

January 11, 2022

Keely Martin Bosler, Director  
California Department of Finance  
915 L Street  
Sacramento, CA 95814

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California State University submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact  
Steven W. Relyea, Executive Vice Chancellor and Chief Financial Officer, at (562) 951-4600,  
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## **GOVERNANCE**

### **Mission and Strategic Plan**

The Mission of The California State University is:

- To advance and extend knowledge, learning, and culture, especially throughout California.
- To provide opportunities for individuals to develop intellectually, personally, and professionally.
- To prepare significant numbers of educated, responsible people to contribute to California's schools, economy, and society.
- To encourage and provide access to an excellent education to all who are prepared for and wish to participate.
- To 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.
- To prepare students for international, multi-cultural society.
- To provide public services that enrich the university and its communities.

To Accomplish Its Mission Over Time and Under Changing Conditions, the California State University:

- Emphasizes quality in instruction.
- Provides an environment in which scholarship, research, creative, artistic, and professional activity are valued and supported.
- Stresses the importance of the liberal arts and sciences as the indispensable foundation of the baccalaureate degree.
- Requires of its bachelor's degree graduates breadth of understanding, depth of knowledge, and the acquisition of such skills as will allow them to be responsible citizens in a democracy.
- Requires of its advanced degree and credential recipients a depth of knowledge, completeness of understanding, and appreciation of excellence that enables them to contribute continuously to the advancement of their fields and professions.
- Seeks out individuals with collegiate promise who face cultural, geographical, physical,

educational, financial, or personal barriers to assist them in advancing to the highest educational levels they can reach.

- Works in partnership with other California educational institutions to maximize educational opportunities for students.
- Serves communities as educational, public service, cultural, and artistic centers in ways appropriate to individual campus locations and emphases.
- Encourages campuses to embrace the culture and heritage of their surrounding regions as sources of individuality and strength.
- Recognizes and values the distinctive history, culture, and mission of each campus.
- Promotes an understanding and appreciation of the peoples, natural environment, cultures, economies, and diversity of the world.
- Encourages free scholarly inquiry and protects the University as a forum for the discussion and critical examination of ideas, findings, and conclusions.
- Offers degree programs in academic and applied areas that are responsive to the needs of the citizens of this state and provides for regular review of the nature and extent of these programs.
- Offers or proposes to offer instruction at the doctoral level jointly with the University of California and with private institutions of postsecondary education, or independently in the fields of education, nursing, physical therapy, or audiology, where the need is clearly demonstrated.

## Control Environment

The University has established integrity and ethical standards. All employees are mandated to receive related training. Annually employees are reminded of fraud reporting standards and how to report instances of fraud, waste, and abuse. The Audit and Advisory Services division has specially trained professionals to investigate instances reported. They also perform a biennial fraud risk survey of executive management also. The University also prepares financial statements which are reviewed in accordance with generally accepted governmental accounting practices which requires the university to follow related integrity and ethical standard. Further, the university submits to WASC (Senior College and University Commission) academic and operating standards that establish integrity and ethics for the operation of colleges and universities. Finally, the university operates related non-profit organizations that impose the integrity and ethical standards of the Non-profit Integrity Act e.g. ethical fundraising.

A board of trustees exercised oversight of the university and adopts rules, regulations, and policies governing the university. The CSU Chancellor convenes board meetings every other month. The board includes ex officio such as the Governor of the State of California. The board is responsible for:

- Developing broad administrative policy for the campuses;
- Providing broad direction and coordination to campus curricular development;
- Overseeing the efficient management of funds, property, facilities, and investments by the system and the campuses;
- Appointing the Chancellor and Vice Chancellors for the system, and the Presidents for the campuses as chief executives with certain delegated responsibilities, and communicating to the people of California an understanding and
- Assessing the current effectiveness and future needs of the California State University.

The university is organized to ensure appropriate levels of responsibility and authority are maintained. The responsibilities of the Chancellor are formally delegated by the Board. The Chancellor then in turn formally delegates to the Executive Vice Chancellor and Chief Academic Officer, the Executive Vice Chancellor and Chief Financial Officer, the Vice-Chancellor of University Relations and the Vice-Chancellor of Human Resources. The Chancellor is advised by an Office of General Counsel and is audited by the Vice-Chancellor of Audit and Advisory Services who separately reports to the Board's Audit Committee.

The Vice Chancellors formally delegate responsibilities to various Assistant Vice-Chancellors, Executive Directors, etc. Additionally, various related committees and commissions provide oversight, guidance, and support, including the Academic Senate, California State Students Association, Continuing Education Commission, etc.

Each Vice Chancellor is responsible for establishing systems of internal control to ensure the objectives of the university are met and that assets are adequately maintained and secured. controlled.

Procedures and operational instructions are documented for staff as are policies included in the California State University Administrative Policy Library.

The competency of university staff is maintained through networks of subject matter experts and university affinity groups as well as through systemwide and campus training programs, operational websites, newsletters, listservs, etc. Systemwide conferences and meetings are also held to instruct and assist campuses with implementing necessary changes and improvements in operating practices and controls.

Systemwide affinity groups and subject matter experts meet regularly via teleconference or in-person to train and assess vulnerabilities, identify mitigating processes, and monitoring requirements. These subject matter experts and responsible management coordinate to ensure university directives and associated monitoring requirements are met.

Each major division in the university is accountable for specific functions and activities 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 Contact 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 (e.g., 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.

Management evaluates staff performance and enforces accountability through 1) the university's annual staff evaluation processes supervised by human resources 2) requiring preparation of regular and ad hoc reporting on university financial and operational activities 3) involvement of internal and external oversight boards and committees 4) surveying internal and external stakeholders 5) development of strategic priorities and setting of operational goals 6) establishing open channels of communication between leadership and staff, including opportunities for reporting of deficiencies and irregularities outside of normal organizational channels.

## Information and Communication

The Chancellor's Office and campuses collect and communicate relevant and reliable operational, programmatic and financial information through formal and informal reports directed to the Board of Trustees, campus stakeholder communities (faculty, staff, and students), legislative offices, and in responses to audits and investigations, public record requests, and inquiries from student and community press. The University communicates results and management directives through extensive Internet and intranet web pages. Formal and informal networks among subject matter experts and topical affinity groups further facilitate this communication to and from external stakeholders including the California Students Association comprised of student leaders from every campus and the Auxiliary Organization Association comprised of representatives from each of the over eighty affiliated non-profit organizations affiliated with the campuses and the Chancellor's Office.

The university's subject matter expert and 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. 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.

Staff report inefficiencies, waste, and abuse through processes outlined the CSU policy Complaint Procedures for Protected Disclosure of Improper Governmental Activities and/or Significant Threats to Health or Safety, which provide the who, what, when and where on making such claims. The policy provides express protection for employees making a claim, including protections against retaliation.

## MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and

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verifying that the California State University monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Steven W. Relyea, Executive Vice Chancellor and Chief Financial Officer; and  
Brad Wells, Associate Vice Chancellor, Business and Finance.

The Chancellor's Office is responsible for assessing vulnerabilities and ensuring campuses comply with regulatory and CSU policy requirements. Various means and methods have been designed to provide CSU leadership with reasonable assurance that campuses comply with requirements. As guided by the California Department of Finance, campuses are required to establish and maintain effective systems of internal control consistent with the 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 and evaluating the results of these systems is assigned to local campus administrators and subject matter experts who have detailed knowledge and understanding of risks, metrics and expected results.

In accordance with the Department of Finance State Leadership Accountability Act guidance, CSU's monitoring is a continuous, evolving process that assesses the quality of the university's performance over time. Specifically, ongoing monitoring is built into campus operations and occurs through regular management and supervisory activities, comparisons, reconciliations and other routine internal control activities. An example is the university's preparation of comparative financial statements, supported by a detailed budget to actual comparisons. The Chancellor's Office relies on this local management and supervisory activities to obtain reasonable assurance that controls are in place and ensuring compliance with requirements. Separate evaluations and audits are also done periodically, which provide formalized feedback on the effectiveness of controls. The Board monitors campus and Chancellor Office completion of audit finding performed by the State Auditor, CSU Audit and Advisory Services and the university's public accounting firm responsible for auditing annual financial statements.

Monitoring the results of activities are documented for a variety of councils, committees, and operational teams. The cost-benefit and risk impact of any proposed control is considered before implementation by responsible leadership. Deficiencies identified are typically remedied within 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.

## **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.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

## RISKS AND CONTROLS

### Risk: Graduation Rates

The Board of Trustees, the Chancellor, and the state legislature have called the CSU to significantly improve graduation rates. The CSU's focus on this priority has led to the highest graduation rates in the University's history. Continued state funding permanently targeted to such initiatives, however, is essential to that success.

#### Control: A. Academic Preparation

Continuously improve approach to academic preparation through a series of academic and student support programs. The CSU is committed to providing all students, regardless of academic background, the opportunity and support needed to complete 30 college-level semester units (or 45 quarter units) before beginning their second academic year.

#### Control: B. Enrollment Management

Enhance the quality of the student experience and the alignment of course availability with student need. The CSU is committed to ensuring students have access to knowledgeable advisors and the ability to enroll in the courses they need, when they need them. Systemwide, campuses are expanding their use of advising tools and enrollment programs to improve their ability to predict and meet course demand.

#### Control: C. Student Engagement and Well-Being

Develop and implement services to address students' comprehensive care needs. Basic Needs Initiative is central to the Graduation Initiatives' effort to address student engagement and well-being. This full-scale, systemwide effort takes a holistic look at students' well-being both inside and outside the classroom, from housing and food security to mental health. Campuses are working collectively to find better ways to support CSU students on their path to graduation, particularly in light of the ongoing effects of the pandemic on student mental health.

#### Control: D. Financial Support

Expand financial support structures beyond traditional financial aid to ensure economic status does not stall students' success. The CSU offers one of the most affordable undergraduate educational programs in the nation. More than 80 percent of CSU undergraduate students receive non-loan financial aid, and more than half of students have their tuition fully covered. The CSU is committed to expanding financial support beyond traditional financial aid as well as removing policies and fees that inadvertently prevent students from graduating on time.

#### Control: E. Data-Informed Decision Making

Use data at both the system and campus level to inform the development and advancement of effective student support programs. The CSU is committed to utilizing evidenced-based decision making to support student success. Critical tools have been developed and implemented,



such as the CSU Student Success Dashboard and Student Success Analytics Program, that engage our partners, foster cultures of inquiry, and help all stakeholders in this enterprise identify and pursue those changes with the greatest potential to benefit our students.

**Control: F. Administrative Barriers**

Remove administrative barriers to student success by discontinuing policies and procedures identified as impediments. The CSU has established cross-divisional committees, or task forces, to analyze student-related systems, offer recommendations, and implement improvements to make university systems more efficient.

**Risk: Stable and Predictable Funding**

Recent significant increases in state funding for the University have been essential to the CSU's effort to meet the education and workforce needs of the state and achieve the highest graduation rates in the history of the CSU. The University is committed to continue past success and achieve Graduation Initiative goals to eliminate equity gaps, which has been further complicated by the consequences of the pandemic. Predictable and stable ongoing state funding is required to continue the multi-year planning efforts that have contributed to our past success.

**Control: A. Monitor Operating Budget Needs**

Continue to advocate for and pursue increased state funding to cover the full operating budget request. The CSU works collaboratively with stakeholders and partners across the system including trustees, students, faculty, staff, union leaders, alumni, business partners and other supporters of the University to make the case for funding.

**Control: B. Maintain Operating Reserves**

Build and maintain operating fund balances for short-term obligations, capital projects, and catastrophic events as well as reserves for economic uncertainty calculated to ensure operations are sufficiently funded to protect the ongoing operations of the university.

**Risk: Capital Deferred Maintenance and Repair**

Facilities maintenance backlogs continue to put the CSU at significant risk of catastrophic facility failures.

**Control: A. Monitor and Improve Facilities**

Continuously evaluate and prioritize completion of critical facilities maintenance and repair to help mitigate the risk of catastrophic facility failures. Priorities have been 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 CSU Board of Trustees

**Risk: Staff Recruitment, Retention, and Training**

Significant risks to the continuity of operations of the university are posed by staff turnover. Demographic trends, in part, have led to an increased number of retiring employees,

which have been further exacerbated by the ongoing pandemic. Limited funding for salary increases create competitive pressures. Surveys of employees indicate that factors such as career development, relationships with management, compensation, and benefits, as well as work environment also significantly impact retention when not addressed.

**Control: A. Employment Environment Assessment and Monitoring**

The success of the University rests on the talent it recruits, trains and retains. To ensure the continued success of these, the CSU regularly queries and surveys staff regarding the current work environment, performs annual satisfaction surveys, and conducts periodic broad salary analysis and focused market comparisons.

**Risk: Complex Regulatory Framework**

Increased complexity of continuously evolving legal and regulatory requirements pose challenges for compliance. Recent changes include Title IX, the Clery Act, the Americans with Disability Act, and COVID-19 vaccinations, among many others. These complex and important requirements do not include specific funding to support their implementation and ongoing compliance, which reduces available resources.

**Control: A. Enhance Training and Monitoring**

Expand legal and administrative guidance including topic-specific training, conferences, and summits to support compliance efforts.

**Risk: Information Security**

The University continues to be faced with compromises, which in many cases are the result of endpoint attacks and gaps in user awareness. The importance of managing information security continues is a principal concern for the University as it operates in an environment that requires increased collaboration and connectivity. It is essential that the CSU implement policy to guide the users of systems as the sophistication of attacks rises. Significant reputational risk and legal liabilities result when access

**Control: A. Information Security Plan**

Deploy outside expertise, supportive tools, and computer applications to evaluate controls related to incident/breach response, log management, and vulnerability security scans. In addition, regularly test and train data users.

**Risk: Emergency Management**

Campuses must prepare for and respond to natural disasters as well as sudden and violent events on campus. The University continues to work together to build and improve its capacity to manage and mitigate all hazards and situations i.e. fire, earthquakes, as well as public safety power shutoff actions and other business interruptions. The risk faced by the university relates to the injury or death of students if such hazards and situations were to occur. Experience



and guidance from CalOES and FEMA indicate that such events represent a real and present danger.

**Control: A. Situational Awareness and Collaborative Support**

Campuses continuously improve preparation for the management of applicable hazards and risks (such as wildfires) through exercises and drills as well as training for campus incident command system emergency operation center leadership and staff. Chancellor's Office support and guidance for campuses through online to guides and staff training.

**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 risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Joseph I. Castro, Chancellor of the California State University**

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