

CENTERS AND INSTITUTES
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 13-40
July 30, 2013

Members, Committee on Audit

Lupe C. Garcia, Chair
Rebecca D. Eisen Steven M. Glazer
William Hauck Hugo Morales

Staff

University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Wendee Shinsato
Internal Auditor: Cindy Merida

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	3
Background	3
Purpose.....	4
Scope and Methodology.....	5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Campus Administration	6
Governance	6
Program Funds	7
Center Administrative Controls	9
Center Fiscal Controls.....	10
Cash Receipts	10
Hospitality Expenditures.....	12
Provision of Services	13
Contracts	14
Expenditures and Approvals	16

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

CCC	Community Counseling Center
CI	Centers and Institutes
CO	Chancellor's Office
CSU	California State University
CSUEB	California State University, East Bay
EO	Executive Order
ICSUAM	Integrated California State University Administrative Manual
OUA	Office of the University Auditor
STEM	Science Technology Engineering and Mathematics

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor (OUA) during the last quarter of 2012, the Board of Trustees, at its January 2013 meeting, directed that *Centers and Institutes* (CI) be reviewed. The OUA has never reviewed CI as a stand-alone audit.

We visited the California State University, East Bay campus from May 13, 2013, through June 14, 2013, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for CI activities as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: campus administration, center administrative controls, and center fiscal controls.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CAMPUS ADMINISTRATION [6]

Administration of campus centers and institutes did not always comply with campus and California State University (CSU) requirements. For instance, two new campus centers whose proposals had been acknowledged by the academic senate were fully operating, though they hadn’t yet received final approval from the campus president as required per campus policy. In addition, ownership for center activity and program funds had not been documented.

CENTER ADMINISTRATIVE CONTROLS [9]

Centers and institutes did not always comply with campus policies. For example, center charters did not always contain the elements required per campus policy, and centers did not always submit the most recent annual report for campus review.

CENTER FISCAL CONTROLS [10]

Cash receipts and deposits at the Community Counseling Center needed improvement. Specifically, the center had not been designated as an authorized official cash collection point by the campus chief financial officer, and segregation of duties was not always adequate. In addition, the campus hospitality policy did not clearly define when a hospitality form was required to substantiate hospitality expenses, and hospitality forms were not always being submitted with hospitality expenditures. Further, services provided by campus centers and institutes were not always appropriately authorized. Also, administration

of center and institute contracts needed improvement. For example, service agreements were sometimes executed by individuals who did not have proper delegation of authority, and liability waivers for guest speakers and special consultants were not always executed prior to the date of service. Further, review and approval of center and institute expenditures needed improvement. For instance, expenditures were not always approved by an individual with fiscal authority over the center fund.

INTRODUCTION

BACKGROUND

Centers, institutes, and similar organizations (CI) are entities that are affiliated with California State University (CSU) campuses and offer non-credit instruction, information, or other services beyond the campus community.

Campuses may create CI to facilitate the conduct and dissemination of research, build links with industry and the community, foster interdisciplinary efforts and cooperation among departments and across colleges, perform public service, or develop opportunities for students to practice their academic disciplines. CI are required by systemwide policy to be under the programmatic oversight of an academic unit at the campus and are subject to approval by the campus president.

At the CSU, CI are governed at the campus level. Each campus makes its own policy decisions on how CI shall be approved, reviewed, monitored, and discontinued. At California State University, East Bay, centers report programmatically through the individual college deans to the provost and vice president of academic affairs, and center fiscal administration is performed by the campus. Each year, campuses provide the chancellor's office with a list of approved CI, which is posted to the CSU website. As of March 1, 2013, there were 585 CI in the CSU system that had been reported.

At the chancellor's office, the research initiatives and partnerships department, under Academic Affairs, provides primary direction for CI. At the campus level, CI administration generally falls under the purview of the provost in academic affairs; however, this varies by campus, and administration also sometimes falls under areas such as the academic senate, president's office, associate vice president of research, or auxiliary organizations.

Executive Order (EO) 729, *Centers, Institutes, and Similar Organizations on Campuses of the CSU*, dated February 14, 2000, establishes principles for the development of campus policies and procedures to govern CI on the CSU campuses. In July 2000, EO 729 was superseded by EO 751.

Other CSU policies address areas related to CI. For CI that are research-related, Integrated California State University Administrative Manual (ICSUAM) §11000 addresses sponsored programs issues, such as allowable costs, effort reporting, and financial conflicts of interest. In addition, ICSUAM §3000 addresses accounting and financial controls, and ICSUAM §13680.00 addresses the appropriate placement of receipts collected by various campus activities and programs.

Technical letters related to CI include coded memorandum Academic Affairs 2013-05, *Report on Centers, Institutes, and Similar Entities*, dated February 5, 2013, the annual memo from Academic Affairs requesting that campuses update and report the listing of approved CI to the chancellor's office, and coded memorandum Human Resources 2013-02, *2013 Annual Conflict of Interest Filing*, dated February 28, 2013, the annual memo from Human Resources updating the list of campus designated positions and requiring designated employees to file conflict-of-interest statements. The CSU also has a Conflict of Interest Handbook, last updated in February 2013, which is maintained by the Office of General Counsel.

PURPOSE

Our overall audit objective was to ascertain whether existing campus policies and procedures related to CI are comprehensive and compliant with CSU policy and to determine the adequacy of controls over the administration and fiscal processes of campus CI to ensure compliance with Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration of CI is well defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- ▶ CI have been timely and properly reported to the chancellor's office.
- ▶ Campus policies and procedures relating to CI are current and comprehensive, and distribution procedures are effective.
- ▶ CI administration incorporates a defined mission and stated goals and objectives to measure center effectiveness.
- ▶ CI are established, operated, reviewed, monitored, and discontinued in accordance with CSU and campus policy.
- ▶ Conflicts of interest are properly disclosed, reviewed, and managed.
- ▶ Budget and financial planning processes for CI are adequate and effective.
- ▶ Placement and administration of CI funds is appropriate and properly authorized in accordance with state and CSU regulations.
- ▶ CI funds are deposited in a timely manner, accountability is maintained, and segregation of duties is adequate for receipt of funds.
- ▶ CI contracts are properly authorized and processed in accordance with CSU and campus policy.
- ▶ CI expenditures are appropriate, allowable, authorized, and processed in accordance with CSU and campus policy, as well as relevant governmental regulations.
- ▶ CI appropriately reimburse the campus for services and resources used.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 22 and 23, 2013, meeting of the Committee on Audit stated that *Centers and Institutes* (CI) includes a review of campus entities that offer non-credit instruction, information, or other services beyond the campus community to public or private agencies or individuals. Proposed audit scope would include, but was not limited to, review of campus policies and procedures for establishing, operating, monitoring, reviewing, and discontinuing CI; fiscal administration and controls; potential conflicts of interest; and campus processes for reporting entity activities to the chancellor's office.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with Board of Trustee policies and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2010, through June 14, 2013.

We focused primarily on the internal administrative, compliance, and operational controls over CI activities. Specifically, we reviewed and tested:

- ▶ Campus administration of CI, including clear reporting lines and defined responsibilities and current policies and procedures for center establishment, review, monitoring, and discontinuance.
- ▶ Governing documents and approvals for existing CI.
- ▶ Periodic CI evaluations and other campus monitoring activities.
- ▶ Conflict-of-interest policies and required conflict-of-interest filings.
- ▶ Center fiscal controls, including budgeting and planning, cash handling, contracting, and expenditure processing.
- ▶ Center reimbursements to the campus for services and resources used.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS ADMINISTRATION

GOVERNANCE

Administration of campus centers and institutes did not always comply with campus and California State University (CSU) requirements.

We found that:

- ▶ Two new campus centers whose proposals had been acknowledged by the academic senate were fully operating, though they hadn't yet received final approval from the campus president as required per campus policy.
- ▶ The annual report for centers and institutes was not submitted to the chancellor's office (CO) by the specified deadline.
- ▶ Campus policy did not include specific procedures for reviewing centers and institutes, and the campus did not perform periodic reviews of center activities to ensure compliance with systemwide policy.

California State University, East Bay (CSUEB) *Policy for the Organization and Administration of Centers and Institutes*, revised June 6, 2012, states that the approval process for a center's proposal will include a review by the president or designee, who has final authority of approval for all centers. It also states that once the proposal is approved by the campus, the associate vice president of research and professional development will notify the CO of the new center.

Coded memorandum Academic Affairs 2013-05, *Report on Centers, Institutes, and Similar Entities*, dated February 5, 2013, states that the annual report for centers and institutes is due to the CO by March 1, 2013.

Executive Order (EO) 751, *Centers, Institutes and Similar Organizations on Campuses of the California State University*, dated July 5, 2000, states that the campus will make available to the CO a list of all centers, institutes, and similar entities, including the name and the purpose of each entity, which will be updated at least annually. It also states that campus policies must include procedures for establishing, operating, monitoring, reviewing, and discontinuing centers, institutes, and similar entities. It also states that center and institute activities are subject to periodic review to ensure that they are consistent with systemwide requirements.

The associate provost of academic affairs stated that the lack of presidential approval for the two centers was due to oversight by the directors of the centers, who were new to their positions. She also stated that the updated listing of centers and institutes was not submitted to the CO in a timely manner because the request was inadvertently misrouted. The vice president of administration and finance stated that he was unaware that the campus was required to perform a formal compliance review of centers and institutes to ensure compliance with system and campus requirements.

Noncompliance with campus and CSU requirements for the administration of centers and institutes increases the risk that center objectives will not be met, centers will not be aligned with campus priorities, and campus resources will not be used wisely.

Recommendation 1

We recommend that the campus:

- a. Obtain approval from the campus president for all centers and institutes before allowing them to begin operations.
- b. Submit the annual report for centers and institutes to the CO by the specified deadline.
- c. Update campus policy to include specific procedures for reviewing centers and institutes, and perform periodic reviews of center activities to ensure compliance with systemwide policy.

Campus Response

- a. The campus will obtain approval from the campus president for all centers and institutes before allowing them to begin operations. The approvals will be obtained by November 1, 2013.
- b. The campus will submit future annual reports for centers and institutes to the CO by the specified deadline. The appropriate office has been made aware of this requirement.
- c. The campus will update campus policy by February 1, 2014, to include specific procedures for, as well as periodic reviews of, centers and institutes.

PROGRAM FUNDS

Ownership for center activity and program funds had not been documented.

We found that with regard to center activity and program funds, the campus had not documented:

- ▶ The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.
- ▶ Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Integrated California State University Administrative Manual (ICSUAM) §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only campus president or their designees may authorize a campus activity or program. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It further states that campus policies and procedures regarding activities and programs must provide specific guidance in regard to campus centers and institutes (e.g. ownership of component

activities/programs generating separate receipts must be clear, as should be restrictions on funds), workshops and conferences, instructionally related events and activities, and documentation requirements. As deemed by the president in the interest of the campus and the CSU, a determination must be made as to whether the university or an auxiliary organization will receive proprietorship over an activity or program, which includes acceptance of both risks and rewards associated with ownership.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations may accept or administer campus funds as an agent of the university when specifically authorized in writing by the campus president or his/her designee. Said authorizations shall be granted judiciously and only when it is advantageous to the university and supportive of the university mission. The authorization should include the rationale for making this choice and clearly articulate the advantages to the university.

The vice president of administration and finance stated that the systemwide policy had recently been updated, in January 2013, to include centers and institutes, and the campus had not yet had the chance to address these changes. He also stated his belief that the university's proprietorship and accountability over centers and institutes was implied in the campus policy, as these entities were required to comply with university policies and procedures.

Inadequate definition and documentation regarding the ownership of center and institute program funds increases the risk of noncompliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 2

We recommend that the campus document:

- a. The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.
- b. Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Campus Response

- a. The campus will document the determination by the campus president or his designee whether the campus or an auxiliary organization should receive proprietorship over each of the centers and institutes, including acceptance of both the risks and rewards associated with ownership. This will be completed by September 30, 2013.
- b. The campus will document policies and procedures that provide specific guidance regarding signature authority for component activities/programs of campus centers and institutes. This will be completed by September 30, 2013.

CENTER ADMINISTRATIVE CONTROLS

Centers and institutes did not always comply with campus policies.

We found that:

- ▶ Four of the six centers we reviewed did not have current charters approved by the campus president.
- ▶ Center charters did not always contain the elements required by campus policy, such as clearly defined organizational and reporting structures.
- ▶ One of the six centers we reviewed did not have an advisory board.
- ▶ Six of nine centers had not submitted the most recent annual report for campus review. In addition, of the three centers that did submit an annual report, one was submitted after the deadline and was incomplete.
- ▶ One center director who was also a primary investigator for a grant did not have a completed conflict-of-interest form 700-U on file, as required per campus policy.

CSUEB Policy for the Organization and Administration of Centers and Institutes, revised June 6, 2012, states that proposals shall contain certain required elements, including the proposed organizational structure of the center, the center's relationship to the mission of the university, and the establishment of an appropriate advisory group with adequate faculty representation, which will advise the director. It also states that center proposals must follow a review and approval process that includes presidential approval. All re-charters will be submitted and reviewed using the same process used to establish a center. It further states that annually by December, the director shall issue a written progress report, including a financial statement of operations for the prior fiscal year.

CSUEB Conflict of Interest Policy, revised August 25, 2011, states that directors who are also primary investigators must file a conflict-of-interest form 700-U and submit it to the office of research and sponsored programs.

The associate provost of academic affairs stated that centers and institutes did not always comply with campus requirements because some centers were established prior to the creation of the campus policy, and recent changes to the centers and institutes policy had not been enforced on older centers. The vice president of administration and finance stated that the campus was unaware that a form 700-U was required for this particular grant, in addition to the form 700 already on file for the director.

Inadequate enforcement of campus policies increases the risk that center objectives will not be met, centers will not be aligned with campus priorities, campus resources will not be used wisely, and undisclosed conflicts of interest may be present.

Recommendation 3

We recommend that the campus:

- a. Enforce campus policies on all active centers to ensure that center charters are current and properly approved and contain all required elements, including clearly defined organizational and reporting structures; and that centers establish advisory boards and submit required annual reports in a timely manner.
- b. Require all center directors who are also primary investigators of grants and contracts to complete conflict-of-interest forms in accordance with campus policy.

Campus Response

- a. The campus will enforce campus policies for all active centers to ensure that center charters are current and properly approved and contain all required elements, including clearly defined organizational and reporting structures; and that centers establish advisory boards and submit required annual reports in a timely manner. Center charters will be updated by the campus by December 31, 2013.
- b. The campus will require all center directors who are also primary investigators of grants and contracts to complete conflict-of-interest forms in accordance with campus policy. These forms will be completed by August 31, 2013.

CENTER FISCAL CONTROLS

CASH RECEIPTS

Cash receipts and deposits at the Community Counseling Center (CCC) needed improvement.

We found that:

- ▶ The center had not been designated as an authorized cash collection point by the campus chief financial officer.
- ▶ Segregation of duties at the center for the reconciliation and deposit of weekly cash collections was not always adequate. In some instances, the same individual who prepared the deposit slip also made the deposit at the cashier's office, with no evidence of secondary review.
- ▶ Cash deposits were transferred from the CCC to the cashier's office by one employee, rather than at least two, as required by CSU policy.
- ▶ Checks collected at the CCC were not always deposited to the cashier's office on a weekly basis.

ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*, revised September 19, 2012, states that the chief financial officer of each campus or his/her delegate will designate and authorize official campus cash collection points. Cash and cash equivalents will only be accepted at official cash collection points.

ICSUAM §3102.02, *Segregation of Cash Handling Duties*, revised September 19, 2012, states, in part, that separation of duties must be maintained when cash is received and no single person should have complete control. It further states that deposit counts must be verified by a second person.

ICSUAM §3102.04, *Physical Protection of Cash and Cash Equivalents*, revised July 10, 2012, states that the campus chief financial officer must establish campuswide procedures to ensure the safety and security of deposits and personnel while in transit between campus locations. At a minimum, transport must be accomplished jointly by at least two employees.

ICSUAM §3102.11, *Deposits and Transfers to the Bank*, dated July 1, 2011, requires collections at other cashiering locations and departments to be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.

The vice president of administration and finance stated that the campus administration was unaware that the center was collecting cash.

Inadequate administration of cash receipts and deposits increases the risk of loss or misappropriation of funds.

Recommendation 4

We recommend that the campus:

- a. Obtain authorization for the CCC to function as a cash collection point from the campus chief financial officer.
- b. Implement adequate segregation of duties at the CCC, or compensating mitigating controls for the reconciliation and deposit of the weekly cash collections.
- c. Utilize at least two employees to transfer cash deposits from the CCC to the cashier's office.
- d. Deposit checks collected at the CCC to the cashier's office on a weekly basis.

Campus Response

- a. The campus will document authorization from the campus chief financial officer for the CCC to function as a cash collection point by August 31, 2013.
- b. The campus will implement adequate segregation of duties at the CCC or compensating mitigating controls for the reconciliation and deposit of the weekly cash collections. The CCC will implement these controls by October 31, 2013.

- c. The campus now utilizes two employees to transfer cash deposits from the CCC to the cashier's office; this was effective on August 16, 2013.
- d. The campus now deposits checks collected at the CCC to the cashier's office on a weekly basis; this was effective on August 16, 2013.

HOSPITALITY EXPENDITURES

The campus hospitality policy did not clearly define when a hospitality form was required to substantiate hospitality expenses, and hospitality forms were not always being submitted with hospitality expenditures.

ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, revised December 15, 2011, states that it is the policy of the CSU that hospitality expenses may be paid to the extent that such expenses are necessary, appropriate to the occasion, reasonable in amount, and serve a purpose consistent with the mission and fiduciary responsibilities of the CSU. Each campus and its auxiliaries are required to develop written procedures, consistent with this policy, regarding the payment of ordinary and necessary hospitality expenses. It further states that for employee meetings and for recognition events, campus procedures should identify authorization and documentation requirements.

The vice president of administration and finance stated that the campus policy inadvertently excluded stipulating when the hospitality form was required to substantiate an expense, and that recent staff turnover contributed to the procedural oversight in processing hospitality expenditures.

An unclear hospitality policy increases the risk of non-compliance with campus and CSU requirements and potential unallowable or inappropriate hospitality purchases.

Recommendation 5

We recommend that the campus update the campus hospitality policy to clearly define when a hospitality form is required to substantiate a hospitality expense, and submit hospitality forms with hospitality expenditures.

Campus Response

The campus has updated the campus hospitality policy to clearly define when a hospitality form is required to substantiate a hospitality expense, and to ensure that hospitality forms are submitted with hospitality expenditures. The campus procurement website was updated with the revised hospitality policy, as well as the new hospitality form, on July 29, 2013.

PROVISION OF SERVICES

Services provided by campus centers and institutes were not always appropriately authorized.

We found that:

- ▶ Two centers provided services to external entities without approval from the campus president or designee.
- ▶ Revenue agreements executed by the China America Business Education Center were not signed by an individual with documented delegation of authority.

EO 750, *Provision of Services*, dated June 21, 2000, delegates authority and assigns responsibility to the campus president or designee to execute and implement contracts for the performance of services by the campus.

CSUEB, Office of the President, *Delegation of Authority to Execute Agreements for California State University, East Bay and Cal State East Bay Foundation*, dated May 2, 2013, delegates authority to execute revenue agreements on behalf of CSUEB and the Cal State East Bay Foundation to the vice president of administration and finance.

The associate provost of academic affairs stated that the two centers provided external services without presidential approval due to recent changes to the campus policy and oversight. She further stated that center directors were unaware of the delegation of authority requirement to execute revenue agreements, as this information had not been properly communicated to them.

The lack of appropriate delegations of authority to provide services to external entities and to execute revenue agreements increases the risk of unallowable services, the possibility of unenforceable agreements, and the potential for misunderstandings of the business terms, responsibilities, and liabilities involved in performance of the services provided.

Recommendation 6

We recommend that the campus:

- a. Obtain approval from the campus president or designee before providing services to external entities.
- b. Obtain revenue agreements from the China America Business Education Center that have been signed by an individual with documented delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that requires that centers and institutes follow standard university contract procedures before providing services to external entities. This will be formally addressed by November 1, 2013. The policy was communicated

via email to all center directors on June 24, 2013, by the director of the Office of Research and Sponsored Programs.

- b. The campus will document formal delegation of authority for the director of the China America Business Education Center for all contractual agreements by September 30, 2013.

CONTRACTS

Administration of contracts for centers and institutes needed improvement.

We reviewed nine contracts and found that:

- ▶ In five instances, service agreements were executed by individuals who did not have proper delegation of authority. In addition, these agreements were not always reviewed and approved by the procurement department prior to execution, as required by campus business processes.
- ▶ In two instances, service agreements were not executed for special consultants or guest speakers.
- ▶ In two instances, signed liability waivers for special consultants and guest speakers were not obtained prior to the date the services were rendered.
- ▶ The Science Technology Engineering and Mathematics (STEM) Institute and the Gateway East Bay STEM Network directors entered into alliances or partnerships with external entities without proper pre-approval from the appropriate administrator and without written delegation of authority.

CSUEB, Office of the President, *Delegation of Authority to Execute Agreements for California State University, East Bay and Cal State East Bay Foundation*, dated May 2, 2013, delegates authority to execute agreements on behalf of CSUEB and the Cal State East Bay Foundation to various members of the purchasing and procurement department, as well as the vice president of administration and finance.

CSUEB *Short Term Limited Scope Service Agreement and Express Invoice Business Process Guide* states that the form can be used for specific independent contractor services, up to the amount of \$5,000. The form requires that the contractor read and sign a release of liability provision and states that it is the sole binding contract for the service provided to the university. In addition, the form must be provided to the purchasing department for review and approval.

CSUEB *Policy for the Organization and Administration of Centers and Institutes*, revised June 6, 2012, states that center activities that necessitate the formation of an alliance or partnership with an external unit or agency must receive prior approval of the appropriate administrator before such activities are undertaken.

EO 750, *Provision of Service*, dated June 21, 2000, delegates authority and assigns responsibility to the campus president or designee to execute and implement contracts for the performance of services by the campus.

The vice president of administration and finance stated that service agreements were executed by center directors without proper authority because the delegation of authority requirement was not always formally conveyed when new centers and institutes were formed, and that the lack of review and approval by the procurement department was due to administrative oversight. He also stated that the procurement department had attempted to streamline the service agreement process through the use of a standard short-term limited scope service agreement and invoice; however, this resulted in some agreements not being executed and liability waivers occasionally being executed after the services were rendered. The associate provost of academic affairs stated that the center directors were unaware of the delegation of authority and pre-approval requirement when entering into external alliances or partnerships due to the unclear centers and institutes campus policy, and because this information was not properly conveyed to the center directors.

Inadequate administration of service agreements increases the possibility of unauthorized or invalid contracts and exposes the university to financial and legal obligations, and the absence of proper pre-approvals and delegations of authority to enter into alliances with external entities increases the risk of unallowable or unenforceable partnerships.

Recommendation 7

We recommend that the campus:

- a. Obtain service agreements that have been executed by individuals with the proper delegation of authority, and ensure that the procurement department reviews and approves these agreements prior to execution.
- b. Execute service agreements for special consultants and guest speakers.
- c. Obtain signed liability waivers from special consultants and guest speakers prior to the date the services are rendered.
- d. Obtain proper pre-approval from the appropriate administrator prior to entering into alliances or partnerships with external entities, and ensure that these agreements are executed by an individual with proper delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that service agreements must be executed by individuals with the proper delegation of authority, and be reviewed and approved by the procurement department prior to execution. This will be formally addressed by November 1, 2013.
- b. The campus will reinforce with center directors the campus policy that the procurement department must execute service agreements for special consultants and guest speakers. This will be formally addressed by November 1, 2013.

- c. The campus will reinforce with center directors the campus policy that the procurement department must obtain signed liability waivers from special consultants and guest speakers prior to the date the services are rendered. This will be formally addressed by November 1, 2013.
- d. The campus will ensure that center directors obtain proper pre-approvals from the appropriate administrator prior to entering into alliances or partnerships with external entities, and that these agreements are executed by an individual with proper delegation of authority. This will be addressed by policy prior to October 15, 2013, and formally reviewed with center directors by November 1, 2013.

EXPENDITURES AND APPROVALS

Review and approval of expenditures for centers and institutes needed improvement.

We reviewed 25 expenditures and found that:

- ▶ In five instances, the expenditure was not approved by an individual with fiscal authority over the center fund.
- ▶ In three instances, approval for the expenditure by an individual with proper delegation of authority was not obtained or documented.

EO 1000, *Delegation of Fiscal Authority and Delegation*, dated July 1, 2007, delegates authority to campus presidents to manage funds and approve certain fiscal transactions.

ICSUAM §3103.01, *Disbursements – General*, effective January 1, 2012, states that it is the policy of the CSU that funds disbursed are properly authorized, supported by a documented business purpose, substantiated by applicable receipts, and correctly processed for payment. It further states that the campus chief financial officer or his/her delegate is responsible for implementing this policy on behalf of the president, and may delegate in writing to additional staff members, in part or in whole and with appropriate limitations, authority to disburse or expense from campus authorized funds.

The associate provost of academic affairs stated that two of the center directors did not complete a fiscal authority form for their fund accounts or properly document approval for some expenditures due to administrative oversight.

The absence of proper fiscal authority and evidence of approval for center and institute expenditures increases the risk of unauthorized and unallowable purchases.

Recommendation 8

We recommend that the campus:

- a. Enforce the requirement that center expenditures be approved only by individuals with appropriate fiscal authority.

- b. Obtain and document approval of expenditures by an individual with proper delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that center expenditures must be approved only by individuals with delegated fiscal authority. This will be formally addressed by November 1, 2013.
- b. The campus will obtain and document approval of centers and institutes expenditures by individuals with proper delegation of authority. New delegations of fiscal authority will be executed, as needed, for centers and institutes expenditures by November 1, 2013.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Leroy M. Morishita	President
Philip Bollinger	Accounting Technician II, Cashier's Office
Stephanie Couch	Director, Center for STEM Education
Linda Dobb	Associate Provost, Academic Affairs
Maggie Graney	Director, Compliance and Internal Control
Janet Logan	Director, Community Counseling Center
Nancy Mangold	Director, China America Business Education Center
Julia Olkin	Director, Center for Math Education and Research
Efren Padilla	Director, Center for Filipino Studies
Sherry Pickering	Director, Fiscal Services
Glen Taylor	Director, High Impact Research and Engagement Center
Brad Wells	Vice President, Administration and Finance
Sean Williams	Director, Research and Sponsored Programs



CALIFORNIA STATE UNIVERSITY EAST BAY

Office of the Vice President, Administration and Finance & Chief Financial Officer CALIFORNIA STATE UNIVERSITY, EAST BAY 25800 Carlos Bee Boulevard, Hayward, CA 94542-3002 510.885-3803 • 510.885.4745 (fax) • www.csueastbay.edu

August 28, 2013

Mr. Larry Mandel University Auditor The California State University 401 Golden Shore Long Beach, CA 90802

RECEIVED UNIVERSITY AUDITOR AUG 28 2013 THE CALIFORNIA STATE UNIVERSITY

RE: Campus Response to Incomplete Draft Audit Report Centers and Institutes (13-40), California State University, East Bay

Dear Mr. Mandel,

The campus has provided our corrective action plan, with responses and deadlines to the above audit recommendations via e-mail to your office today.

I have reviewed and approved them.

Please let us know if you have any questions or need additional information.

Sincerely,

Handwritten signature of Bradley Wells

Bradley Wells Vice President, Administration & Finance, CFO

cc: Leroy M. Morishita, President Maggie Graney, Director of Compliance and Internal Control

THE CALIFORNIA STATE UNIVERSITY

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy Monterey Bay • Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marcos • Sonoma • Stanislaus

CENTERS AND INSTITUTES
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 13-40

CAMPUS ADMINISTRATION

GOVERNANCE

Recommendation 1

We recommend that the campus:

- a. Obtain approval from the campus president for all centers and institutes before allowing them to begin operations.
- b. Submit the annual report for centers and institutes to the CO by the specified deadline.
- c. Update campus policy to include specific procedures for reviewing centers and institutes, and perform periodic reviews of center activities to ensure compliance with systemwide policy.

Campus Response

- a. The campus will obtain approval from the campus president for all centers and institutes before allowing them to begin operations. The approvals will be obtained by November 1, 2013.
- b. The campus will submit future annual reports for centers and institutes to the CO by the specified deadline. The appropriate office has been made aware of this requirement.
- c. The campus will update campus policy by February 1, 2014, to include specific procedures for, as well as periodic reviews of, centers and institutes.

PROGRAM FUNDS

Recommendation 2

We recommend that the campus document:

- a. The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.
- b. Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Campus Response

- a. The campus will document the determination by the campus president or his designee whether the campus or an auxiliary organization should receive proprietorship over each of the centers and institutes, including acceptance of both the risks and rewards associated with ownership. This will be completed by September 30, 2013.
- b. The campus will document policies and procedures that provide specific guidance regarding signature authority for component activities/programs of campus centers and institutes. This will be completed by September 30, 2013.

CENTER ADMINISTRATIVE CONTROLS

Recommendation 3

We recommend that the campus:

- a. Enforce campus policies on all active centers to ensure that center charters are current and properly approved and contain all required elements, including clearly defined organizational and reporting structures; and that centers establish advisory boards and submit required annual reports in a timely manner.
- b. Require all center directors who are also primary investigators of grants and contracts to complete conflict-of-interest forms in accordance with campus policy.

Campus Response

- a. The campus will enforce campus policies for all active centers to ensure that center charters are current and properly approved and contain all required elements, including clearly defined organizational and reporting structures; and that centers establish advisory boards and submit required annual reports in a timely manner. Center charters will be updated by the campus by December 31, 2013.
- b. The campus will require all center directors who are also primary investigators of grants and contracts to complete conflict-of-interest forms in accordance with campus policy. These forms will be completed by August 31, 2013.

CENTER FISCAL CONTROLS

CASH RECEIPTS

Recommendation 4

We recommend that the campus:

- a. Obtain authorization for the CCC to function as a cash collection point from the campus chief financial officer.

- b. Implement adequate segregation of duties at the CCC, or compensating mitigating controls for the reconciliation and deposit of the weekly cash collections.
- c. Utilize at least two employees to transfer cash deposits from the CCC to the cashier's office.
- d. Deposit checks collected at the CCC to the cashier's office on a weekly basis.

Campus Response

- a. The campus will document authorization from the campus chief financial officer for the CCC to function as a cash collection point by August 31, 2013.
- b. The campus will implement adequate segregation of duties at the CCC or compensating mitigating controls for the reconciliation and deposit of the weekly cash collections. The CCC will implement these controls by October 31, 2013.
- c. The campus now utilizes two employees to transfer cash deposits from the CCC to the cashier's office; this was effective on August 16, 2013.
- d. The campus now deposits checks collected at the CCC to the cashier's office on a weekly basis; this was effective on August 16, 2013.

HOSPITALITY EXPENDITURES

Recommendation 5

We recommend that the campus update the campus hospitality policy to clearly define when a hospitality form is required to substantiate a hospitality expense, and submit hospitality forms with hospitality expenditures.

Campus Response

The campus has updated the campus hospitality policy to clearly define when a hospitality form is required to substantiate a hospitality expense, and to ensure that hospitality forms are submitted with hospitality expenditures. The campus procurement website was updated with the revised hospitality policy, as well as the new hospitality form, on July 29, 2013.

PROVISION OF SERVICES

Recommendation 6

We recommend that the campus:

- a. Obtain approval from the campus president or designee before providing services to external entities.
- b. Obtain revenue agreements from the China America Business Education Center that have been signed by an individual with documented delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that requires that centers and institutes follow standard university contract procedures before providing services to external entities. This will be formally addressed by November 1, 2013. The policy was communicated via email to all center directors on June 24, 2013, by the director of the Office of Research and Sponsored Programs.
- b. The campus will document formal delegation of authority for the director of the China America Business Education Center for all contractual agreements by September 30, 2013.

CONTRACTS

Recommendation 7

We recommend that the campus:

- a. Obtain service agreements that have been executed by individuals with the proper delegation of authority, and ensure that the procurement department reviews and approves these agreements prior to execution.
- b. Execute service agreements for special consultants and guest speakers.
- c. Obtain signed liability waivers from special consultants and guest speakers prior to the date the services are rendered.
- d. Obtain proper pre-approval from the appropriate administrator prior to entering into alliances or partnerships with external entities, and ensure that these agreements are executed by an individual with proper delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that service agreements must be executed by individuals with the proper delegation of authority, and be reviewed and approved by the procurement department prior to execution. This will be formally addressed by November 1, 2013.
- b. The campus will reinforce with center directors the campus policy that the procurement department must execute service agreements for special consultants and guest speakers. This will be formally addressed by November 1, 2013.
- c. The campus will reinforce with center directors the campus policy that the procurement department must obtain signed liability waivers from special consultants and guest speakers prior to the date the services are rendered. This will be formally addressed by November 1, 2013.
- d. The campus will ensure that center directors obtain proper pre-approvals from the appropriate administrator prior to entering into alliances or partnerships with external entities, and that these agreements are executed by an individual with proper delegation of authority. This will be addressed by policy prior to October 15, 2013, and formally reviewed with center directors by November 1, 2013.

EXPENDITURES AND APPROVALS

Recommendation 8

We recommend that the campus:

- a. Enforce the requirement that center expenditures be approved only by individuals with appropriate fiscal authority.
- b. Obtain and document approval of expenditures by an individual with proper delegation of authority.

Campus Response

- a. The campus will reinforce with center directors the campus policy that center expenditures must be approved only by individuals with delegated fiscal authority. This will be formally addressed by November 1, 2013.
- b. The campus will obtain and document approval of centers and institutes expenditures by individuals with proper delegation of authority. New delegations of fiscal authority will be executed, as needed, for centers and institutes expenditures by November 1, 2013.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

September 13, 2013

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Timothy P. White
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 13-40 on *Centers and Institutes*,
California State University, East Bay

LONG BEACH

LOS ANGELES

In response to your memorandum of September 13, 2013, I accept the response as submitted with the draft final report on *Centers and Institutes*, California State University, East Bay.

MARITIME ACADEMY

MONTEREY BAY

TPW/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS