

Wednesday, September 18, 2019
10:00 AM to 11:30 AM
Welch Hall 360E

Foundation Audit Committee Meeting Minutes

Members Present: Dr. Cornelia Brentano and Lorena Raymundo-Yusef

Members Absent: David Donell

Guests: Farhan, Syed (Clifton Larson Allen), Jerome Groomes (Interim Executive Director) Brian Lundeen (Grobstein Teeple), Jinna Matzen (Manager Business Process Improvement, Customer and Board Relations) David Robydek (Clifton Larson Allen), Hector Vazquez (Interim Account Manager) and Dana Ward (Secretary Treasurer Foundation Board)

I. Call to Order

Meeting called to order by Raymundo-Yusef at 10:02 A.M.

II. Approval of Meeting Agenda

Raymundo-Yusef moved and Brentano seconded. Motion carried.

Following the approval of the agenda Brentano asked for a few minutes to review a document that was distributed to Audit Committee members and invited guests via email, the same day at 9:01AM. The document was titled "Audit Committee Inquiries" and was created by Lundeen to address questions posed by Audit Committee members and guests after review of the received single audit report draft.

III. Public Comment

No one was present to represent public.

IV. Informational Items

- a. Financial Statements and Audit Report Presentation by Clifton Larson Allen.

Prior to review of informational items the committee and guests introduced themselves.

Robydek addressed the committee discussing a proposed structure of review of the financial statements. Brentano expressed concerns over having adequate time for all questions raised to be addressed. Committee members voiced concerns over last minute receipt of vital documents, last minute changes, last minute postponed meetings, receiving a draft and not a final report to review at the meeting, and an inadequate timeframe for members to properly process all information. The committee subsequently requested an explanation of the procedural problems that make these issues a recurring phenomenon. Brentano further stated that it makes it difficult to properly function as a committee member with these ongoing procedural deficiencies. Nishioka addressed some of Brentano's concerns detailing the closure of year end books, closing in mid-July and further stated the delay was a matter of timing in getting the information to the audit firm. Robydek agreed with Nishioka that the primary reason for the change in meetings, the late disbursement of the draft, not having a final draft, were primarily caused by the delay in receiving information from Foundation that CLA had requested. Nishioka went on to further note that the questions posed by the committee members and guests via email prior to the meeting do not affect the numbers on the draft financial statement and are really addressed to Foundation management. The committee then engaged in discussion regarding Audit Committee member's fiduciary responsibility, ultimately determining the Committee's responsibility was to assess fraud and risk. Robydek further addressed Brentano's concerns on procedural and timing, stating that CLA's audit "Findings" are observations of the deficiencies that drove and are driving the delay in a final draft being produced. CLA clarified that these items included the closing schedule, post-closing entries, and late audit entries. Robydek further stated that the draft is still not where CLA would like it to be. Members questioned Robydek about the final draft, Robydek stated that a final draft had not been produced due to and items still being outstanding. The committee further engaged in discussion regarding meeting the Chancellor's Office deadline and the difficulties experienced by a majority of Cal State Universities in preparation for the deadline date. CLA stated that even though other organizations find the deadline to be a challenge, the delays, late draft, and meeting postponements are not the norm and that Foundation's issues with turn-over, a new team getting used to financials, CLA's first year with Foundation, and catch up created the scenario where significant delays were experienced. CLA further noted that thirty-eight post close journal entries were identified by CLA which did not include audit adjustments resulting in several re-audits. CLA identified audit adjustments through their procedures that management may have caught if they had more time, CLA requested in order to correct, six Journal Entries had to be posted which changed financial numbers by approximately half a million dollars. CLA further stated that they do not believe this to be an intentional effort from Foundation management to mislead rather it was an issue created by staff turnover. The committee discussed the nature of what their approval of a draft would mean, Nishioka stated that a draft report could be approved today pending revisions. Pre-discussion concluded.

Robydek transitioned discussions to address the agenda item, "Informational Item" presented, Financial Statements – Year Ended June 30, 2018.

Robydek opened his presentation stating that this is CLA's first year with Foundation and that CLA enjoyed their time at Foundation. Robydek further noted that transparency had not been an issue and that CLA team members experienced only courteousness from Foundation staff. Robydek noted that even though CLA had a pleasant experience working with Foundation unfortunately there were audit findings and the audit did not go as CLA had planned based on pre-audit meetings and schedules set. Robydek further clarified that they had every intention on providing a final draft to the Audit Committee on the date set at pre-planning meetings and that previous audit reports performed by different auditors were all clean. Robydek explained that audit risk is usually based off of previous year audit reports, it was clear to CLA in August that the risk level approach had to be revised and it changed the risk level significantly which affected staffing and reviews. Federal Award type A program also changed the anticipated audit. CLA concluded that even though the draft provided was not a final one, it was definitely not a first draft. Robydek then took the time to thank Foundation management and noted that due to this being CLA's first year, the turnover in Foundation they understood the challenge staff members faced and thanked management for prioritizing the requests of CLA. Foundation management took the time to reciprocate the gratitude shown and detailed the significant work of CLA team members in performing a true in depth detailed analysis and audit. Robydek clarified that due to the risk assessment change the audit moved from an analytical approach to an in depth analysis approach in which they requested an abundance of samples. Both parties acknowledged the tremendous work and effort on both sides.

Robydek reiterated to the committee that the document provided was a draft and had not been through the proof-reading department. Robydek explained that CLA is still waiting on a couple of AR items and the confirmation from Skybridge. Robydek instructed the committee to turn to pages one, two, and three, of the document provided and explained that these pages cover responsibilities and noted that although CLA did identify material weaknesses they believe they had been corrected and their opinion did not need to be modified. Robydek detailed information provided on page eight, noting that CLA reclassified amounts as due from the University separately from accounts receivable clarifying the accounts receivable should only deal with operational customary receivables. The committee held discussions on the customariness of separating this item onto another line item, CLA further clarified they felt that material items should be a separate line item. Subsequent conversations on this matter included CSU supplementary information format. CLA and the committee transitioned discussions to detail account receivable concerns with aged receivables going up due to lack of receivable tracking and follow-up. CLA found that a fair amount of AR is old due to lack of follow-up. CLA concluded that a lot of items were sampled in the area of AR and that reimbursement requests were not absent. Robydek transitioned to page nine to discuss revenue. CLA noted a material weakness in revenue. The committee engaged in discussion on offset, payroll, billable items, variations, engagement of a consultant to assist in software development of Foundation's financial system, and timing. Lundeen spoke to the fluctuations in revenue noting revenues are down but expenses went up including payroll expenses and that he was not aware of any significant changes to operating agreements. Lundeen further explained that a significant change to Foundation's revenue for FY1920 was the parcel revenue related to Dignity Health and that the revenue would now be

picked up by the University under Parking Services. The committee engaged in conversation regarding fluctuations, including the categorization of function codes, increased expenditures in the area of payments to contractors due to engagements of consultants, including a consultant hired for land development, the engagement of Lundeen's team, Grobstein Teeple, and catch up of fees that are contractually obligated but were not paid to the Office of Research and Funded Programs for the last three years. Thirteen percent higher costs in Dining and program expenses administered under Campus Agency accounts, timing, Grants and Contracts accounts, investment management, short and long-term investments, net operating losses, current assets, and a \$3 million payment from the Philanthropic Foundation to the University for the Science and Innovation building were all additional reasons for the decrease in the overall amount of cash that Foundation had on hand.

Member Brentano noted that without seeing financial reporting throughout the year or without receiving supplementary information making sense of the numbers provided was difficult. Management noted members concerns and stated that in the future management could supply Audit Committee members with detailed supplementary information detailing material changes. Brentano further explained that last year Vasin Heyn provided the committee with a detailed vendor contracts and expenses report to assist in understanding the financials provided. CLA explained that this was not a customary item provided to Audit Committees, but this was something CLA could provide in future years if the Audit Committee members wanted. Members agreed that they desired this supplementary document.

Discussions were held on statements reflected on page 11, specifically statements in regards to the Dominguez Hills Corporation. Management stated they would research.

Members noted that some financial numbers on the report did not balance, CLA confirmed that they would ensure all numbers were accurate on the final report.

Raymundo-Yusef noted an important typo on page 20, date reflected noted "2019" should be "2018". CLA stated they would correct.

CLA referenced two material weaknesses over internal controls on compliance of Federal programs and modified their opinion over compliance further noting that this is not a good compliance report. CLA clarified that it is not uncommon to have compliance findings but in Foundation's case there were compliance findings that are very material to federal programs. CLA further explained that they have not received any documentation from Grants and Contracts making this issue unique. CLA further stated that due to non-receipt of requested items it left them with very little choice in modifying their opinion and stating this as a material finding. The committee engaged in conversation about how the findings would affect the application and receipt of government contracts. The committee discussed open items and the person responsible for providing these crucial documents. The committee continued conversation on this matter which included, the organization of Grants and Contracts, oversight of Grants and Contracts by the Director of Sponsored Research and Programs, and the need to escalate issues to the Dean and the Provost. Management stated that they explicitly noted to the Office of Sponsored Research and Programs that response to the Corrective Action Plan

must come from them. Lundeen further added that the outstanding accounts receivable items due to the auditors were also with that department. Lundeen further expressed that he cannot assist with this matter and Foundation staff cannot assist, concluding that the items requested can only come from Grants and Contracts. Discussions further continued on the need to escalate items with members calling for the Provost to be notified. Groomes stated that he would excuse himself from the meeting to contact the Dean. Groomes further explained that Foundation has been requesting this information, along with CLA, from the Office of Sponsored Research and Programs who oversees Grants and Contracts. Lundeen explained that if the open AR items that fall in the Grants and Contracts bucket were not received it is his understanding that the opinion of Foundation as a whole would need to be modified. Robydek agreed with Lundeen's assessment. Lundeen further noted that he received an email today from the Director of Sponsored Research and Programs that stated she is in receipt of the supporting documents but still had to conclude her review of the items received by a Post-Award analyst and that she would send them today. CLA concluded that if they did not receive backup documentation for AR then a potential restatement situation could occur. Committee members engaged in conversation of the importance of the "Corrective Action Plan". The committee engaged in conversation on material findings, CLA reiterated that the "Corrective Action Plan" must be received as support to material findings. Lundeen noted that Finding 4 on the audit report was missing the submitted management's response, CLA apologized for the omission and stated they would update. The committee concluded conversations on outstanding items.

CLA notified the committee that GASB 84 would come into effect next year which would require auxiliaries and Universities to separately present a set of financial statements for fiduciary activities, further noting that next year CLA will assess depository accounts and agency liability activities.

Lundeen discussed changes in revenue with the committee explaining that payroll costs attributed to Grants and Contracts activities affected numbers in year over year expenses resulting in increases. The Committee further discussed Full Time Employee payroll costs that increased on Foundation's main payroll, which included salary increases and new employees.

Groomes notified the committee that he just heard back from the Director of Sponsored Research and Programs and she was willing to work with Foundation today to provide the Corrective Action Plan to the auditors. The Committee continued discussion on the structure of Grants and Contracts and discussed the Debarment and Suspension finding.

V. Action Items

- a. Review and Approval of Financial Statements and Supplemental Schedules for the Year Ended June 30, 2019 and Independent Auditors' Report

Raymundo-Yusef moved to approve, Brentano declined. Action not approved.

Member Brentano declined to approve the action based on the fact that only a draft was provided and the auditor's statement that pending unreceived items could significantly change the final audited report.

This item was deferred to an ad hoc Audit Committee meeting that was subsequently scheduled for members on 9.20.19 at 9:00am to approve a final report pending receipt from CLA.

VI. Other Items – None

VII. Adjournment

Raymundo-Yusef moved to adjourn, and Brentano seconded. Meeting adjourned at 12:31 P.M.