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September 25, 2018

Dr. Thomas A. Parham, President  
California State University, Dominguez Hills  
1000 E. Victoria Street  
Carson, CA 90747

Dear Dr. Parham:

**Subject: Audit Report 18-35, *Centers and Institutes*, California State University, Dominguez Hills**

We have completed an audit of *Centers and Institutes* as part of our 2018 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 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



**The California State University**  
Audit and Advisory Services

## **CENTERS AND INSTITUTES**

**California State University, Dominguez Hills**

Audit Report 18-35  
August 10, 2018

## 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 (CO) 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 June 29, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, the audit revealed that the campus did not have an adequate governance structure in place to ensure proper administration and oversight of CI. Specifically, the campus president had not formally delegated responsibility for the approval and oversight of CI, nor had the president determined whether the campus or an auxiliary organization should receive proprietorship over CI program funds. In addition, the campus did not identify and report all CIs on campus to the Office of the Chancellor and had not developed specific CI policies and procedures to ensure compliance with campus, auxiliary, and systemwide requirements. Further, CI activities required attention in some key financial areas related to expenditures, cost recovery, and faculty stipends.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. GOVERNANCE STRUCTURE

#### OBSERVATION

The campus had not established an appropriate governance structure for CI.

We found that:

- The campus president had not formally delegated responsibility for the approval and oversight of CI.
- The campus had not documented the determination by the campus president as to whether the campus or an auxiliary organization should receive proprietorship over CI program funds, including acceptance of both the risks and rewards associated with ownership, as required by Integrated California State University Administrative Manual (ICSUAM) §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*.

An adequate governance structure for CI helps to ensure that CI objectives will be met and that CI will be aligned with campus priorities and will comply with campus, auxiliary, and systemwide requirements.

#### RECOMMENDATION

We recommend that the campus:

- a. Formally delegate responsibility for the approval and oversight of CI.
- b. Document the campus president's determination of whether the campus or an auxiliary organization should receive proprietorship over CI program funds.

#### MANAGEMENT RESPONSE

We concur. The campus, by February 2019, will:

- a. Formally delegate responsibility for the approval and oversight of CI.
- b. Document the campus president's determination of whether the campus or an auxiliary organization should receive proprietorship over CI program funds.

### 2. CI POLICIES AND PROCEDURES

#### OBSERVATION

Campus CI policies and procedures needed improvement.

We found that the campus had not clearly established whether CIs should operate under campus or auxiliary policies and procedures. Additionally, policies and procedures had not been created for the following areas:

- Formation and structure requirements, including specific elements required in proposals for the establishment of a CI. We noted that none of the 31 CIs on campus had establishment documents such as proposals, and therefore, we were unable to determine whether sufficient documents were submitted and proper approvals were obtained.
- Reporting requirements, including specific elements required in annual reports and time frames for the submission of the reports. In our review of four CIs, we found that only one had created an annual report, and it lacked financial information and evidence of review.
- Review requirements, including the content and process for periodic reviews. We found that none of the 31 CIs on campus had undergone a periodic review at least once every seven years.
- Suspension, re-establishment, and dissolution processes.
- Evaluation of unrelated business income tax (UBIT) implications for the revenue-generating activities of CI. In our review of six revenue transactions for four CIs, we found no evidence that revenue-generating activities were evaluated for UBIT implications.
- Execution of partnership and collaborative agreements with third parties, including delegation of authority and review by the campus. In our review of eight agreements for four CIs, we found that one agreement was not properly approved and one agreement did not have a proper indemnification clause.
- Hosting conferences and events on campus, including, but not limited to, execution of facility agreements and hiring volunteers.
- Provision of services and products to the public, including, but not limited to, fee approvals, execution of fee-for-service agreements, hiring volunteers, and management of receivables.

Complete and properly defined CI policies and procedures provide a standard reference for stakeholders and increase assurance that CIs will be compliant with campus and systemwide requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Clearly establish whether CIs operate under campus or auxiliary policies and procedures.
- b. Establish policies and procedures that include the specific requirements outlined above.

- c. Provide training and guidance to appropriate CI personnel on new policies and procedures.

**MANAGEMENT RESPONSE**

We concur. The campus, by December 2018, will:

- a. Clearly establish whether CIs operate under campus or auxiliary policies and procedures.
- b. Establish policies and procedures that include the specific requirements outlined above.
- c. Provide training and guidance to appropriate CI personnel on new policies and procedures.

**3. CI LISTING AND REPORTING**

**OBSERVATION**

The campus did not have a current and comprehensive listing of CI and was not reporting all active CIs to the CO.

We found that:

- Four CIs had not been reported to the CO; therefore, they were not listed in the CO database of CI.
- There were two CIs discovered during audit field work that the campus had not yet recognized.
- One CI appeared to be inactive as it did not have a director or activities, but it was still included on the listing of CI reported to the CO.

Maintaining a current and comprehensive listing of CI and reporting all active CI to the CO help to ensure that the campus and the CO are aware of all CI to provide proper administrative oversight.

**RECOMMENDATION**

We recommend that the campus perform a review to identify all CIs on campus, including any unrecognized and inactive CI, and update and provide the listing to the CO.

**MANAGEMENT RESPONSE**

We concur. The campus will perform a review to identify all CIs on campus by December 2018, including any unrecognized and inactive CI, and update and provide the listing to the CO.

#### 4. EXPENDITURES

##### **OBSERVATION**

Authorization and management of CI expenditures needed improvement.

We found that because administrative control was decentralized, CI expenditures did not always comply with campus and California State University, Dominguez Hills Foundation (Foundation) requirements, and supporting documents were not always available.

We reviewed 18 campus expenditures, and we found that:

- In three instances, supporting documents were not provided.
- In two instances, the approvers did not have the delegation of authority to approve the expenditures.
- In one instance, travel authorization and travel expense claim forms were not provided.
- In one instance, a hospitality pre-approval form was completed after the hospitality expenditure was incurred.

We reviewed 28 Foundation expenditures, and we found that:

- In six instances, account applications were not completed, and therefore, we could not verify that the approvers had the authority to approve the expenditures.
- In one instance, a travel request form was not completed or approved prior to the start of the trip.
- In one instance, the approver did not have the delegation of authority to approve the expenditure.

Sufficient control over CI expenditures decreases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur. Additionally, proper authorization of expenditures increases assurance of appropriate administration of CI funds and decreases the exposure of legal liabilities and reputational risk in the event of an incident.

##### **RECOMMENDATION**

We recommend that the campus and the Foundation provide training and guidance to the appropriate CI personnel to reiterate key campus and Foundation disbursement policies and procedures, including, but not limited to, fiscal processes and responsibilities, expenditure authorizations, account application completions, and travel and hospitality requirements and procedures, and establish proper delegations of authority to approve expenditures for the above noted instances.

**MANAGEMENT RESPONSE**

We concur. The campus and the Foundation will provide training and guidance by January 2019 to the appropriate CI personnel to reiterate key campus and Foundation disbursement policies and procedures, including, but not limited to, fiscal processes and responsibilities, expenditure authorizations, account application completions, and travel and hospitality requirements and procedures, and establish proper delegations of authority to approve expenditures for the above noted instances.

**5. COST RECOVERY**

**OBSERVATION**

The campus cost recovery process needed improvement.

Specifically, we found that the campus did not have a process to identify all CIs that were considered self-supporting and, therefore, subject to all cost recovery in accordance with ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*. The 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.

Recovering costs or documenting an exchange 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 will be transparent, and the process complies with systemwide requirements.

**RECOMMENDATION**

We recommend that the campus 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.

**MANAGEMENT RESPONSE**

We concur. The campus will develop and document a process to identify self-supporting CI, and based on this process, determine by February 2019 what costs should be recovered or whether there should be a documented exchange of value.

**6. FACULTY STIPENDS**

**OBSERVATION**

The method for processing summer stipends for CI director duties was inadequate.

We reviewed four summer faculty stipends, and we found that:

- In all instances, summer faculty stipends were processed under an earnings ID that was reserved specifically for research, scholarly, and creative activities and should not have been used for these payments. Earnings IDs are used to support salary-related provisions of a collective bargaining agreement and CSU policy and to control how payments are handled with regard to taxation, retirement withholding, overtime calculations and other considerations. This is a repeat observation from the prior Academic Department Fiscal Review audit.
- In all instances, special consultant forms were not completed and submitted to human resources before the faculty member began working as the CI director. Because CI director roles are outside of the scope of a faculty member's employment responsibilities, the faculty member working as the CI director should be classified as a CSU special consultant.

Proper processing of summer faculty stipends reduces the risk that the payment will be improperly classified in payroll, increases the transparency of the type of work to be performed, and ensures that the appropriate salary range is used.

**RECOMMENDATION**

We recommend that the campus remind appropriate CI personnel that summer faculty stipends must be classified under the appropriate job code and special consultant forms must be completed and submitted to human resources before the start of CI director activities.

**MANAGEMENT RESPONSE**

We concur. The campus will remind appropriate CI personnel by January 2019 that summer faculty stipends must be classified under the appropriate job code and special consultant forms must be completed and submitted to human resources before the start of CI director activities.

## 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 California State University, Dominguez Hills (CSUDH), the administration is decentralized, with the provost's office or college deans charged with overseeing CI. The interim dean of graduate studies and research, in conjunction with the provost and college deans, is responsible for approving and monitoring recognized CI on campus.

There are currently 31 CI at CSUDH. CI activities vary greatly and include, but are not limited to, promoting international education to foster cross-cultural awareness; recruiting, training, placing, and supporting teachers; providing opportunities for research and professional development of students, faculty, and staff; and conducting high-quality research on urban change and social problems. Some examples of the diverse nature of CI on campus include the Mervyn Dymally African American Political & Economic Institute; California Stem Institute for Innovation and Improvement; Hospitality Technology Research Institute; Center for Global Education; and the Entrepreneurial Institute @ CSUDH.

### SCOPE

We visited the CSUDH campus from May 29, 2018, through June 28, 2018. 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, 2016, through June 28, 2018.

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.

- 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 EO 751*
- Coded memorandum Academic and Student Affairs 2017-30, *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*
- 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
- CSUDH *Hospitality Using Campus Catering Policy*
- CSUDH *Travel Policy*
- CSUDH *Procurement and Contracts Manual*
- *Foundation Travel Policy*
- *Foundation Procurement Policy*
- *Foundation Cash Receipting and Check Handling Policy*
- *Foundation Accounts Receivable Policy*

## **AUDIT TEAM**

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