Audit Committee Meeting Minutes September 14, 2021

I. CALL TO ORDER at 12:09 PM

II. ROLL CALL
   Present: Anjelica De Leon, Martin Castillo, Maureen Passage, Erik Pinlac, Debbie Chaw, David Robydek, Josephine Capiral
   Absent: Mirna Maamou

III. ACTION ITEM - Approval of the Agenda
   Motion to approve the agenda of September 14, 2021 by M. Castillo, second by M. Passage, motion CARRIED.

IV. ACTION ITEM - Approval of the Minutes of September 9, 2020
    Motion to approve the agenda of September 9, 2020 by M. Castillo, second by M. Passage, motion CARRIED.

V. PUBLIC COMMENT – Public Comment is intended as a time for any member of the public to address the committee on any issues affecting ASI and/or the California State University, East Bay.
   No public comment. 2:20

VI. NEW BUSINESS ITEMS:

   A. ACTION ITEM: 2020-21 Financial Audit Results
      Clifton, Larson, Allen will present the results of the financial audit of ASI for 2020-21.
      Motion to move the financial audit of ASI for 2020-21 by M. Passage, second by M. Castillo motion CARRIED.
      D. Robydek shares their presentation and states that they conduct an audit every year for 3 Auxiliary organizations or related entities to Cal State University of East Bay. The 2 foundations, one being the educational foundation, which is the philanthropic organization, and the other being ASI. A little background about the team, I present these presentations and 4 campuses. The most we ever worked with if we triple our personnel would be 5 campuses. They are all very similar timelines and deadlines in terms of an audit as we are
concerned about quality and time intention. Emma is a part of our education group as she has worked there for 3 years now and along with Josephine, we back the audits. We usually do tax work, and our tax exempt practice region does the form i9. The important part is the supplementary information which are schedules that translates all the financial audit in to the format that is needed by the Chancellor’s office to consolidate all the financial reporting. It is one of the critical things that we do is prepare those schedules. What makes auditing or closing books in this environment unique is the timing. SCC companies usually get more time to close their books. The time the team has to get ready for an audit, complete, and close the books are quite quick. We are here on September 14th presenting results for June 30th reporting period. In a lot of those environment, there is estimating that is done because you do not have all the actual information. It really is a comprehensive financial statement that is up to date with everything that has come in. It is a solid financial statement that happens quickly which makes the audits unique for the fast turn arounds. This report is ready to be issued. We just need management to sign representation letter which is a letter written by the attorney that talks to representation that everything we have is all factual. It is a risk based approach as we do not audit 100% of the financial transaction such as cash receipts or disbursements. We use sampling methods and materiality thresholds to identify the areas that are at risk being wrong or fraudulent. We use parameters to drill down as it is an ongoing process of risk assessment. We look at controls for ASI that the team has to prevent errors and fraud. We look at those controls if they are actually working or if they are happening. All of that are inputs to the risk assessment and the outputs are procedures that are usually performed. We confirm custodial and cash balances or any financial statements with the institutions that hold them and revenue recognition such as cash receipts coming to the door. For ASI it might not be as complicated in comparison to foundations with sponsored program receipts with different contracts and arrangements. We review journal entries, expenses from vendors, and anomaly data. If you read it, it states that we do provide reasonable amount of assurance that the financial statements are not materially wrong. The presentation shows the results. Some of it shows the fluctuation in narratives of the results. Therefore, some of the slides summarize that which this presentation helps us stay grounded in a virtual format. We found here in the financial statements that your total assets increased by $387,000 primarily due to increase in investments. Reduction of capital assets are due to depreciation. I do not think I ever had a client with a poor performance portfolio in a fiscal year in comparison to the prior fiscal year which we are learning about the pandemic that effected the market. I have not had a portfolio that has felt good about their return. We see an increase in your investment balance. Capital assets are finite useful live events. We purchase and construct them. They show up on your balance sheet as an asset and they lose
their accounting value. Those are depreciated over a useful life so equipment would be 5 to 8 years. If you do not continue to buy capital assets, it will become zero at some point but you do continue to buy it so those are capitalized and depreciated. Those 2 items are all set in there. Your liabilities did increase $216,000 which is due to increase in pension and OPEB liabilities. Even if you read a lot of financial statements or take accounting classes, the net pension and OPEB liabilities concepts could throw you off slightly. OPEB stands for other post-employment benefits such as pension and commitments to pay for certain healthcare costs after someone retires. We made those commitments already, so we have to estimate what those liabilities are because we have to pay for them while setting aside money for that. We take the liabilities that have complex calculations on and reduce it by the amount of invested funds that we have available to pay for those obligations which gives you a net number. In this case we have OPEB liabilities and net pensions those fluctuate as your demographic data changes which is not the case here as it is stagnant. Interest rates change as well as assumptions so do liabilities. Accompanying the financial statements are several pages of footnotes are disclosures which describe how they estimate these 2 liabilities and the information that goes into it. Between the pension, OPEB liabilities, and supplementary schedules, there may not be a lot left in the document. The position increased to $440,000 which is a positive. If you look at the income statement or statement of activities, the total operating revenues decreased 1% or $10,000 due to decrease in student headcount. Pay stats decreased 6%. Non-operating revenues which are primarily your investment returns increased $498,000 which is the net impact that gets us to $440,000 all in the end of the day increase on your balance sheet. Please let me know if you would like me to present the financial statements themselves and answer any questions you may have. To state some of the footnote disclosures as they are important and describe the policies for the financial statements. Many are standard across the CSU system. Also, there are 15 pages to the financial statement, but I would recommend focusing on these 4 pages. Your portfolio is meaningful as your investment portfolio describe your evaluation techniques which are not always complicated. It is good to know your securities and investment options which you have done well. In the pension and OPEB liabilities, pages 6 and 7 describe the evaluation technique there. Pages 8 to 9 are related parties which could be the foundation or the university. These are related transaction and balances between entities. It is important at the state level when we report the aggregated data for entities. That is all for disclosures. You will receive a 3 page final letter from us. Highlights is that there was no risk assessment as if there was something that would impact the audit, we would have communicated that to a member of the committee. Josephine and Maureen implemented a new accounting standard across the system. There are estimates that we are required to report in the financial statement.
which we have listed them in the document. These are common and straightforward estimates which do not require significant amount of judgment or controversial input. We had no difficulties or disagreements with the audit or audit adjustments. You had a clean report and audit. It is great to have high expectations as we have had a habit on stating how clean it is with ASI and other auxiliaries which is why Cal State East Bay have financial statements with good results. We have worked with other campuses that are still good but struggle in certain areas such as identifying an error or control weakness. We appreciated how smooth the audits and reports are with Cal State East Bay. We still can accept feedback or cosmetic changes to the report if we are approved by Josephine, Debbie, and Maureen to update the document. After the update, this will become publicly available. The audit and auxiliary report are searchable as well. Any questions?

D. Chaw states I want to uplift Josephine because the University Controller’s last day was June 25th to which she stepped in and being instrumental in helping the team through the audit as our General Manager of Accounting. The 3 audit reports I reviewed from her were great. I want to commend Josephine and her team for great work!

E. Pinlac states I have 2 things, but one is thanking everyone with a thorough audit because Josephine can see something minor then contacts us for research to send back. We find little things that we can keep on record for next year. It is great they have a keen eye for the auditors. I wanted to ask because I have other executive directors who are concerned if there were any effects on our statements due to the new standards?

D. Robydek answers that it does not affect ASI but for the other auxiliaries.

D. Chaw states for the education foundation, we hold funds on behalf of the Alumni Association, and we had to able to separate it out to clear it on our financial statements.

D. Robydek states there are straightforward cases but there are nuance ones from some campuses that have been ignoring it. We were talking about this in April which was not the first time but there were still things we were working though in August. There are a lot of campuses with agency liabilities and still struggling with the new standard as they may have not kept up to date with it. They could be in a nuance situation where they are not receiving a lot of help.

D. Chaw asks are you reporting on this for other ASI or the auxiliary in general across the CSU?

E. Pinlac answers that this came from a couple ASI that brought this up since we had an executive directors meeting. We are going to talk more about this on Friday as we receive more clarity, but I believe we did not have any issue.

D. Robydek states there would be less complexities unless it was philanthropic or other related entity.
D. Chaw asks where there custodial activities such as university unions or similar things that they were holding funds under ASI for? We do not do that here with our ASI.

D. Robydek states you had nothing equivalent because for some of the campuses, they state that it is the way it has always been. I know the team has thought about if they were missing anything but in your case, there were no hard calls to make. I usually do not receive questions about the standard which is great that you ask since it means you are keeping up with the work.

A. De Leon asks if there is any more discussion.

Motion to approve the financial audit of ASI for 2020-21 by ALL, motion CARRIED.

28:50

VII. SPECIAL REPORTS:
No special reports.

29:00

VIII. ROUND TABLE REMARKS

D. Chaw states that normally after the financial statements are reviewed, the auditors meet with the committee without management there to have a discussion. I believe Josephine, Erik, and I would need to exit the meeting for that discussion to take place. We can rejoin the call when someone lets us know the discussion is complete.

M. Castillo asks Debbie, you have helped us in the past to tap into the surplus based on the investment so that ASI can plan a part of their fiscal year budget. We never had our Vice President of Finance to follow up with a policy like that, would you help or guide Mirna with that process if they are interested in doing that for the future?

D. Chaw answers ASI has the ability to use their funds the way they want to. What we advise against is that when you do the budgeting process, you do not budget based on financial investments because you do not know what will happen in that cycle or year. A year ago, we all had negative investments but this year, we had the market rebounding which meant positive numbers. You do not want to depend on those types of investments. You can create a reserve policy and decide that you want to utilize that current year expense and so forth. I do not know if you are required to have a policy or what is stated in your current reserve policy. Our new controller and I can assist in that, but the other 2 auxiliaries can tap in to their reserves. For the other foundations, we had to use our investment income to supplement our operating revenue because it consists of the bookstore commissions and some management revenue. We do not budget based on a consistent number every year because you cannot do that as you do not know if the number will be the same the next year.
M. Castillo states in the past you have mentioned the average of 4 quarters, and you are right that if it does not require a policy. I understand this is off topic but Anjelica, you talked about the COVID scholarships and see that last year, we had a surplus. That could be a way to give some of it back as a COVID scholarship. You have the funds if you wanted to do it.

D. Chaw states I think when you tap into your reserves, the ASI does have an investment account which you could develop a policy for that investment account, therefore it is similar to an endowment account. You could create a policy that states to treat the investment account as an endowment account. An example would be using a percentage of a number of quarters from this month to use or subsidize for operating scholarships and so forth. You did state you have a surplus so it would be best to use the money you have before moving money on over which is what we had discussed.

D. Robydek states some of the other institutions do not have an investment account. Debbie is handling some of the designation of the Board’s portfolio and clarifying what we need by distribution. You could leave the money in the account. The clients who developed or went on a campaign to develop an endowment, they form a policy around spending from the account. Some people may think that it was not meant to be an endowment, but have it act as one while being safe about it. This is something to evaluate.

D. Chaw states if ASI wanted to award scholarships for this year and did not have built in their operating funds then they would need to work with Maureen and Monique on identifying the amount of money for scholarships, but it will then put us at a budget deficit that was not planned for this year. In the past few years, we have not spent everything, so this is a way to give back to current students.

D. Robydek states the alternative is going on the reserve path and based on your annual expenditures with the reserve amount you prefer. You could do both as an option for a reserve and an endowment. It seems like from discussion that Board would like to designate the surplus as an endowment as the way to go. You have the portfolio but not a policy which means you would need to evaluate the past. As a follow up, I am happy to look at the other ASI I have worked with and see their practices of how those accounts are being utilized. You can then see the practices and tailor it to your needs.

E. Pinlac states it becomes complicated because our OPEB and unrestricted reserve are all combined, it is hard to pull out what we make that will go towards OPEB or our unrestricted reserve. It is difficult to determine that while we are in the budget season. We can find it afterwards and go from there which the reserves would start building up. There was a conversation years ago about making our OPEB into a potential trust so it can be separate and not touched by future Boards. As of right now, a Board can reallocate those things, but we made this promise to staff members. There are certain parts of our investments that we can predict every year which is consistent such as our dividends. Some of the loss and gain evaluations are all different. Last year we were lucky towards
the end that we had a small positive gain after a massive negative the previous month. I am leaving soon therefore I would like to have some of these things started such as separating the OPEB and unrestricted reserve. It will help and require more work with lawyers because we are building a trust. **D. Robydek** states your liability will go down significantly if you move your OPEB into a trust. You can get the projected earnings on that investment portfolio and reduce your liability by the amount you put aside in to the trust.

**D. Chaw** states you would treat it as a separate entity too.

**E. Pinlac** states this is clarity for the Board for future planning as makes it easier for us. If we do the evaluation for OPEB every year, the restricted and unrestricted have changed over the last 3 years, the OPEB has taken over a lot of our reserves. The first step is figuring that out and we will be funding for the reserves this year. We over budgeted and it was too late the change that. Luckily, we have the income from last year’s investment to help us this year. Also, I want to uplift Josephine who stepped in when Kim left and talked to Doris almost every day the last few months. She does great work and appreciate it a lot.

43:32

IX. **ADJOURNMENT** at **12:52 PM**

Minutes approved by:

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**Chair of Finance Committee**
Name: Tyler Luevano

Minutes approved on: **9-14-2022**
Date:
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