

Audit and Advisory Services annually performs individual campus risk assessments, using management interviews, surveys, audit history, and other factors to score an audit universe of topics in order to determine the topics of highest risk to each campus and the system. 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 5/17/2019)**

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
Bakersfield	Sponsored Programs - Post Award	2018	AC	1/5	3
	Information Security	2018	AC	3/6	2
	Const. - Humanities Office Bldg. & Humanities Classrooms	2019	AC	0/4	1
	Health and Safety	2019	FW		
Channel Islands	University Auxiliary Services	2018	AC	0/8	2
Chico	Student Health Services	2018	AC	6/6	-
	Centers and Institutes	2018	AC	0/5	2
	Health and Safety	2019	FW		
Dominguez Hills	Centers and Institutes	2018	AC	3/6	9
	International Activities	2018	AC	5/9	7
East Bay	Cloud Computing	2018	AC	3/3	-
	Educational Foundation	2019	AC	0/3	2
Fresno	Cloud Computing	2018	AC	2/2	-
	Information Security	2019	RW		
Fullerton	Cal State Fullerton Philanthropic Fdn.	2018	AC	3/3	-
	Sponsored Programs	2019	AC	0/4	1
	Health and Safety	2019	RW		
Humboldt	Health and Safety	2019	RW		
Long Beach	Cashiering	2018	AC	3/3	-
	The Forty-Niner Shops, Inc.	2018	AC	0/18	2
	Information Security	2019	AI		
	Health and Safety	2019	FW		
Los Angeles	Decentralized Computing	2018	AC	4/4	-
	Health and Safety	2019	AI		
Maritime Academy	Health and Safety	2019	RW		
Monterey Bay	Foundation of CSU Monterey Bay	2018	AC	7/8	5
	University Corporation	2019	RW		
	Sponsored Programs - Post Award	2019	RW		
Northridge	Sponsored Programs	2018	AC	3/5	6
	Health and Safety	2019	RW		
Pomona	Associated Students Incorporated	2018	AC	4/4	-
Sacramento	Sponsored Programs - Post Award	2018	AC	2/3	12 ¹
	IT Disaster Recovery	2018	AC	2/4	7
	Associated Students of CSU, Sacramento	2018	AC	1/10	3
	Const. - Student Housing, Phase II	2018	AC	1/1	-
	Cashiering	2019	AC	0/7	1

Status Report on Current and Past
 Audit Assignments
 (as of 5/17/2019)

Campus	Audit Topic	Audit Plan Year	Audit Status	Follow-up on Current and Past Audit Assignments	
				*Recs	**Mo.
San Bernardino	Emergency Management	2018	AC	4/5	9
	Health and Safety	2019	AI		
	Information Security	2019	FW		
San Diego	Decentralized Computing	2018	AC	0/11	5
	The Campanile Foundation	2019	AC	0/4	1
	Health and Safety	2019	FW		
San Francisco	Accounts Receivable	2018	AC	0/4	5
	Student Organizations	2018	AC	0/7	5
	Health and Safety	2019	AI		
San Jose	Housing and Residential Services	2018	AC	8/9	7
	The Student Union of San Jose State Univ.	2018	AC	0/7	3
	Health and Safety	2019	AI		
	Const. - Spartan Golf Complex, Phase I	2019	RW		
San Luis Obispo	Cal Poly Corporation	2018	AC	7/7	-
	Health and Safety	2019	AC	0/9	1
San Marcos					
Sonoma	IT Disaster Recovery	2018	AC	10/10	-
	Sonoma State Enterprises	2018	AC	4/5	5
Stanislaus	Information Security	2018	AC	2/9	3
	Health and Safety	2019	FW		
Chancellor's Office	Emergency Management	2018	AC	3/4	7
	Accessible Technology	2019	RW		
Systemwide	Student Organizations	2017	AC	0/1	14 ²
<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. ¹ Approved extended completion date of 12/31/19. ² Approved extended completion date of 12/31/18. Numbers/letters in green are updates since the agenda mailout.</p>					

COMMITTEE ON AUDIT

Status Report on Corrective Actions for the Findings in the California State University and Auxiliary Organizations Audit Reports for the Fiscal Year Ended June 30, 2018

Presentation By

Mary Ek
Assistant Vice Chancellor/Controller
Financial Services

Summary

At the March 2019 California State University Board of Trustees meeting, three audit findings were identified. These three findings concerned internal controls over the completeness and accuracy of the census data that was utilized to estimate the net other postemployment liability in the CSU's financial statements, in addition to a finding on the administration of federal financial aid funds. The findings on federal financial aid funds had no material impact on the overall financial statements but was required to be reported by federal regulations. All findings are required to have a corrective action plan submitted and approved to close the action. In all cases, the campuses and the Chancellor's Office have established a satisfactory corrective action plan that has been approved.

The finding on census data requires a more extensive solution with both CalPers and the State Controller's Office coordinating with the CSU human resources team. All entities have agreed on the data that is required to be exchanged in order to present the correct information on other postemployment liability in the CSU financial statements. The staff have reviewed the documentary evidence and confirmed completion of the corrective actions.

In addition to the audit findings above, there were also audit findings relating to some of the separately issued auxiliary organization financial statements. The Chancellor's Office staff has reviewed documentary evidence submitted by the auxiliary organizations and confirmed completion of corrective actions for the audit findings.

COMMITTEE ON AUDIT

Individual Consequences for Intentional Fiscal Improprieties at the CSU

Presentation By

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

Summary

The vast majority of California State University (CSU) personnel are ethical and well-intentioned and have a desire to conduct business activities with the utmost propriety. The CSU relies on ethical personnel at all levels of the organization to help fulfill its mission. The CSU's internal controls and operating procedures are intended to detect and to prevent or deter improper activities. However, even the best systems of control cannot provide absolute safeguards against irregularities. As part of an ongoing effort to provide public accountability and deter fraudulent activity, the CSU will pursue criminal prosecution for intentional fiscal improprieties committed against the CSU or a recognized auxiliary, seek repayment from responsible individuals whenever possible and evaluate and impose discipline (up to and including dismissal) when appropriate.

Background

The California State Administrative Manual, Section 20080, requires state agencies to report actual or suspected fraud or errors to the Department of Finance and the California State Auditor. While the CSU is not subject to the requirements under the State Administrative Manual, the CSU is nevertheless committed to the highest ethical standards and to creating an environment where fraudulent and other improper acts are not tolerated. In May 2016, the chancellor issued Executive Order 1104 (EO 1104), *Campus Reporting of Fiscal Improprieties*. Under EO 1104, the chancellor and campus presidents are required to notify Chancellor's Office administrators and the chair of the Board of Trustees' Committee on Audit of actual or suspected fiscal improprieties of \$5,000 or more. Decisions of whether to refer cases for prosecution or pursue discipline are not specifically addressed in the current policy but should be considered as part of the reporting process.

Recommended Action

The following resolution is recommended for adoption:

RESOLVED, by the Committee on Audit of the California State University Board of Trustees, that, effective immediately:

1. As part of the existing procedures in Executive Order 1104, if the chancellor or campus presidents determine that there has been a fraud, theft or intentional misuse of funds resulting in a loss to the CSU or a recognized auxiliary greater than \$20,000, then the chancellor or campus president (or their designee) shall promptly contact the appropriate prosecuting authority and present the evidence so that the prosecuting authority may consider criminal prosecution. In cases where the loss is \$20,000 or less, the chancellor and campus presidents are encouraged to present the evidence to the prosecuting authority, if appropriate based on the totality of the circumstances. Regardless of the amount of the loss, discipline (up to and including dismissal) shall be evaluated and, if warranted by current system or campus disciplinary procedures, imposed. In all cases, the CSU shall evaluate the appropriateness of seeking repayment of the loss either outright or in the form of a restitution agreement, and such repayment or agreement to repay shall be secured whenever possible and whenever appropriate based on the totality of the circumstances.
2. On an annual basis, the chancellor and each campus president is required to complete a certification to be transmitted to, and retained by, the CSU chief auditor stating that, in accordance with CSU policy, they have disclosed all known actual or suspected fiscal improprieties of \$5,000 or more.