December 24, 2017

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California State University submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

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

Overview

The California State University system (CSU or University) was created in 1960 under the California Master Plan for Higher Education. The CSU draws its students from the top third of the state’s high school graduates and is California’s primary undergraduate teaching institution. Responding to California’s workforce demands for skilled professionals, the CSU also offers independent Doctor of Education, Doctor of Nursing Practice and Doctor of Physical Therapy programs at numerous campuses. The Doctor of Philosophy is also offered through a joint partnership with other public and private universities in California.

Mission of the CSU

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

Values and Principles

The CSU prepares its students for success through leading-edge programs, superior teaching, and scholarly activity. High-quality academic programs reflect California’s current and future workforce demands in emerging fields such as cybersecurity, software engineering, sustainable business and environmental technology. The CSU strives to create a welcoming environment for all members of the campus communities. This commitment to “inclusive excellence” is manifested in students who make up the most
ethnically, economically and academically diverse student body in the nation reaching higher levels of success than ever as completion rates continue to reach all-time highs. The University continues to invest in strategies to close achievement and opportunity gaps for underserved and low-income students. The CSU is an engine for social mobility as those students earn a high-quality education that propels them into higher economic strata.

The CSU is committed to ensuring that the citizens of California know how the CSU conducts business. To that end, the CSU system strives to be accountable in all its engagement with students, faculty, staff, the community, and businesses. This includes sharing and updating information and making it readily available to the public. Working hand-in-hand with California’s businesses and communities is essential for the CSU to function and thrive.

**CSU Profile**

- Is the largest four-year public university system in the nation, with 23 campuses and eight off-campus centers
- Educates the most ethnically, economically and academically diverse student body in the nation
- Renowned for the quality of its teaching and preparing job-ready graduates
- Educates approximately 479,000 students
- Employs more than 51,000 faculty and staff
- Campuses located throughout the state from Humboldt in the North to San Diego in the South
- Creates opportunities for the diverse students of California to reach their educational goals and become leading citizens, opening the doors of college to more than 66,000 additional students since 2010.
- Prepares students for success through leading-edge programs, superior teaching, and scholarly activity. High-quality academic programs reflect California's current and future workforce demands in emerging fields such as cybersecurity, software engineering, sustainable business and environmental technology.
- Drive California’s economy with more than 110,000 undergraduate and graduate students earning degrees each year.
- Enhances the social fabric of the state and nation through the contributions of its students, faculty, staff and more than 3.4 million alumni.

**CSU Leadership**

Oversight of the University is vested in a 25-member Board of Trustees, the majority are appointed by the governor to eight-year terms. Faculty, alumni and two student trustees serve two-year terms. The trustees appoint the following University system leaders:

- Chancellor: Timothy White
- Campus Presidents
- Executive Vice Chancellor and General Counsel: Framroze Virjee
- Executive Vice Chancellor and Chief Financial Officer: Steve Relyea
- Executive Vice Chancellor Academic and Student Affairs: Loren Blanchard
- Vice Chancellor, University Relations and Advancement: Garrett Ashley
- Vice Chancellor, Human Resources: Melissa Bard
- Vice Chancellor and Chief Audit Officer: Larry Mandel

**CSU Campuses**

The CSU plays a critical role in preparing future leaders with the skills and knowledge they will need to
thrive in the workforce. Graduating more than 110,000 students each year, the CSU is the state’s largest producer of bachelor’s degrees and powers California’s economy in agriculture, information technology, business, hospitality, life sciences, healthcare, public administration, education, media and entertainment.

Campus Budgets for 2016-17 were:

- Bakersfield: $101,272,000
- Channel Islands: 98,155,000
- Chico: 187,132,000
- Dominguez Hills: 130,925,000
- East Bay: 168,520,000
- Fresno: 231,078,000
- Fullerton: 348,541,000
- Humboldt: 115,305,000
- Long Beach: 370,376,000
- Los Angeles: 233,989,000
- Maritime Academy: 38,644,000
- Monterey Bay: 93,962,000
- Northridge: 355,241,000
- Pomona: 241,587,000
- Sacramento: 269,060,000
- San Bernardino: 190,701,000
- San Diego: 363,937,000
- San Francisco: 300,762,000
- San José: 320,969,000
- San Luis Obispo: 291,705,000
- San Marcos: 138,820,000
- Sonoma: 104,912,000
- Stanislaus: $ 98,231,000

CSU Auxiliary Organizations

There are over 85 auxiliary organizations supporting CSU campuses. Auxiliary organizations are nonprofit organizations which are separate legal entities that operate under a written agreement with the CSU Board of Trustees. These auxiliary organizations 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. Auxiliary organizations 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. 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 bookstores or food service; and philanthropic activities, including acceptance of donor gifts.

CSU Risk Management Authority

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 created 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.

CSU 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 Revenue Bond Program enables the CSU to take advantage of rapidly changing market conditions by refinancing to lower the cost of CSU debt.

CSU Business Functions and Activities

The Chancellor’s Office is the system headquarters of the 23 CSU campuses and has administrative divisions that establish policies and oversee the business functions and activities of the system.

Board of Trustees

The Board of Trustees (board) is responsible for the oversight of the CSU and adopts rules, regulations, and policies for its governance. The board has authority over curriculum development, use of property, development of facilities as well as fiscal and human resources management. The 25-member board 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 and Student Affairs

The Division of Academic and Student Affairs concentrates on student success and faculty excellence while providing leadership and assistance to CSU campuses. A high-quality educational experience for California’s diverse student body taught and supported by skilled faculty and staff is the division’s aim. The Division is committed to ensuring 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. The division focuses on student services, community engagement, academic programs, special projects, and academic technology. It works with the CSU 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.

Audit and Advisory Services

The mission of Audit and Advisory Services is to assist CSU management and the board 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, information technology services, risk management and public safety. 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 acting 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. Employees are engaged and productive with the skills and behaviors required to meet the CSU’s mission. The CSU demonstrates concern for the health, well-being and safety of its employees and the division fosters an environment of continuous human resources improvement.

**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, and 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.

**CSU Statutory Duties**

The CSU system was created in 1960 under the California Higher Education Master Plan (Education Code section 66201-66207).

Rules, Regulations and Statutes impacting the CSU relate to: Affirmative Action; Athletics/National Collegiate Athletics Association; Auxiliary Organizations/Non-Profit; 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; International Agreements; Land Use Legislation; Online Education; Public Employment Relations Board; Police/Clery Reporting; Public/Private Partnership; Real Estate/Land Records; Records Access/Privacy; California State Residency; Social Media; Sovereign Immunity; State Personnel Board; Student Discipline; Student Fees; Student Loans and Bankruptcy; Federal, State and Local Tax; Title IX – Discrimination, Harassment, Retaliation; Title IX – Gender/Athletics; Wage/Hour Law.

**ONGOING MONITORING**

As the head of California State University, Timothy P. White, Chancellor, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.
Executive Monitoring Sponsor(s)
The executive monitoring sponsor responsibilities include facilitating and verifying that the California State University internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Timothy P. White, Chancellor, Steven W. Relyea, Executive Vice Chancellor and Chief Financial Officer, and Michael P Redmond, Assistant Vice Chancellor, Strategic Initiatives and Support Services.

Monitoring Activities
The Chancellor’s Office is responsible for ensuring campuses comply with regulatory and CSU policy requirements. Various means and methods have been designed to provide CSU leadership reasonable assurance that campuses comply with mandates. 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. Such is deemed appropriate and necessary due to the wide geographic reach of the University and the diversity of operations through the state. Information is communicated to Chancellor’s Office leadership via meetings and in reports coming through the variety of councils, committees, and subject matter teams. As guided by the California Department of Finance, campuses are required to establish and maintain effective systems of internal control consistent with Committee of Sponsoring Organizations “COSO” standards. Each campus establishes systems of internal control to ensure appropriate and coordinated monitoring processes are in place. Responsibility for administering these systems is assigned to local campus administrators and subject matter experts. In accordance with Department of Finance State Leadership Accountability Act guidance, CSU’s monitoring is a continuous, evolving process that assesses the quality of an internal control system’s performance over time. Specifically, ongoing monitoring is built into campus operations and occurs through the current implementation of internal controls such as regular management and supervisory activities, comparisons, reconciliations and other routine actions. The Chancellor’s Office relies on these local management and supervisory activities and validates them through campus inquiry and reporting at a sufficiently detailed level to provide reasonable assurance that controls are in place to ensure compliance with mandates. Separate evaluations and audits are done periodically, which provide formalized feedback on the effectiveness of systems. When deemed necessary and appropriate, these evaluations and audits can include campus risk assessments, reviews, or audits which may be conducted by internal auditors, campus management, the Chancellor’s Office or others designated with this responsibility.

Addressing Vulnerabilities
Frequency of Monitoring Activities CSU identifies its Strategic Initiatives and Support Services Division as the designated agency monitor. The contact is Michael P Redmond, Assistant Vice Chancellor, Strategic Initiatives and Support Services - mredmond@calstate.edu. Meetings between and among various leadership and management groups are held regularly. Executive leadership at the Chancellor’s Office meets as a group each week and vice chancellors also have regular one-on-one meetings with the chancellor. The Trustees meet every other month and on alternating months the 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 Reporting and documenting monitoring activities come from the variety of councils, committees, and subject matter teams. Moving forward, we intend to implement more formal processes specifically addressing the SLAA requirements, consistent with guidance provided by the Department of Finance. Procedure for Addressing Identified Internal Control Deficiencies Generally, local/responsible campus/divisional management should determine what a control should consist of, 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 should be remedied in six months, considering the risk that material errors might occur. Improvements in controls are generally supported by written procedures/guidelines/policies, which ensure such errors are identified in a timely manner and corrected. The objective of such procedures/guidelines/policies is a campus/division’s compliance with laws, regulations, rules and CSU policies and procedures.

**Communication**

Vulnerability assessments and monitoring results are broadly communicated by the university. The results help guide campuses and provide updates on processes, policies and procedures. Management and staff receive communications regarding these improvements via their university system, campus websites, newsletters, subject matter listservs, and audit and advisory services reports. In addition, systemwide conferences and meetings are held to instruct and assist campuses with implementing the necessary changes and improvements in controls. Campuses also present training for their management and staff. Specific examples of communication include an annual business conference where significant business process changes are presented. Also, a systemwide administrative policy announcement listserv is used to communicate new policies and changing policies to management and staff.

Systemwide affinity groups are often the first to receive communication of significant risks, control weaknesses, new mandates, and proposed policies. These groups meet regularly via teleconference or in person to help assess vulnerabilities, identify mitigating processes, and monitoring requirements. Also, these groups serve as the communication hub among subject matter experts and responsible management. It is not uncommon for a representative to serve on more than one affinity group. For example, the Chief Administrators and Business Officers, which consists of administrative vice presidents and chief financial officers, has a representative that works with the Financial Officers Association which includes line managers of fiscal operations. Additionally, each affinity group has a number of chancellor’s office administrators supporting their activities. These representatives are responsible for ensuring management directives and related monitoring requirements are clearly understood.

Affinity groups report up to the Chancellor’s Office as follows:

**Academic and Student Affairs (ASA)** concentrates on student success and faculty excellence. It concurrently focuses on student services, community engagement, academic programs, special projects and academic technology. ASA works with systemwide affinity groups (i.e. VPs Academic Affairs, VP Student Affairs, Commission on the Extended University, Council of Chief Research Officers) to respond to the educational needs of our students and challenges facing the system and state.

**Audit and Advisory Services (AAS)** performs independent and objective operational and compliance audits, internal control reviews, investigations and advisory services. It coordinates with audit contacts on the campuses who are responsible for campus generated reviews. AAS has an Audit Contacts affinity group.

**Business and Finance (BF)** manages the CSU budget and other financial resources. BF also oversees physical plant management, information technology services, police/public safety and risk management. BF works with systemwide affinity groups (i.e. Auxiliary Organization Association, Chief Administrators and Business Officers, Financial Officers Association, Information Security Officers Association, Information Technology Advisory Group, Technology Steering Committee, Budget Officers...
Association, Facilities Officers Association, Risk Managers Association, etc.) to ensure effective oversight of both financial and administrative functions across the CSU.

*Human Resources (HR)* serves campus administrators, providing support in academic human resources, benefits, compensation, Title IX compliance, labor relations, data operations, professional development, etc. HR works with various affinity groups (i.e., Human Resources Officers Association, Common Human Resources System Committee, etc.) to provide leadership in labor management, employee recruiting/retention and maintain a healthy work environment.

*Office of General Counsel* provides, manages and coordinates all legal services for the CSU. It seeks to minimize legal risks and costs; efficiently, reliably and professionally. Participate as a member of various affinity groups.

**Ongoing Monitoring Compliance**

The California State University is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California State University systems of controls and monitoring.

**RISK ASSESSMENT PROCESS**

The following personnel were involved in the California State University risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

**Risk Identification**

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 are administered both formally and informally through a network of committees and working groups. The board watches and improves controls through the efforts of standing and special committees of the Board. The Chancellor, through the Chancellor’s Council, the Council of Presidents and associated sub-groups and Committees. Vice Chancellor 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. 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, information security management, budget administration, and Title IX compliance.

**Risk Ranking**

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 in this report were culled from a review of various documented sources, and inquiries with key individuals on campus and within the Chancellor’s Office. Factors considered when assessing risks in the CSU include the 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 or student dissatisfaction, including negative publicity and damage to the CSU’s reputation, the 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 the CSU’s systems of internal control which seeks to minimize fraud, errors, abuse and a waste of government funds.

RISKS AND CONTROLS

Risk: Operations -Internal-Physical Resources—Maintenance, Upgrades, Replacements, Security

Facilities maintenance backlogs put the CSU at significant risk of catastrophic facilities failures.

Billions of dollars in deferred facilities maintenance continue to exist on CSU campuses. Sufficient funding to meet needs has not been provided.

The risk remains unmitigated with no immediate solution identified.

Control A
Detailed monitoring of gaps is being performed by the Chancellor’s Office and campuses. Priorities are established to ensure that facilities at the greatest risks are addressed first. The issue is regularly communicated to and discussed with members of the Legislature and the board.

Risk: Compliance-External-Priorities Affecting Laws or Regulations

The increase in the complexity of existing and continuously evolving legal and regulatory requirements make it difficult for the CSU to achieve full compliance.

The CSU faces an array of unfunded recently enacted or expanded legal and regulatory compliance requirements from a variety of state and federal sources.

While the CSU must comply with all of these mandated, many do not include specific funding to support their implementation and ongoing compliance. These unfunded mandates reduce resources available for the CSU’s mission.

Control A
CSU has expanded legal and administrative direction from the Chancellor’s Office, including written guides and staff training.

Risk: Operations -Internal-Program/Activity—Changes, Complexity

The CSU has a significant opportunity to ensure timely graduate of its students.

The lack of state funds permanently targeted to initiatives successfully decreasing the time to graduation.

Future student success will be limited if consistent funding is not provided.
Control A
State one-time funds have been deployed by the Chancellor’s Office through the CSU Graduation 2025 efforts. An increase in resident and nonresident tuition has generated additional revenue to support student success and degree completion strategies.

Risk: Operations -External-Funding—Sources, Levels
The CSU has insufficient funding to fully implement its mission.

Long-term trends significantly and negatively affecting the fiscal sustainability of current CSU operations include dramatic declines in state support, unfunded mandates, and non-discretionary increases in operating costs. At the same time, the demand for admission to the CSU is increasing, opportunities to enhance operating funds such as increasing student fees are facing significant challenges.

Funding deficits will result in the elimination or reduction of certain essential university services.

Control A
Studies and task force reviews have been performed that have fully articulated causes and impacts of structural fiscal deficits. Results have been presented to the board and related impacts are regularly discussed.

Risk: Operations -External-Business Interruption, Safety Concerns
Campuses must work together to build, sustain and improve their capacity to manage natural and human-made hazards.

CSU’s responsibilities and requirements concerning student safety on campus continue to increase.
Campuses must prepare for, protect against, respond to, recover from and mitigate all hazards. Challenges range from natural disasters to sudden and violent events on campus. Preparation must consider issues related to mental health support, violence against women, active shooter incidents, civil unrest and use of force by campus law enforcement. The complexities associated with these compliance and reporting requirement are also increasing.

Substantial efforts are currently being dedicated to safety on campus, though natural environmental factors i.e. fire, earthquakes, continue to increase risks.

Control A
CSU has expanded direction from the Chancellor’s Office, including written guides and staff training.

Risk: Operations -External-Technology—Data Security
CSU’s data information system is at risk of compromise.

The university continues to be faced with compromises which in many cases are the result of endpoint attacks and gaps in user awareness. Progress has been made in mitigating and managing compromises, though the sophistication and implications of attacks keep risks high.

Significant reputational risk and legal liabilities result when attacks are unmanaged.

Control A
Outside expertise, supportive tools and computer applications have been deployed to evaluate and test existing controls.
RISK: OPERATIONS - INTERNAL STAFF — KEY PERSON DEPENDENCE, WORKFORCE PLANNING
The CSU is continually challenged to keep up with departmental, campus and Chancellor’s Office leadership transitions.

Because of demographic trends i.e. increased number of retiring employees and the inability to keep certain University salaries competitive with markets, the CSU is faced with tremendous leadership turnover.

As people transition to new roles or retire, tremendous effort and costs are borne by the CSU to recruit and retain talent.

CONTROL A
Collaboration among institutions is sought within California public higher education to create opportunities for advancement for new and rising leaders.

CONCLUSION
The California State University strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Timothy P. White, Chancellor

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency