

Date of Hearing: April 2, 2024

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Mike Fong, Chair

AB 2398 (Kalra) – As Introduced February 12, 2024

**SUBJECT:** California State University: audits.

**SUMMARY:** Requires an external financial audit of each campus of the California State University (CSU) to be conducted at least once every three years and requires all audits of the CSU or any of its campuses, including audits conducted by the CSU's internal audit staff, to be available to the public.

**EXISTING LAW:**

- 1) Establishes the CSU system, comprised of 23 campuses, and bestows upon the CSU Trustees, through the Board of Trustees, the power, duties, and functions with respect to the management, administration, and control of the CSU system (Education Code (EC) Sections 66606 and 89030, et seq.).
- 2) Requires the CSU Trustees to establish an internal audit staff, which will include the staff positions authorized for internal auditing. The internal auditing staff will report directly to the Trustees, and will be available for consultation with any audit committee of the Trustees which may be established by the Trustees. The duties of the internal audit staff will include, but will not necessarily be limited to, auditing, reviewing, cost and systems analysis, analyzing, and recommending operating procedures for the CSU. Management audits will be made to determine the effectiveness and efficiency of the organization, operation, and procedures of each state university, each auxiliary organization, and the CSU Office of the Chancellor. Officials and employees of each state university, each auxiliary organization, and the Office of the Chancellor will furnish all books, papers, contracts, management charts, and related information necessary for management audits. Additionally, the internal audit staff will perform audits, at least once every five years, of the activities of the CSU, as specified (EC Section 89045).

**FISCAL EFFECT:** Unknown

**COMMENTS:** *Purpose of the measure.* According to the author, “the CSU system currently employs thousands of faculty and staff to educate the approximately 460,000 students enrolled in its various programs. However, in 2022, the highest-ranking CSU faculty earned about \$122,000 on average, while part-time lecturers only earned about \$64,000 on average. Some lecturers even earned as little as \$57,000.”

The author states, “in December 2023, the California Faculty Association began a historic systemwide strike across all 23 CSU campuses. These strikes demonstrated that there is a significant lack of transparency regarding staff remuneration within the nation’s largest university system. AB 2398 would help to address this issue by requiring each CSU campus to undergo an external audit every three years. These audits will contextualize the financial information found in the CSU system’s annual system-wide audit and shed light on how each campus compensates its staff. This data could then be used during future collective bargaining negotiations, helping to ensure that they result in fair and feasible pay increases.”

*Current audit process at CSU.* The CSU currently hires Klynveld Peat Marwick Goerdeler (KPMG), one of the “big four” accounting organizations to conduct annual external financial audits of the CSU, including the 23 campuses and Chancellor’s Office. The audit performed by KPMG reviews each of the 23 campuses financial statements and produces a single audit report. The results of these reviews are publicly available online on the CSU’s transparency and accountability website: [Transparency & Accountability | CSU \(calstate.edu\)](https://www.calstate.edu/transparency).

Additionally, assurance audits of the 23 campuses and Chancellor’s Office, performed by Audit and Advisory Services, are also available online.

This measure requires audits of every campus of the CSU to be conducted and made public, at least every three years.

*The author may wish to align the frequency of the audits, as required to be conducted in this measure, to that of existing law and current policies established by the CSU Trustees.*

*Committee comments.* As noted in the *Existing law* section of this analysis, the internal audit staff shall perform audits, at least once every five years, of the activities of the CSU. It is unclear why this measure seeks to create new audits and why the audits must be conducted at least once every three years for every campus of the CSU.

Currently, the CSU posts audit findings of the CSU on its website: [Internal Audit Reports | CSU \(calstate.edu\)](https://www.calstate.edu/audit). It is presently unclear how the audit findings, as required by this measure, will be differentiated, and if they will be posted on the same website as the existing CSU audits.

*Moving forward, the author may wish to work with the CSU in order to provide clarity and to avoid potential confusion.*

The measure, as drafted, requires audits to be conducted at least every three years for all 23 campuses of the CSU, but the measure is silent as to who will conduct the audits and what entity will fund the firm that conducts the audits.

*Moving forward, the author may wish to provide more specificity as to who will conduct the additional audits, and ensure adequate funding is available to conduct the audits.*

Current law requires the CSU Trustees to ensure that the statutorily required audits are conducted, as dictated in law.

*The Committee may wish to examine if this bill has the potential of usurping the authority of the CSU Trustees.*

The author states that, “these audits will contextualize the financial information found in the CSU system’s annual systemwide audit and shed light on how each campus compensates its staff. This data could then be used during future collective bargaining negotiations, helping to ensure that they result in fair and feasible pay increases.”

*The Committee may wish to explore if the use of legislation in order to assist in future local collective bargaining negotiations is an appropriate role of policy making.*

*Arguments in support.* According to the sponsors of this measure, the California Faculty Association (CFA), “AB 2398 proposes crucial amendments that mandate external financial audits of each CSU campus at least once every three years, significantly increasing the current audit frequency.”

According to CFA, “it is imperative that its (CSU) operations are conducted with the utmost integrity, accountability, and openness. Regular external audits will provide an independent review of financial practices and ensure that public funds are being used effectively and appropriately. The CFA believes that the enactment of AB 2398 will lead to significant improvements in the financial oversight and accountability mechanisms within the CSU system.”

**REGISTERED SUPPORT / OPPOSITION:****Support**

California Faculty Association (Sponsor)

**Opposition**

None on file.

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