

## **AGENDA**

### **COMMITTEE ON AUDIT**

**Meeting:**     **1:45 p.m., Tuesday, March 21, 2017**  
                  **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 January 31, 2017

1. Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting, *Information*

#### **Discussion Item**

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

**January 31, 2017**

## **Members Present**

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

Trustee Douglas Faigin called the meeting to order.

## **Approval of Minutes**

The minutes of November 15, 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.

## **Calendar Year 2017 Plan for Audits, Advisory Services, and Investigations**

Vice Chancellor and Chief Audit Officer Larry Mandel, provided information regarding the calendar year plan for audits, advisory services, and investigations. He indicated that the audit plan for calendar year 2017 begins phase-in of the new organization structure and that resources will initially be directed towards the completion of risk assessments and the gathering of campus specific information for topics to be reviewed. Mr. Mandel noted that due to the re-tooled approach to the assessment of risk by campus, the total number of campus audits in 2017 will be reduced.

Mr. Mandel provided an overview of the audit plan allocation, with audits representing the largest portion of the plan at 71 percent and consisting of campus audits, information technology audits, sponsored programs audits, and construction audits. Mr. Mandel explained that the next largest portion of the plan representing 12 percent is advisory services. He reminded the trustees that advisory services was introduced as a new function in 2013 and continues to be well received within the system. He explained that its goal is to essentially prevent risk, rather than detecting problems after the fact. Mr. Mandel noted that the final components of the plan are investigations representing 7 percent, staff time for committees and special projects representing 1 percent, and audit support representing 9 percent.

Chair Faigin called for a motion to approve the committee resolution (RAUD 02-17-01). A motion was made and the resolution was unanimously approved.

### **Report of the Systemwide Financial Statements Including the Report to Management**

Assistant Vice Chancellor and Controller Mary Ek presented the Report of the Systemwide Financial Statements Including the Report to Management for the period ending June 30, 2016 and provided an overview of revenues and expenses from fiscal year 2015-2016. There were no audit findings in the systemwide financial statements, however, there were six auxiliary organizations that had audit findings in fiscal year 2015-2016. The Chancellor's Office is following up with each auxiliary organization's board of directors to ensure appropriate corrective actions are taken.

Ms. Ek reported that net position has improved year over year in large part because of the pension liability and how it is amortized over time. She explained that page 68 of the report provides the CSU's portion of the State of California Miscellaneous Plan. Ms. Ek commented that the CSU is allocated a 22 percent factor of the net pension liability. Trustee Adam Day asked if it is viewed as a positive to see the plan fiduciary net position as a percentage decreasing year over year, to which Ms. Ek responded, no. Trustee Day inquired about the CSU's unrestricted reserves. Ms. Ek stated that unrestricted designated reserve is at \$1.3 billion.

Trustee Day asked for clarification and summarization of data on page ten of the report as it relates to pension obligations. Ms. Ek and Mr. Mark Thomas of KPMG explained that CalPERS provides the CSU numbers that are based on two-year old data and noted that the variables that change the liability from year-to-year are amortized over a five-year period for a smoothing effect—the referenced section of the report on page ten identifies the variables.

Trustee Day inquired about page one of Mr. Thomas' letter to the board—which reflects that KPMG did not audit the financial statements of 88 of the 90 aggregate component units—asking if it is the 88 units that account for 95 percent of all the other revenues, or the two. Mr. Thomas explained that one of the two entities KPMG audits is the California State University Risk Management Pool and the other big chunk of assets and revenues relates to the foundations of each of the campuses, which are primarily audited by other auditors. Trustee Day referenced page 50 of the report and asked which leases are at a 36 percent interest rate. Ms. Ek responded that the staff would get back to Trustee Day with specific information.

Trustee Peter Taylor asked for confirmation that “clean” and “unmodified” are the same thing, to which Mr. Thomas confirmed, yes. Trustee Taylor referenced page 41 of the report and asked why the \$756 million in U.S Treasury securities is not rated. Mr. Thomas stated that under new standards, they are not required to be categorized. Trustee Taylor referenced page 58 of the report and noted the significant 33 percent increase in contributions to CalPERS over two fiscal years and commented that he sees it as a major threat to the university's financial viability. Ms. Ek noted that CalPERS' discount rate is going down by 50 basis points over three years. Trustee Taylor followed up by asking what that will do to the CSU's unfunded liability. Ms. Ek responded that for each 100 basis points it will go up almost \$3 billion.

Chair Faigin asked if the board should be worried about the CSU's pension liability. Ms. Ek commented that it is a long-term horizon. Mr. Thomas noted that the rules requiring pension liability be included on financial statements will also apply to post-retirement health care benefits next year.

Trustee Silas Abrego asked how much of CSU revenue is lottery funds and Ms. Ek stated it is approximately \$45 million with roughly 10 percent reserved. Ms. Ek deferred to Assistant Vice Chancellor for Budget Ryan Storm to respond as to whether there is a compounding lottery number and Mr. Storm stated that he would get back to Trustee Abrego.

### **Single Audit Reports of Federal Funds**

Ms. Ek presented an overview of the report of the Single Audit Reports of Federal Funds. She reported that there were two audit findings related to the administration of financial aid programs and one additional finding related to non-financial aid federal awards. Ms. Ek explained that corrective actions for all of these items are in progress and that a status update will be provided at a future board meeting.

Mr. Thomas provided a report on the status of the CSU systemwide audit and reiterated that the single audit also received a clean, unmodified opinion, and the items reported were in the category of administrative-type items. Mr. Thomas discussed the conduct of the audit and explained there are no significant items to report.

Trustee Taylor commented on the \$25,000 materiality threshold for the single audit report and asked what the materiality threshold is for the other audit. Mr. Thomas noted that it is about \$24 million overall. Trustee Taylor asked Ms. Ek about page 18 of the report, seeking clarification as to whether the significant deficiencies in internal controls over major programs relates to the findings or something else. Mr. Thomas stated that yes, they relate to the findings. Trustee Taylor asked if Mr. Thomas received complete and total access to the information necessary to reach his opinion and Mr. Thomas responded that he had complete and total access and cooperation from management.

Trustee Faigin adjourned the Committee on Audit.

## **COMMITTEE ON AUDIT**

### **Report on Compliance with National Collegiate Athletic Association Requirements for Financial Data Reporting**

#### **Presentation By**

Mary Ek  
Assistant Vice Chancellor/Controller  
Financial Services

#### **Summary**

Colleges and universities with intercollegiate athletic programs in the National Collegiate Athletic Association (NCAA) are required to submit financial data detailing operating revenues and expenses related to their intercollegiate athletics programs to the NCAA by January 15 following the end of the fiscal year. The financial data is subject to agreed-upon procedures performed by a qualified independent accountant and must be submitted to the president or chancellor prior to submission to the NCAA.

California State University campuses required to report include nine campuses in NCAA Division I and eleven in Division II. One campus is in a transition period to become a Division II member and thus not required to report. Two campuses do not have athletic programs in the NCAA. Division I schools are required to issue the agreed-upon procedures and submit financial data to the NCAA annually. Division II schools are required to issue the agreed-upon procedures report every three years, but must submit financial data to the NCAA annually.

Eight of nine Division I campuses met NCAA requirements by issuing the agreed-upon procedures report for fiscal year ended June 30, 2016 in a timely manner. One Division I campus did not comply with the NCAA requirement to issue the agreed-upon procedures report by January 15, 2017. Campus management is in the process of working with its audit firm to issue the report. All nine Division I campuses submitted the required financial data to the NCAA.

Seven Division II campuses were required to submit their agreed-upon procedures report for fiscal year ended June 30, 2016. Six of the seven campuses submitted in a timely manner. One Division II campus did not comply with the NCAA requirement to issue the agreed-upon procedures by January 15, 2017. Campus management is in the process of working with its audit firm to issue the report.

All eleven campuses in Division II submitted the financial data to the NCAA in a timely manner.

## **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 2017 audit plan and follow-up on past assignments. For the 2017 year, assignments were made to develop and execute individual campus audit plans, as well as to conduct audits of Information Technology (IT), Sponsored Programs and Construction; and to provide advisory services and investigation reviews. Follow-up on current/past assignments (Auxiliary Organizations, Information Security, Student Activities, Academic Departments, Delegations of Authority, Cloud Computing, Emergency Management, International Activities, and IT Disaster Recovery) was also being conducted on approximately 35 prior campus/auxiliary reviews. Attachment A summarizes the audit assignments in tabular form.

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

#### **AUDITS**

##### Campus Audits

The new organization structure provides for individual campus audit plans that are better aligned with campus and auxiliary organization risks. Risk assessments and initial audit plans have been completed for all campuses. Fieldwork is being conducted at seven campuses.

##### Information Technology Audits

The initial audit plan indicated that reviews of Information Security, Logical Access and Security, IT Disaster Recovery and General Computer Controls 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 conducted at two campuses, and report writing is being completed for one campus.

### Sponsored Programs

The initial audit plan indicated that reviews of post award activities based on recent changes in federal regulations, as well as a systemwide review of campus policies, procedures, and practices relating to indirect cost recovery would be performed. Scheduled reviews may also include campus-specific concerns or follow-up on prior campus issues relating to sponsored programs activities. Fieldwork is being conducted at 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 approval of project design, budget and funding; administration of the bid and award process; the closeout process; and overall project accounting and reporting. Fieldwork is being conducted for one project, and report writing is being completed for one project.

## ADVISORY SERVICES

The Office of 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

The Office of Audit and Advisory Services is periodically called upon to provide investigative reviews, which are often the result of alleged misappropriations 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.

## 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.

## AUDIT SUPPORT

### 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, as well as campus-specific risks.

### Administration

Day-to-day administration of the Office of Audit and Advisory Services 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.



2017 AUDITS		FOLLOW-UP ON CURRENT/PAST AUDITS					
Campus	Information Technology (IT)	Sponsored Programs	Auxiliary Organizations			Information Security	
			●No.	*Recs	**Mo.	*Recs	
						**Mo.	
BAK	Emergency Management (FW)		4	35/35	-	10/10	-
CHI	Student Activities (FW)		3	32/32	-	21/21	-
CI			3	32/32	-	3/17	4
DH			3	36/36	-		
EB			3	31/31	-	7/9	6
FRE		Post Award (RW)	6	36/36	-	11/11	-
FUL	International Activities (FW)		4	30/30	-		
HUM			4	8/14	6	4/4	-
LB	Counseling & Psychological Svcs. (FW)		4	18/18	-	6/6	-
LA			4			13/13	-
MA		Information Security (FW)	2	13/13	-	7/7	-
MB			2	23/23	-		
NOR			5	19/19	-	6/8	6
POM		IT Disaster Recovery (FW)	2	20/20	-		
SAC			5	41/41	-		
SB	Cashiering (FW)		4	23/23	-	10/10	-
SD	Facilities Management (FW)		4	12/15	7	6/7	10
SF			3	17/17	-	9/9	-
SJ			5	26/26	-	17/17	-
SLO	Hazardous Materials Management (FW)		3	11/11	-		
SM			4	17/17	-		
SON			3	4/4	-		
STA			4	0/14	3	21/21	-
CO			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.  
Numbers/letters in green are updates since the agenda mailout.

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- \*\* The number of months recommendations have been outstanding from date of report.
- The number of auxiliary organizations reviewed.

**Status Report on Current and Past  
 Audit Assignments**  
 (as of 3/15/2017)

FOLLOW-UP ON CURRENT/PAST AUDITS														
	Student Activities		Academic Dept. Fiscal Review		Delegations of Authority		Cloud Computing		Emergency Management		International Activities		Info. Technology Disaster Recovery	
	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.	*Recs	**Mo.
BAK	4/4	-											0/8	3
CHI							4/4	-			0/0	-		
CI	2/2	-			6/6	-								
DH			11/11	-					3/4	6				
EB														
FRE			7/7	-									2/7	3
FUL	5/5	-					4/4	-	1/8	1				
HUM									0/4	1				
LB			4/4	-										
LA														
MA					6/6	-								
MB											0/5	4		
NOR											1/4	3		
POM	3/3	-									0/6	1		
SAC	1/1	-			1/3	5								
SB											0/4	3		
SD											0/2	4		
SF					4/4	-	5/5	-						
SJ									1/6	3				
SLO									3/3	-				
SM	2/2	-	0/6	1			1/3	4						
SON			5/5	-	1/1	-								
STA			6/6	-										
CO					4/4	-								
SYS					0/4	2								

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(as of 3/15/2017)

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have been outstanding from date of report.