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January 29, 2018

Dr. Robert S. Nelsen, President  
California State University, Sacramento  
6000 J Street  
Sacramento, CA 95819

Dear Dr. Nelsen:

**Subject: Audit Report 17-60, Centers and Institutes, California State University, Sacramento**

We have completed an audit of *Centers and Institutes* as part of our 2017 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel  
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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## **CENTERS AND INSTITUTES**

**California State University,  
Sacramento**

Audit Report 17-60  
December 13, 2017

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to centers and institutes (CI) and to evaluate adherence to relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

### CONCLUSION

We found the control environment for the areas reviewed to be in need of major improvement.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for CI as of October 20, 2017, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, the audit revealed that CI administrative and financial controls require attention. Specifically, the administration of CI was decentralized and the campus did not have a process to monitor all CI to ensure compliance with campus and systemwide requirements. In addition, CI policy needed to be updated to include all systemwide requirements; CI activities did not always comply with campus requirements; and the campus did not have a process in place to identify self-supporting CI to ensure proper cost recovery.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CAMPUS ADMINISTRATION AND OVERSIGHT

#### OBSERVATION

The administration and oversight of campus CI needed improvement.

California State University, Sacramento (Sacramento State) recognizes and administers two categories of CI. Category one CI are defined as internally or campus-focused and are generally student- or academic-oriented and not research-based; these CI are overseen by a dean or division vice president. Category two CI are typically externally focused; involve research, service, and outreach activities; and are overseen by a dean or division vice president, as well as the associate vice president for research administration.

We reviewed the administrative controls of ten CI and found that CI administration was decentralized. Specifically, deans and division vice presidents for category one and category two CI had been delegated oversight responsibility for the administration of their respective CIs, with additional oversight provided by the associate vice president for research administration for category two. Additionally, category one CI administrators were also responsible for developing departmental procedures to propose, establish, review, and close CI, as required by campus policy. However, the campus did not have a process in place to ensure that all CI were complying with campus and systemwide CI requirements. We found that:

- The category one CI we reviewed did not have written departmental policies and procedures.
- The category one and two CI we reviewed did not complete and submit annual reports and three- and five-year comprehensive reviews when applicable to describe the status of their operations. We noted that at least one CI, the Center for Collaborative Policy (CCP), had been operating at a loss for at least two consecutive fiscal years.
- There was no documentation to show that the provost approved the appointment of the non-tenured faculty director for CCP as required by campus policy.

Proper administration and oversight of CI activities ensures that center objectives will be met and that centers will be aligned with campus priorities and will comply with systemwide requirements.

#### RECOMMENDATION

We recommend that the campus:

- a. Develop and document a process to ensure that all CI comply with campus and systemwide requirements, including the timely submission of annual reports, periodic reviews, and director appointments.

- b. Remind key CI administrators of the requirements for annual reports, periodic reviews, and CI director appointments.
- c. Review the CCP to determine whether it should continue operating and, if needed, obtain the required approvals for the director’s appointment.

**MANAGEMENT RESPONSE**

We concur.

- a. Under the direction of the interim associate vice president for the office for research, innovation, and economic development (ORIED, formerly the office of research affairs), the campus has begun developing a new policy and procedures for the creation, administration, and oversight of CI. The new policy and procedures will include a process to ensure that all CI comply with campus and systemwide requirements, including the timely submission of annual reports, periodic reviews, and director appointments. The campus will provide the new CI policy and procedures with this process incorporated by May 31, 2018.
- b. The campus has reminded key category two CI administrators – identified as CI directors and administrators with CI oversight responsibilities – of the requirements for annual reports, periodic reviews, and CI director appointments. The interim associate vice president for ORIED sent these reminders between November 2017 and January 2018 and also provided key CI administrators with an annual report template that ORIED developed in consultation with the provost. The template requests information about CI activities, faculty involvement, funding, goals, and future plans. The campus will provide documentation showing this has been completed. ORIED will remind key category one CI administrators of the reporting and review requirements that apply to their CI once an annual report template for category one CI has been finalized. The campus will provide documentation showing this has been completed by February 28, 2018.
- c. The campus has reviewed the CCP to determine whether it should continue operating. This review resulted in a decision to close down the CCP effective January 8, 2018, and to transfer the services that were provided by the CCP to the College of Continuing Education. The campus will provide documentation showing this has been completed.

**2. CAMPUS CI POLICY**

**OBSERVATION**

The campus CI policy needed to be updated to include all systemwide requirements.

Specifically, the policy mainly addressed the requirements for category two CI and did not properly address the following requirements for category one CI:

- Formation and structure requirements, including specific elements required in proposals for the establishment of a CI.

- Annual reporting requirements, including specific elements required in the annual report and time frames for the submission of the report.
- Review requirements, including the content and process for periodically reviewing the CI.

Additionally, campus policy did not require that funding or income information be included in annual reports, and requirements for inactive CI had not been defined. We found several CI identified as inactive, but the campus had not established requirements or conditions for this designation.

Complete and properly defined CI policies and procedures decrease the risk that CI will be noncompliant with campus and systemwide requirements.

### **RECOMMENDATION**

We recommend that the campus:

- a. Update the campus CI policy to include specific requirements for category one CI as outlined above, as well as the requirement to include funding information in annual reports and requirements and conditions for having a CI designated as inactive.
- b. Perform and document a review to identify all inactive CI and determine whether they should continue to operate, in accordance with the requirements and conditions for having a CI designated as inactive.

### **MANAGEMENT RESPONSE**

We concur.

- a. As noted in the response to Section 1, the campus has begun developing a new CI policy and corresponding procedures. The new CI policy will include specific requirements for all CI to ensure they meet campus and system standards, including, but not limited to, formation and structure requirements, reporting and review requirements, and conditions for having a CI designated as inactive. Consistent with the new policy, the annual report templates for CI will require funding information. The campus will provide the new CI policy by May 31, 2018.
- b. The campus will perform and document a review within the framework of our existing policy to identify all inactive CI and determine whether they should continue to operate, be closed, or be placed on informal probation. The campus will provide documentation showing this has been completed by April 30, 2018.

## **3. CI ACTIVITIES**

### **OBSERVATION**

CI activities did not always comply with campus requirements.

We reviewed the operating activities of six CI that included, but were not limited to, hosted conferences and events and fees for services, and we found that:

- Public user fees charged by three CI, including the North Central Information Center (NCIC), Office of Water Programs (OWP), and Center for African Peace and Conflict Resolution (CAPCR), were not approved as required by campus policy.
- The revenue generating activities of four CI, including NCIC, OWP, CAPCR, and CCP, were not evaluated for unrelated business income tax (UBIT) implications. Additionally, we found that the campus unrelated business income policy, ADM-0155, was outdated and did not reflect current roles and responsibilities. Specifically, the policy indicated that the director of auditing services was responsible for reviewing revenue-generating activities for UBIT implications; however, this responsibility had been assigned to a tax compliance specialist.
- Three CI, including CCP, CAPCR, and the Center for Counseling and Diagnostic Services (CCDS), handled cash and cash equivalents but were not authorized as cash-handling departments.
- CAPCR was collecting and depositing funds for its annual conference and peace awards into both a campus and a University Enterprises, Inc. (UEI) auxiliary account; however, ownership for this CI's activities resided with the campus, not UEI. We found that the UEI account agreement for CAPCR had been initially established for grant activities, but it no longer reflected the current use of the account.
- NCIC was managing its own account receivables; however, these account receivable balances were not reported to UEI to ensure inclusion in the auxiliary's financial statements, as applicable. We found that UEI did not have a documented policy outlining the requirements for account receivable management to specify how CI account receivable balances should be administered and reported.

Adherence to campus and systemwide requirements ensures that campus resources are used properly, fees are properly established and approved, tax implications are evaluated, funds are properly collected and deposited, and account receivables balances are properly accounted for.

#### **RECOMMENDATION**

We recommend that:

- a. The campus review the CI public user fees identified above and submit them for approval.
- b. The campus review the revenue-generating activities for the four CI noted above, determine whether there are any UBIT implications, and document this analysis.
- c. The campus update the UBIT policy ADM-0155 to reflect current roles and responsibilities, and communicate this information to key personnel.

- d. The campus review the CI noted above that are handling cash and cash equivalents and determine whether they should be authorized as cash-handling departments.
- e. UEI close the CAPCR campus program account that is used for the annual conference and peace award event and transfer the associated funds to the respective university trust fund account.
- f. UEI develop an account receivable management policy and communicate it to key CI administrators.
- g. UEI perform a review of the NCIC account receivable balances to determine whether they should be transferred to UEI.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will review the CI public user fees identified in this report and submit them for approval. Specifically, the university will require CAPCR to submit a completed Public User Fee Request form to the director of accounting services for review and, if appropriate, approval, consistent with campus policy. UEI will require NCIC and OWP to each submit a completed Public User Fee Request form to the UEI controller. The UEI controller will review the forms, then forward them to the university director of accounting services for additional review and, if appropriate, approval consistent with campus policy. The campus will provide documentation showing this has been completed by April 30, 2018.
- b. The campus has reviewed the revenue-generating activities for CCP and has decided to close down the center. The campus will review the revenue-generating activities for the other three CI noted above, determine whether there are any UBIT implications, and document this analysis. Specifically, the university will analyze the revenue-generating activities of CAPCR, and UEI will analyze the revenue-generating activities of NCIC and OWP. These analyses and the resulting conclusions will be documented and reviewed by the university tax compliance specialist. The campus will provide documentation showing this has been completed by April 30, 2018.
- c. The campus will update the UBIT policy ADM-0155 to reflect current roles and responsibilities and communicate this information to key personnel. The campus will provide documentation showing this has been completed by April 30, 2018.
- d. The campus will review the CI noted above that are handling cash and cash equivalents and determine whether they should be authorized as cash-handling departments. Specifically, the university bursar’s office will review the cash-handling activities of CAPCR and CCDS to determine whether they should be authorized as cash-handling departments. The campus will provide documentation showing this has been completed by April 30, 2018.

- e. UEI will close the CAPCR campus program account held at UEI and transfer the associated funds to the respective university trust fund account. The campus will provide documentation showing this has been completed by February 28, 2018.
- f. UEI will develop an account receivable management policy pertaining to CI and communicate it to key CI administrators. The campus will provide documentation showing this has been completed by April 30, 2018.
- g. UEI will perform a review of the NCIC account receivable balances to determine whether they should be transferred to UEI. The campus will provide documentation showing this has been completed by April 30, 2018.

#### 4. COST RECOVERY

##### **OBSERVATION**

The campus cost recovery process needed improvement.

Specifically, we found that the campus did not have a process to identify all CI that were considered self-supporting and therefore subject to all cost recovery in accordance with Integrated California State University Administrative Manual (ICSUAM) §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*. This systemwide policy requires that all costs incurred by the CSU Operating Fund for services, products, and facilities provided to self-supporting entities, including CI, be consistently recovered with cash and/or a documented exchange of value.

We found that the campus recovered indirect costs for administrative and business services, such as accounting and purchasing, from all CI with a university trust fund account via a 7 percent management fee. However, because the campus did not have a process to identify all self-supporting CI, it was unclear whether all other relevant costs associated with operating a self-supporting entity, such as rent, information technology, and human resources, were considered for recovery.

Further, we found that the campus did not have documentation to substantiate the methodology used to establish the 7 percent management fee and that this rate had not been reviewed since 2002. We also found that the administration of the 7 percent management fee to recover indirect administrative and business costs from all university-held trust funds was not documented in the campus cost allocation plan, ADM-0170.

Recovering costs or documenting an exchange of value for services the campus provides to self-supporting CI and documenting the methodology used to allocate expenses ensures that the campus operating fund will be fully compensated, the allocation is transparent, and the process complies with systemwide requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Develop and document a process to identify self-supporting CI, and based on this process, determine what costs should be recovered or whether there should be a documented exchange of value.
- b. Review the 7 percent management fee to determine whether the amount should be adjusted, and document the methodology used to establish the rate.
- c. Update the campus cost allocation plan, ADM-0170, to include the university trust account management fee noted above as part of the indirect cost recovery methodology.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will develop and document a process to identify self-supporting CI. Once the campus is confident that all self-supporting CI have been identified, the campus will determine for each self-supporting CI what costs should be recovered and/or whether there should be a documented exchange of value. The campus will provide documentation showing this has been completed by April 30, 2018.
- b. The campus will review the 7 percent management fee to determine whether the amount should be adjusted and will document the methodology used to establish the rate. The campus will provide documentation showing this has been completed by April 30, 2018.
- c. The campus will update the campus cost allocation plan, ADM-0170, to include the university trust account management fee as part of the indirect cost allocation methodology. The campus will provide documentation showing this has been completed by April 30, 2018.

## GENERAL INFORMATION

### BACKGROUND

Campus CI are formally approved interdisciplinary and/or collaborative units that are organized around scholarly, creative, research, education, and/or public service activity and sometimes offer services to constituents beyond the campus community. CI should provide clear benefits to the campus and align with the university's overall mission.

Systemwide policy for CI is delineated in coded memorandum Academic Affairs 2014-18, *Centers and Institutes: Guidelines Replacing Executive Order (EO) 751*, which delegates responsibility for the approval and oversight of CI to campus presidents. Each campus is required to establish a written policy on the management of CI that includes requirements for establishment of CI, periodic reporting and review, and suspension or dissolution.

At Sacramento State, the provost, in conjunction with the associate vice president of research administration, is charged with overseeing CI, including ensuring compliance and operational integrity and maintaining an official list of all research-based (category two) CI.

There are currently 43 CI at Sacramento State. CI activities vary greatly and include, but are not limited to, facilitating faculty and student research; providing consulting or training services; hosting workshops, conferences, and seminars; providing internship or fellowship opportunities; and creating community outreach programs. Some examples of the diverse nature of CI on campus include the CAPCR; Institute for Water, Energy, Sustainability and Technology; Center for Information Assurance and Security; Center for Health Professions, Policy and Practice; and Archaeological Research Center.

### SCOPE

We visited the Sacramento State campus from September 18, 2017, through October 20, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2015, through October 20, 2017.

Specifically, we reviewed and tested:

- CI administration and organization, including clear lines of organizational authority and responsibility, documented delegations of authority, and current and comprehensive policies and procedures.
- Processes to identify, review, and report all authorized CI to the chancellor's office.
- Establishment and approval of CI, including alignment with the university mission and strategic plan.
- Operation and monitoring of CI, including annual reporting and periodic reviews.
- Suspension and dissolution of CI.

- Appropriate placement and administration of CI funds, including sponsored program funds, in accordance with governmental and California State University (CSU) regulations.
- Appropriate reimbursement to the campus by CI for services and resources used.
- CI activities, including the sale of goods and services, and the administration of conferences and other events, including appropriate approvals, financial controls, and risk management review, when necessary.
- Processes to ensure that CI expenditures are appropriate, allowable, authorized, and processed in accordance with CSU and campus policy, as well as relevant governmental regulations.

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.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of campus CI. Our review was limited to gaining reasonable assurance that essential elements for the administration of CI were in place and did not examine all campus CI.

## CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Coded memorandum Academic Affairs 2014-18, *Centers and Institutes: Guidelines Replacing Executive Order (EO) 751*
- Coded memorandum Academic and Student Affairs 2016-32, *Report on Campus Centers, Institutes, and Similar Entities*
- Coded memorandum Risk Management 2012-01, *Insurance Requirements*
- EO 1000, *Delegation of Fiscal Authority*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- Integrated California State University Administrative Manual (ICSUAM) §1101.00, *Delegation of Authority to Obligate the University*
- ICSUAM §3000, *General Accounting*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §5000, *Contracts and Procurement*
- ICSUAM §11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Programs Activities*

- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Government Code §13402 and §13403
- Sacramento State *Cost Allocation/Reimbursement Plans for the California State University Operating Fund*
- Sacramento State *Campus Policy on Centers, Institutes, and Similar Entities*
- Sacramento State *Policy on Public User Fees*
- Sacramento State *Unrelated Business Income Tax Policy*
- Sacramento State *Cash Management Policy*
- Sacramento State *Procedure to Establish Campus Activities or Programs at a University Auxiliary*

## AUDIT TEAM

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