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February 12, 2016

Report #15-92

Dr. Timothy P. White
Chancellor
The California State University
401 Golden Shore
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Dear Dr. White:

Pursuant to a request from your office and approval from the Chair of the Board of Trustees' Committee on Audit on June 17, 2015, the Office of Audit and Advisory Services has conducted an investigation in response to allegations raised by California State University, Fresno (campus) administrators. Specifically, we investigated whether the executive director (director) of the Lyles Center for Innovation and Entrepreneurship (Center) had conflicts of interest and whether payments made to the director by the campus and the California State University, Fresno Foundation (Foundation) were appropriate. In addition, we investigated whether sources of revenue for the Center were generated and received outside normal campus and Foundation procedures.

To investigate the allegations, we reviewed applicable policies and procedures, as well as information gathered by the campus and campus counsel. We also obtained additional information and documentation, including accounting records from the campus and Foundation, records from an outside PayPal account used by the Center, the Center director's email, and business records and other data that was available online. In addition, we interviewed campus and Foundation administrators, as well as several Center staff members, including the director.

Included within the report are the results of the investigation along with specific recommendations which, we believe, would benefit campus and Foundation fiscal and operational management.

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Lupe C. Garcia, Chair, Committee on Audit

SPECIAL INVESTIGATION

LYLES CENTER FOR INNOVATION AND ENTREPRENEURSHIP

CALIFORNIA STATE UNIVERSITY,
FRESNO

Investigative Report 15-92
February 12, 2016

CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

RESULTS OF INVESTIGATION

RECOMMENDATIONS

APPENDICES

ABBREVIATIONS

AIIE	American Institute for Innovation and Entrepreneurship
Campus	California State University, Fresno
CCEP	Community College Entrepreneur Pathway
Center	Lyles Center for Innovation and Entrepreneurship
CLA	Creative Learning Activities
Corporation	Kids Invent corporation
CSU	California State University
Director	Executive Director of the Lyles Center for Innovation and Entrepreneurship
District	Fresno Unified School District
Foundation	California State University, Fresno Foundation
Institute	Asian Institute of Entrepreneurship
I2V	Idea2Venture
MOU	Memorandum of Understanding
P9	Project 9

EXECUTIVE SUMMARY

ALLEGATIONS

We investigated the following issues:

- Whether the executive director (director) of the Lyles Center for Innovation and Entrepreneurship (Center) had/has a conflict of interest related to any Center business activities and whether a perceived conflict of interest may exist in regard to operational and contractual relationships between the Center programs and any third-party entities.

- Whether the payments/personal reimbursements made to the director from both California State University, Fresno (campus) and California State University, Fresno Foundation (Foundation) funds were appropriate based on the source of funds used and whether the expenditures were made following sound business practices.

- Whether sources of revenue for the Center were generated and received outside normal campus and Foundation accounts receivable and cash-handling procedures.

INVESTIGATION RESULTS

Conflicts of Interest Related to Center Business Activities and Other Conflicts

The director had both actual conflicts of interest and the appearance of conflicts of interest due to his dual roles as director of the Center and a partner in the Kids Invent corporation (corporation).

The director had a joint business ownership interest with consultant A, whom he hired to perform work for the Center, but divested himself of that ownership interest shortly before consultant A billed the Center under the business name, which eliminated a potential technical conflict of interest. Nevertheless, the director's previous role with the company could still give the appearance of conflict of interest, particularly because there was no prior disclosure of the relationship nor advance review by counsel.

The director has several ongoing conflicts of interest related to his financial interest in the corporation, the hiring of his business partner as a consultant for the Center, and his use of Center resources that benefited his corporation.

The director also had a conflict of interest when he hired consultant B, a business partner in the corporation, to perform work that benefited their corporation.

Payments/Reimbursements Made to the Director

In general, the payments made to the director appeared to be appropriate based on the source of funds used. However, we found a questionable $3,000 payment to the director. In addition, we noted that the Foundation made more than 700 payments totaling more than $150,000 between June 1, 2013, and June 30, 2015, and we questioned the reason and need for the volume of transactions.

Center Revenues and Cash-Handling Procedures

The main source of Center revenues are contracts and grants, such as the contract with Fresno Unified School District (district), to provide Kids Invent programs. In general, revenues were appropriately received and accounted for by the Foundation; however, we learned that the Center had improperly established an off-campus bank account with PayPal to receive revenues for Kids Invent summer camps and other activities.

ANCILLARY FINDINGS

Failure to Obtain Approvals for Websites

The Center improperly established websites that were not approved by the campus.

Lack of Segregation of Duties

The Center lacked segregation of duties in its warehouse operations.

INTRODUCTION

BACKGROUND

Lyles Center for Innovation and Entrepreneurship

According to its website, the Center was founded in 2003 and is a nationally ranked entrepreneurship center with a track record of inspiring students, faculty, alumni, and community leaders to act on ideas that build a prosperous future.

The Center leverages resources from the university to help innovators and entrepreneurs develop their ideas into a business and acts as a bridge for the campus and community, linking the resources of both to help entrepreneurs achieve success in the marketplace. The Center operates various programs, including Kids Invent, Idea2Venture (I2V), and Community College Entrepreneur Pathway.

Kids Invent is a program designed mainly for students in grades 4-6 to stimulate their creativity through the application of science, math, and engineering. The curriculum consists of 36 individual activities designed to provide students with a weekly hands-on problem that they solve through observation and experimentation. To date, the program has been used in fifth grade classes across two local school districts and in two charter schools. In addition, the Center offers week-long Kids Invent summer camps for kids in kindergarten through grade 6.

I2V is a 10-day hands-on program designed to turn ideas into business ventures. Students work with leaders in creativity, product commercialization, entrepreneurship coaching, and business model development.

The Community College Entrepreneur Pathway (CCEP) supports community college faculty in the delivery of entrepreneurial education to students. CCEP faculty receive curricula, classroom tools, and cross-campus support to aid in the delivery of entrepreneurial knowledge and skills to their students.

Kids Invent Corporation

In addition to being a program offered by the Center, Kids Invent is also the name of a California corporation that was co-founded by the director in 1999. According to the corporation's website, "Kids Invent is the world's leading provider of innovation based kids [sic] science activities that stimulate the creative interests and abilities of children ages 7-15. We develop, publish and distribute learning activities for after school, in school, home school, summer, holiday and vacation camps, museum workshops, clubs and special event programs."

Kids' science projects, or Creative Learning Activities (CLAs), are for sale on the website. With the CLAs, kids design and build projects that involve solving science and engineering problems, preparing simple business plans, and developing presentation materials. Some of the CLAs can be ordered as kits that include the materials necessary to complete the activities. The corporation gave the CLAs to the Center, where they were used as the basis for a fifth-grade curriculum that was further developed by Center staff and offered to local schools and school districts.

Foundation

The Foundation manages the financial activities relating to sponsored research grants and contracts, gifts and endowments, and campus program trust accounts. It provides the accounting services for the Center.

Campus Actions and Notifications

Around April 2015, campus and Foundation administrators became aware that the director of the Center had a business relationship with a company that was a vendor for the Center. Campus administrators consulted with campus counsel, who performed some additional research. In May 2015, campus counsel recommended that the campus retain the services of an auditor to review the situation. On June 11, 2015, the campus president requested assistance from the Office of Audit and Advisory Services; the request was approved on June 17, 2015.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we reviewed applicable policies and procedures, as well as the information gathered by the campus and campus counsel. We also obtained additional information and documentation, including accounting records from the campus and Foundation, records from an outside PayPal account used by the Center, Kids Invent curricula, the Center director's email, and business records and other data that was available online. In addition, we interviewed campus and Foundation administrators, as well as several Center staff members, including the director. We reviewed the accounting records between June 1, 2013, and June 30, 2015, unless otherwise noted in the report, and some email records we cite date from 2012.

RESULTS OF INVESTIGATION

INITIAL ALLEGATIONS

We investigated the following issues:

- Whether the executive director (director) of the Lyles Center for Innovation and Entrepreneurship (Center) had/has a conflict of interest related to any Center business activities and whether a perceived conflict of interest may exist in regard to operational and contractual relationships between the Center programs and any third-party entities.

- Whether the payments/personal reimbursements made to the director from both California State University, Fresno (campus) and California State University, Fresno Foundation (Foundation) funds were appropriate based on the source of funds used and whether the expenditures were made following sound business practices.

- Whether sources of revenue for the Center were generated and received outside normal campus and Foundation accounts receivable and cash-handling procedures.

ANCILLARY FINDINGS

Failure to Obtain Approvals for Websites

The Center improperly established websites that were not approved by the campus.

Lack of Segregation of Duties

The Center lacked segregation of duties in its warehouse operations.

INVESTIGATION RESULTS

Conflicts of Interest Related to Center Business Activities and Other Conflicts

The director had both actual conflicts of interest and the appearance of conflicts of interest due to his dual roles as director of the Center and a partner in the Kids Invent corporation (corporation).

Conflict of Interest Laws

Laws prohibiting conflict of interest are grounded in the belief that government officials owe paramount loyalty to the public interest. The objective of these laws is to limit the possibility of any personal financial influence that might sway an official's decision. For example, the Political Reform Act of 1974, codified in the California Government Code, beginning with Section 87100, states that no public employee shall make, participate in making, or in any way attempt to use an official position to influence a government decision in which the public employee knows or has reason to know he or she has a financial interest. Section 87103 of the same code defines a financial interest to include any business entity or real property in which the public employee has a direct or indirect investment worth $2,000 or more, or any source of income, other than gifts and specified loans, aggregating $500 or more, provided or promised to the employee within 12 months prior to when the decision is made. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from the public generally, on the employee or his or her spouse. Participation in decision-making includes participation in negotiations without significant substantive review or providing advice by way of research, investigations, or preparation of reports or analyses for the decision maker without intervening substantive review.

In addition to specific statutory prohibitions, according to the attorney general, common-law doctrines against conflicts of interest exist. Common law is a body of law made by decisions of the California Supreme Court and the California Appellate Courts. Both the courts and the attorney general have found conflicts of interest by public officials to violate both common-law and statutory prohibitions. For example, common-law doctrines state that a public officer is bound to exercise the powers invoked by that position with disinterested skill, zeal, and diligence, and primarily for the benefit of the public. Another judicial interpretation of common-law doctrine is that public officers are obligated to discharge their responsibilities with integrity and fidelity. According to the attorney general, where no conflict is found in statutory prohibitions, special situations still could constitute a conflict under the longstanding common-law doctrine. Consequently, situations that have the mere appearance of a financial conflict of interest may still be subject to common-law prohibitions.

California Government Code, Section 8314, prohibits state officers and employees from using state resources such as state-compensated time for personal enjoyment, private gain or advantage, or for an outside endeavor not related to state business. If the use of state resources is substantial enough to result in a gain or advantage to an officer or employee for which a monetary value may be estimated, or a loss to the state for which a monetary value may be estimated, the officer or employee may be liable for a civil penalty not to exceed $1,000 for each day on which a violation occurs plus three times the value of the unlawful use of state resources.

Appearance of a Conflict of Interest with a Consultant and Outside Company

The director had a joint business ownership interest with consultant A, whom he hired to perform work for the Center, but divested himself of that ownership interest shortly before consultant A billed the Center under the business name, which eliminated a potential technical conflict of interest. Nevertheless, the director's previous role with the company could still give the appearance of a conflict of interest, particularly because there was no prior disclosure of the relationship nor an advance review by counsel.

In late September 2014, the director hired consultant A for a nine-month period ending June 30, 2015. She was hired as a project manager to work on aspects of the Kids Invent program, provide support for the CCEP program, and consult with Center staff. Initially, the Center paid consultant A as an independent contractor. Starting with her hours for January 2015, consultant A began billing under a corporate name (company A). The campus then discovered that the director was listed as the president of the company and the company's address was his home address, which raised concerns that the director may have had a conflict of interest. Company A was started in 2013; the director was the president, and consultant A was the secretary.

The director provided the campus with documents indicating that he divested himself of his interest in company A effective January 1, 2015. The director told us that he formed the company with consultant A to offer corporate training, but it did not pan out, so he decided to step out of the company and sell his interest in it to consultant A for $100. According to the director, he suggested to consultant A that she was better off billing the Center under the company name for tax purposes. As noted, consultant A started billing under the name of company A in an invoice for her January 2015 hours, after the director sold his interest in the company. Consultant A was paid $64,125 for her work during this time period; $48,375 as an independent contractor and $15,750 via company A.

The director initially awarded work to consultant A at a time they had a joint interest in company A, but because he hired her as an independent contractor and divested himself of their joint interest in the company before consultant A began billing under the company name, the director did not have a technical conflict of interest in this instance.

However, the director's previous ownership interest in the company and partnership with consultant A could still give the appearance of a conflict of interest. A campus executive noted that there was no prior disclosure of the relationship nor an advance review by counsel.

As noted above, even where no conflict is found in statutory prohibitions, special situations still could constitute a conflict under the longstanding common-law doctrine. Consequently, situations that have the mere appearance of a financial conflict of interest may still be subject to common-law prohibitions.

Other Conflicts

The director has ongoing conflicts of interest related to his financial interest in the corporation, including the hiring of his business partner to do consulting work for the Center and his use of Center resources that benefited his corporation.

Development and Marketing of the Kids Invent Curricula

The director co-founded the corporation with consultant B. The director also hired consultant B to do work for the Center, including further development of Kids Invent curricula. The Kids Invent curricula was originally developed by consultant B and sold via the corporation's website. The director gave the curricula to the Center, where Center staff further developed it for a $460,000 contract[1] with the district to provide the Kids Invent program to all its fifth grade classes. A Center employee told us that the activities created by consultant B needed to be developed into a yearlong curriculum, and Center staff needed to broaden the activities and develop lesson plans for them. In addition, Center staff worked on graphics, coordinated the logistics of buying the numerous supplies needed for the projects, and assembled the kits for each of the activities. This modified curricula is what was sold by the Center to the district and several other schools in the central valley.

Even though the modified curricula was an amalgamation of the efforts of both consultant B (via the corporation) and the Center staff, the director told us he considers it to be the intellectual property of the corporation, and he has marketed it in other geographic areas on behalf of the corporation.

However, ownership of the intellectual property may not be that clear cut. Specifically, when we interviewed Center staff, including the director, we were given widely varying responses to the question of how much of the Kids Invent curricula used for the program provided to the district was developed by the corporation and how much was developed by Center staff. In reviewing the information pertaining to a selection of the activities, we saw the materials initially provided by the corporation and the final product completed by the Center. Although the initial materials contained the bulk of the information ultimately used in the final product, it was evident that Center staff had also done a lot of work to organize the various elements into a more teacher- and student-friendly format, with improved layout and graphics.

Further, Center staff figured out how to coordinate the logistics of receiving, repackaging, and distributing the supplies for the various activities. The Center also hired a consultant to provide differentiation suggestions for each of the activities to assist teachers in working with advanced or special-needs students – something that was not included in the original corporation materials. The director also acknowledged in an email that "I can't say Kids Invent was plug and play. It took a heroic effort to distill the content into a teacher friendly format. It only happened because I had a great team led by a project manager who has now departed." In another email to his corporation partners, he said, "I have been going through our curricula. A considerable amount has been created at the Lyles Center which are not on the website. I am building a catalog of all the curricula we have…Once completed, we can use as a marketing piece to schools…We still have the issue of supplies. But I am setting up a logistics operation across the street from the Lyles Center. We could contract out with that operation to build supplies for shipping."

The director told us that the materials currently sold via his corporation's website are the ones that were developed by his business partner, consultant B; they are not the materials that were modified by the Center staff. We ordered materials from the website and confirmed that the materials currently being sold

[1] The contract was signed by representatives of the California State University, Fresno Foundation for the Center to provide the curricula.

via that method were the ones developed by consultant B. However, the director told us that the corporation is marketing the Kids Invent program (e.g., the fifth-grade curriculum) and plans to use the materials modified by the Center, as he believes the corporation owns the intellectual property. There are currently no agreements or other formal documents that outline ownership of the intellectual property. In addition, although the director told us that he would argue that his corporation owns those rights, he also sent a proposal to a local charter school that stated, "The Lyles Center for Innovation and Entrepreneurship (Lyles Center) at California State University, Fresno owns the exclusive rights to Kids Invent curricula, a set of learning activities designed to engage students in hands-on applications of science and math through innovative and creative activities." The extent of overlap between the activities of the corporation and the Center related to the Kids Invent program is clearly problematic when even the director gives conflicting information about who owns the rights to the curricula. Even if the director's corporation owns the intellectual property rights over the materials as he claims, it becomes evident that a conflict of interest occurred because Center resources were used in developing the materials.

Further, it was sometimes difficult to determine whether the director was marketing the Kids Invent program on behalf of the Center or on behalf of the corporation. According to the director, his corporation is only marketing the Kids Invent program to entities outside the nine-county central valley region of California; any entities within that region would be the domain of the Center. There is no written agreement that formalizes this distinction. At the time we met with the director, he was getting ready to attend a science teachers' conference where he would have a Kids Invent booth in the exhibit hall with other vendors. We asked him if he was attending as a representative of the corporation or as the director of the Center, and he said that it would depend on whom he was talking to. Specifically, if the potential customer was from the central valley region, he would be representing the Center, and otherwise, he would be representing the corporation. His corporation paid for the exhibit booth and display materials, and another one of his partners in the corporation was expected to attend, as well.

The director had a conflict of interest because he made decisions in his role as director of the Center to make improvements to a product that benefits his personal financial interest in the corporation and he used Center resources to benefit his private business interests.

Unclear Whether the Director Represented the Center or his Corporation

Master Partners of the Corporation

By way of background, the corporation uses "master partners" to promote its Kids Invent curricula. Specifically, the corporation sells licensing rights to the master partners to sell the Kids Invent program. The fees vary but can run from $1,000 to $10,000 per year.[2] When a person or entity becomes a master partner, the corporation provides them with the curricula. According to the director, they are currently providing the curricula that was developed by the corporation/consultant B, not the curricula modified by the Center. The director told us the master partners do not receive the project materials and do not get much support. The Center was listed as a master partner of the corporation, but the director said that the corporation did not charge the Center for that status.

[2] Another email we reviewed indicated that a group in Singapore was paying the corporation $150,000 over three years just to have the rights to the logo and curriculum.

The corporation also has master partners in Canada, Egypt, Hawaii, India, Jordan, Myanmar, Nigeria, Singapore, and Turkey.

Lyles India

The Center's website indicated there was a support staff person with "Lyles India." When we asked the director about this, he said that "Lyles India was created to recruit students to Lyles Center programs. Initially, I2V and Project 9 (P9) [two other Center programs we will discuss later] but P9 never gained any traction. Lyles India is not a formal entity, but rather a marketing effort to tie the recruitment to the Center. Since there was no formal agreement I did not seek campus approval."

As with other scenarios described in this report, it was unclear whether the work being done by Lyles India was for the benefit of the Center, the director's corporation, or both. For example, the staff person was employed by an institute in India but represented herself as an International Program Representative and Lyles India Country Head for the Center. In one email we found, the Lyles India Country Head was promoting I2V, and material attached to the email indicated that the program offered "College Admissions for students in California State University," a claim neither she nor the director had the authority to make. To further confuse matters, the institute the staff person worked for was part of a larger organization that was a master partner of the corporation and also worked in association with the American Institute of Innovation and Entrepreneurship (AIIE).[3]

Materials we saw from the larger organization indicated that Kids Invent was a brand of the Center and said that the larger organization "offers a contemporary program on 21st Century Skills developed at California State University, USA for commercialization in Asian countries including India." This indicates that the larger organization believed the Kids Invent program was affiliated with the Center and the campus. However, in November 2014, the staff person in India emailed the director about a new booklet, saying "We have combined both I2V and Kids Invent programs in one as they will be sent across schools." Again, it was unclear who or what is really being represented. The director told us I2V was a Center program, but he also told us that Kids Invent programs outside the central valley of California were the domain of the corporation. In addition, the larger organization was one of the corporation's master partners. In this scenario, the I2V and Kids Invent programs were combined in the same booklet, but it was not clear on whose behalf they were being marketed.

Further, in an April 2015 email to the Lyles India staff person, the director stated: "We can discuss how schools can become affiliates of the Lyles Center. Part of our network and as such would gain certain privileges." He does not explain what being an affiliate would mean or what the possible privileges might be. Nevertheless, the director does not have clear authority to make such offers or commitments using the name of the campus or a campus center.

More Confusion about Whom the Director Represented

The director not only represented the Center, he also had a role in the corporation as one of its co-founders and owners. In addition to the overlap between the Center's Kids Invent program and the director's role in the corporation, there was at least the appearance of overlap in other programs, as well,

[3] AIIE was another organization co-founded by the director and is discussed later in the report.

and it was frequently unclear in which capacity the director was acting, as demonstrated by the following examples.

On June 9, 2015, the director sent an email to a potential client in Malaysia, but it was unclear whether he was promoting the Center, the corporation, or both. The email recipient had recently visited Fresno to learn about the Center and its programs and was part of a company that worked with a master partner of the corporation. Because the potential client was located outside the central valley, according to the director's interpretation, this would be the business domain of the corporation; however, the director was discussing programs, including Kids Invent, operated by the Center.

In another instance, on September 15, 2015, the director responded to an inquiry made via the corporation's website from someone in St. Louis. Because this potential client was outside the central valley area that the director considered to be the domain of the Center, by his definition this would have been potential business for the corporation. However, the director responded from his campus email account, which contains information about his role at the Center, and talked about how "*we* [emphasis added] have been retooling our materials that are now offered in the school districts." He also offered to sell the materials to the potential client at the price on the website and identified himself as president of Kids Invent. The work on retooling the materials offered to the school districts was clearly a reference to the work done, at least in part, by the Center staff.

The director also made a video for a group in China where he identified himself as the director of the Center and co-founder of the corporation. He invited students to come stay at the campus and attend a summer camp with his corporation co-founder, consultant B. Although the video showed the Center website address at one point, it predominantly showed the corporation's website address. So again, it raised the question of which entity the director was representing.

At other times, the director did attempt to make a distinction between the Center and the corporation. For example, the director hired one of the Center employees to work on the corporation's website in his off hours from the Center. In an August 2015 email to the employee, the director said that the phrase "Fueled by the Lyles Center" needed to be removed from content for the corporation's website. However, that statement also implies that the content for the corporation's website was based on content from the Center's website or materials.

Given the scenarios described above, the director's personal financial interests have become so intertwined with the Center's activities that it is difficult to determine where one interest ends and another begins. This clearly creates a conflict for the director. Laws prohibiting conflict of interest are grounded in the belief that government officials owe paramount loyalty to the public interest. The objective of these laws is to limit the possibility of any personal financial influence that might sway an official's decision.

<u>The Director's Use of Center Resources</u>

The director utilized Center staff, materials, and an online portal, as well as the Center's and campus's names and reputation to benefit his corporation.

As noted above, Center staff further developed the Kids Invent curricula given to the Center by the director. At least five Center employees spent a significant amount of time on the Kids Invent program working on curriculum, graphics, logistics, training, and outreach. We were told that everyone at the Center worked on the Kids Invent program at some point. The work performed by the staff has enabled the Center to contract with various entities, including the district, to provide the program. In turn, this has created marketing opportunities for the corporation.

Presentation Binder

The director instructed Center staff to help prepare a presentation binder. The binder was designed to be used to market Kids Invent programs, and the director had the Center staff prepare two versions – one that was branded for use by the Center and a non-branded version for use by the corporation. The director said he asked one Center employee to provide some bullet points on customer service to use in the binder. In addition, the director said another Center employee who worked on the binder should have done so during his off hours from the Center, but that was not the case. Specifically, the director hired the employee to work on the corporation's website during his off hours from the Center, and though the director told us the employee's work on the presentation binder should also have been conducted during his off hours, he did not really talk to the employee about when to do that work. Moreover, three additional Center employees were asked to work on content for the binder. Consultant A was also very involved in the preparation of the binder and directed Center staff in their efforts, even though she no longer worked for the Center. Center staff also solicited input from a contact at the Fresno County Office of Education. Although the end product would be something that could be used by the Center, there was clearly a personal benefit to the director and his corporation, and the director planned to use the binder at the science education fair mentioned earlier, where he would be representing both the Center and the corporation, depending on where the person he was speaking to was from.

Other Use of Center Staff for the Director's Personal Financial Benefit

As discussed, the corporation licensed master partners to promote the Kids Invent curricula. In an email to his corporation partners in June 2014, the director discussed concerns raised by master partners in Turkey about the curricula and provided a solution to the problem that included using resources developed by the Center. Specifically, the director wrote: "If we are selling for $1000 not a big deal. But we are selling for $10,000 a year for 5 years. I was able to tap into curricula developed at the Lyles center which adds another 30+ pieces. And find a document that categorizes each cla [creative learning activities] by grade level which is specifically what they asked for."

We also found instances where the director asked Center staff to perform services that were actually for the benefit of the corporation's master partners, and therefore, indirectly, a personal benefit to the director. Specifically, in a June 2014 email, the director asked two Center employees to locate Kids Invent curricula that was to be provided to a master partner. One of those employees later responded to the master partner in regard to their inquiry.

The director also asked the Center's logistics manager to research and order some custom subscription boxes (the corporation was looking into providing Kids Invent projects on a subscription basis) and had him charge the cost to a corporation credit card. The logistics manager said that the director asked him to do this in his off hours, but only some of the emails discussing the boxes were sent during off hours. On

at least a couple of occasions, the director also asked the logistics manager to send Kids Invent sample kits out of state. The director told us this was related to the Center and was not something he asked the logistics manager to do in his off hours. However, the logistics manager said he was also asked to ship materials to consultant A in Southern California during his off hours. Based on the director's geographic boundary explanation, because the recipients were outside the central valley, they were potential clients for the corporation. The director not only used a Center employee, but also Center resources in the form of the sample kits to market on behalf of his corporation. In addition, the director asked the logistics manager to determine a rough average of the supplies cost per activity, information the director then provided to one of his corporation business partners.

Portal

One of the components of the Kids Invent program that was developed by the Center with a local technology company is a web portal. The portal was designed to be an easy access point for those using the Kids Invent curricula. It includes various program documents, videos featuring consultant B, and a discussion board. According to the Center employee in charge of the portal, it is a member site and is currently only related to the fifth-grade curriculum. The director told us that the portal was only for teachers from the schools/districts with whom the Center has contracts; no clients of the corporation have access to the portal.

We later asked the director specifically whether the corporation had its own portal or whether customers of the corporation used the portal set up by the Center. The director told us that the corporation does not have a portal or use the one set up through the district; the corporation does not have the capacity to offer the program in the format the Center uses. However, we found instances where the director marketed the portal to prospective clients and master partners, said they would be selling access to the portal, and asked the Center employee who maintains the portal to grant access to one of the corporation's business partners and others. In addition, the director told the corporation's master partner in Singapore that "We have built a portal for teachers to use to support in class activities." He went on to suggest that they schedule a meeting to discuss the changes the master partner made and "the portal we have created." Further, consultant A told the corporation's master partners in Turkey that she had created an account for them on the Kids Invent portal and gave them the website address for the Center's portal.

Contrary to the director's statement that the portal was only for teachers from the schools/districts with whom the Center has contracts, he has been using the promise of access to the portal as a marketing tool for the corporation and used his position at the Center to have a Center employee grant portal access to one of his corporation business partners.

Capitalizing on the Center's Success

Similar to its promotion of the portal to its master partners, the corporation took advantage of the Center's success with the program to market it for the corporation. For example, the director and consultant B have both noted the success achieved via the Center's implementation of the program with local school districts. Testimonials were to be included in the presentation binder being developed by Center staff, which would also be used in a non-Center branded version for the corporation.

The director also told one of the corporation's master partners that the Kids Invent program had been certified by the Fresno County Office of Education. When he gave that information to a Malaysian business contact, the contact responded, "It would be great if you could share with us the endorsement certificate from Fresno County Office of Education as well." That response indicated that the business contact may have wanted to use the endorsement for marketing purposes – something that could benefit the director's corporation.

California Government Code, Section 8314, prohibits state officers and employees from using state resources such as state-compensated time for personal enjoyment, private gain or advantage, or for an outside endeavor not related to state business. Although most of the Center staff are employed by the Foundation, they are still resources of the Center and as such should not be used for the private gain or advantage of the director.

Improper Use of Center/Campus Name and Improper Agreements

Although the director told us that the interim vice president for administrative services is the person who signs agreements on behalf of the Center, the director signed agreements granting use of the Center name and logo, which includes the name of the campus.

Specifically, the director signed a master partner license agreement with Kids Invent Malaysia on behalf of the Center. The agreement had the Center's logo with the campus name above the heading "Master Partner License" and included the Center's campus address. The agreement specifically referred to "Lyles Center for Innovation and Entrepreneurship, a California USA corporation." The Center is a recognized part of the campus; it is not a corporation, nor does the California Secretary of State's website indicate that such a corporation exists. Because the director did not have the authority to enter into agreements on behalf of the Center and the entity as identified did not exist, this was not a valid agreement of the Center. Moreover, the document was a "Master Partner License," implying that it was actually related to the corporation and therefore never should have included the name of either the Center or the campus. The agreement stipulated that compensation paid to the Center be paid to the Asian Institute of Entrepreneurship (Institute). The Institute said it was licensed to appoint and work with master partners to facilitate and develop the Kids Invent program around the world. A representative of the Institute also co-managed an account with the director that collected membership fees for the AIIE. [4] The agreement also said the Center shall receive $100 for each certificate of completion of the programs. The Foundation handles the Center's accounting and should have been the entity to receive revenues on behalf of the Center. The director entered into a similar agreement with the corporation's master partner in Singapore, which again was invalid as a Center agreement and was an inappropriate use of the Center's and campus's names.

In an email from one of the corporation's master partners, the master partner noted that "…moving forward the branding in Malaysia is Lyles Center and AIIE…" Clearly, the master partner believed it had the right to use the Center's name, a right the director did not have the authority to grant. In another example of a master partner believing it had the authority to use the Center's name, in a March 2015 email, the master partner asked the director that he refer people directly to her "in relation to any matter that concerns Kids Invent and Lyles Center."

[4] AIIE, the American Institute for Innovation and Entrepreneurship, is discussed further later in the report.

A representative of one master partner emailed the director to say he had re-drafted a memorandum of understanding (MOU) to be signed by the master partner entity, the Center, and AIIE, and he had positioned the Center and AIIE as a collaborative partner of the master partner entity. He went on to say that the MOU would help pave the way for the Center and master partner entity collaborative partnership. The entity planned to pay $2,400, plus $120 per year for licensing. The director instructed them to send the funds to his corporation's bank account.

In April 2015, the Kids Invent franchise rights in Malaysia were in the process of being transferred to a new master partner. The email referred to their "exclusive master franchise rights of Kids Invent and Lyles Center in Malaysia" and referred to the transfer of all the programs of Kids Invent and the Center through December 2022. Again, it is clear that the master partner thought it had the rights to Center programs, which the director did not have the authority to grant.

The State Leadership Accountability Act contained in the California Government Code, beginning with Section 13400, requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls. Internal controls are necessary to ensure that state resources are adequately safeguarded, monitored, and administered.

<u>In Addition to Confusion Regarding Kids Invent, It Was Unclear Whether Two Other Programs Belong to the Center or to the Director's Corporation</u>

Although the director told us that he based his determination of whether he was marketing Kids Invent for the Center or the corporation on the geographic location of the potential client, we found an email he wrote that gave a different perspective. Specifically, in October 2014, the director wrote to consultant B, who had asked for talking points to use with faculty in Turkey who were interested in working with Kids Invent and the Center. The director said: "The Lyles Center offers multiple programs such as KI, I2V[5], P9[6] and customized programs in innovation and entrepreneurship. The way I work it, if the audience is academic, I emphasize the Lyles Center as the provider of the programs. If that is not critical, then Kids Invent." He also noted, "We do offer affiliations with the Lyles Center if that is of interest." As we discussed previously, the director did not have the authority to make decisions to authorize the use of the Center name.

In May 2014, an individual who had met consultant B emailed him to find out more about Kids Invent; consultant B replied, explaining that he and the director were the co-founders of Kids Invent, and together they develop curriculum and train teachers. He noted that sales of curriculum and kits online had been abysmal, but that the corporation had found traction in licensing partners to run their programs and in running a new program called I2V. He went on to say that the director had arranged for about 30 kids from India to travel to Fresno over the summer for two weeks. As in many other instances, there was overlap and confusion over who actually ran these programs. In this instance, consultant B clearly started

[5] I2V or Idea2Venture is a 10-day hands-on program designed to turn ideas into business ventures. Students work with leaders in creativity, product commercialization, entrepreneurship coaching, and business model development.

[6] According to the director, P9 was supposed to be a 10-day entrepreneurial training program to help entrepreneurs develop business plans. They conducted only one introductory class, in Singapore.

off talking about the corporation and at no time mentioned the Center's role, in spite of the fact that the director told us that he considered I2V to be a Center program.

In December 2014, the director corresponded with one of the corporation's master partners in Malaysia about the possibility of bringing I2V to Malaysia, and he outlined some of the costs. The master partner asked for additional information about the "costs/royalties/sharing of fees for Kids Invent and P9 programs…" The master partner was interested in sending Malaysians to Fresno to be trained so they could eventually teach both I2V and P9 in Malaysia. The subject line of one of the emails was "Master Licences [sic]." To add to the confusion, the director told us that entities outside the central valley were the domain of the corporation when it came to marketing Kids Invent. This master partner would then appear to be an example of the corporation taking advantage of a business opportunity outside the central valley; but because the director also discussed I2V and P9 with the same master partner, it was again unclear whether the director was promoting these programs for the Center or for the corporation. Moreover, the I2V registration form contained the Center's logo but instructed registrants to send payments to a company the director identified as an authorized and accredited partner of both the Center and his corporation. The registration form also had the AIIE logo, another entity in which the director was involved.

The director tried to start the I2V program in 2013. On December 17, 2012, he emailed the consulting firm that maintained the corporation's website and said he wanted them to create an I2V program payment link on the corporation's website so that students could pay via PayPal. Later that same day, his former associate director informed him that PayPal would take a fee. The director replied: "The fee is not a problem. More worried about whether it goes into Foundation or not." The Foundation handles accounting for the Center, and as such, revenues for Center programs should be collected by the Foundation. It is unclear from that email where/how the director planned to receive the payments, but in January 2013, the director provided his corporation's bank account information so that a student's parents could wire his registration fee.

Moreover, the director's statement that he considered I2V to be a Center program notwithstanding, the Lyles India staff member emailed the director in February 2014 about money that an I2V student wired to the corporation account. If the staff person was working on behalf of the Center and I2V was a Center program, we fail to see a logical explanation as to why the student would have been given the corporation's bank account information, let alone directed to transfer funds there. Revenues for Center programs should have been collected by the Foundation.

More recently, in April 2015, consultant B, when corresponding with the corporation's master partner in Myanmar, said, "The biggest news for Kids Invent is that we are now providing classes for one of California's largest school districts…We also have been offering I2V." The implication was that the corporation was providing the Kids Invent program to the school district, when it was actually provided through the Center. Once again, it was unclear as to who was actually offering I2V, the corporation or the Center.

The director told us that he and consultant A conducted an introductory P9 training class in Singapore as private consultants. The certificates provided to participants were from the Center. At a minimum, this action once again blurred the lines between the director's personal financial interests and the interests of the Center and created at least the appearance of a conflict of interest.

Interconnectedness of Various Entities in Which the Director is Involved

In addition to the issues noted above, we found other instances where the director used the name of the Center and the campus in ways that could benefit him personally.

American Institute of Innovation and Entrepreneurship

The director was also the co-founder, along with consultant B and partners in Singapore, of the AIIE. According to the website, AIIE was committed to helping schools, individuals, and companies succeed in the global competitive marketplace through a variety of programs and services that deliver applied learning, professional consulting, and managed problem solving. The website included the logo for the Center, which contained the campus name, as well as the logo for the corporation; both of which were listed as strategic partners of the AIIE. The director said this was done as a means of cross-promotion but acknowledged that there could be concerns regarding separation. We asked the director whether he obtained permission from the campus to use the Center's (and by extension, the campus') name, and he said no, but that in hindsight there should have been some methodology for this. He further said that there was a written agreement between the Singapore representatives and the corporation, but there was no written agreement with the Center.

The website also indicated that the AIIE were "proud sponsors of Kids Invent." We asked the director whether that statement referred to the corporation or the Center program, and he said it referred to the corporation.

Moreover, the AIIE's website noted in several places that "Graduates [of the AIIE's programs] automatically qualify for a certificate awarded by [the] Lyles Center for Innovation and Entrepreneurship, California State University, Fresno. Certification fee applies." According to the director, he had previously obtained approval from the campus president to issue certificates as long as they did not indicate that the recipients were in any way receiving course credit. The director also told us that no such certificates were issued under this program and no related fees were collected. Nevertheless, again, the name of the Center and the campus were being used for an endeavor that could personally benefit the director. The director said that the AIIE is now defunct, and the California Secretary of State website indicated that the entity was canceled; however, the website was still operational when we checked in December 2015.

Idea2Venture

I2V is a program designed to help students turn ideas into business ventures. According to the director, this is a Center program. However, the director purchased the trademark for the Idea2Venture and I2V names through the corporation, so the corporation owns the rights to the names. To further complicate matters, the AIIE's website had a link to a registration form for I2V that contained Center logos and asked participants to pay an organization in Singapore that says it is an accredited partner of both the Center and the corporation.

According to the director, the program was first held in 2014 when 21 students came to the campus from India. The money was collected by the organizers in India, and then paid to the director in cash when the students arrived. According to the director, the $18,900 payment (21 students at $900 each) was made in

two installments. The first payment was $9,400, and the Center retained $400 to cover expenses for day trips with the students; we verified that $9,000 was deposited with the Foundation on August 7, 2014. Approximately three weeks later, the second installment of $9,500 was received in the form of a cashier's check (the finance manager told the director they should not accept cash, so the director took the organizer to obtain a cashier's check) and subsequently deposited with the Foundation on August 28, 2014.

As noted above, we found several instances where it was unclear whether the program was being marketed on behalf of the Center or on behalf of the corporation. Although the director may have been attempting to employ cross-promotion synergies, because he is involved in so many different entities and activities, it was unclear where his loyalties lay and therefore whether he was making decisions that were in the best interest of the Center and the campus. As discussed previously, laws prohibiting conflict of interest are grounded in the belief that government officials owe paramount loyalty to the public interest. The interconnectedness between the entities created not only an appearance of a conflict, but also further demonstrated that the director was using the campus name and resources for personal gain.

The Director Had a Conflict of Interest When He Hired Consultant B

The director had a conflict of interest when he hired consultant B, who was also his business partner in the corporation, to perform work that benefited their corporation.

The director hired consultant B to perform work for the Center related to the Kids Invent program, including consulting, training, and preparation of training materials. Specifically, consultant B developed additional information to include in the materials provided to the district, conducted workshops for the district teachers, and worked on the creation of new activities to include in the sixth grade curricula that had been requested subsequently by the district. Between September 2014 and July 2015, the Center paid consultant B $20,728. The Independent Contractor Approval Form did not contain information about how much consultant B would be paid, only that he would be paid by the task.

Because consultant B was one of the director's business partners in the corporation, the Center paid him to do work that benefited his and the director's financial interests in the corporation. Specifically, he was not only paid to help raise the profile of the Kids Invent product by conducting trainings, he was also paid to develop curricula that the corporation plans to market for its own profit.

In addition, consultant B was one of the instructors for the I2V program. We found no payments from the Center to consultant B for this work. The director and finance manager were unsure as to how consultant B was paid or whether he neglected to submit an invoice. If he was paid by the entity that coordinated the students from India who attended the program rather than by the Center, it could further confuse the issue of whose program I2V is.

Similar to the director, consultant B appears to view the Center and corporation as one entity. Specifically, in a December 2014 email, he said, "our big news is we are running programs in Fresno Unified School District for 5th grade students and that we have a new partner in Turkey, so are expanding there." The Center was the one running programs for the district and the corporation had the master partner in Turkey, but consultant B referred to them as if they were the same entity.

The Political Reform Act of 1974 states that no public employee shall make, participate in making, or in any way attempt to use an official position to influence a government decision in which the public employee knows or has reason to know he or she has a financial interest. Section 1090 of the Government Code also prohibits any California State University (CSU) employee from having a personal financial interest in a CSU contract. The director violated both of these provisions in connection with his payments to consultant B.

Payments/Reimbursements[7] Made to the Director

In general, the payments made to the director appeared to be appropriate based on the source of funds used. However, we found a questionable $3,000 payment to the director. In addition, we noted that the Foundation made more than 700 payments totaling more than $150,000 between June 1, 2013, and June 30, 2015, and we questioned the reason and need for the volume of transactions.

We reviewed a listing of payments made to the director between June 1, 2013, and June 30, 2015, from both the Foundation and the campus. The campus made only 16 payments/reimbursements to the director during that time. We selected six of those items for further review and did not note any findings or exceptions.

The Foundation made more than 700 payments to the director during that time. Due to the volume of Foundation payments, we obtained a revised listing showing transactions over $400, which narrowed the list to 90 items. We examined a sample of 20 items from that list and reviewed the supporting documentation to determine whether the expenditures were appropriate based on the source of funds used and whether the expenditures were made following sound business practices.

We found one questionable payment and also questioned the reason and need for the large volume of transactions to reimburse the director.

Questionable Payment

One of the payments to the director was to reimburse him $3,000 for a payment made on his credit card to an organization called UP Global that runs "Startup Weekends." According to UP Global's website, Startup Weekends are weekend-long hands-on experiences where entrepreneurs and aspiring entrepreneurs can learn whether startup ideas are viable. The invoice from UP Global indicated "Fresno State Lyles Center supports four students" with a total amount of $3,000, which equates to $750 per student. The payment authorization prepared by the Center had the same notation and identified the four students. However, when we looked at the website for Startup Weekend, the cost of the weekends was radically different, with the highest rates being $99 per person and student rates in the $49-$75 range. We asked the finance manager whether he could explain the discrepancy, and he said when he called the number for UP Global to ask about the discrepancy, the people he spoke with did not know what he was talking about. We then asked the director about the scenario, and he said he was not involved with this. He believed it was organized by a student club with the help of the faculty advisor, who has since assumed a job elsewhere.

[7] We will use the term "payments" to include both payments and reimbursements, unless otherwise noted.

Although there was an invoice for this expenditure and the director's credit card statement also reflected the expenditure amount, we find this expenditure highly questionable based on the large discrepancy between the cost that was paid and the costs reflected on the entity's website.

Purchasing Methods

We learned that the Foundation made such a large volume of reimbursements to the director because he provided credit cards tied to his personal account to several Center employees so that they could make purchases for the Center.

In order to conduct its daily operations and run its various programs, the Center made purchases from many different suppliers. For example, the Kids Invent program required numerous purchases of items needed to assemble the materials used in the learning activities that were provided to the entities that contracted with the Center.

We asked the finance manager why things were handled using the director's credit cards instead of purchase orders or a corporate credit card. The finance manager said that many vendors do not accept purchase orders and he had been told that the Center probably could not get a corporate credit card because they are provided to only a few high-ranking people. However, he added that an employee at the Foundation was working with them to set up more purchase orders, and the logistics manager told us he typically used purchase orders for supplies.

We do not believe that using the director's credit cards for such a large number of purchases is a sound business practice. The situation with the questionable reimbursement is an example of why this type of practice can be problematic; the person being reimbursed had not made the actual purchase and could not explain what happened or why there was such a large discrepancy in program costs. Also, as noted in the Foundation's *Procurement Policy No. 2001*, purchase orders are optional, but strongly encouraged.

The State Leadership Accountability Act requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls.

Center Revenues and Cash-Handling Procedures

The main source of Center revenues was contracts and grants, such as the contract with the Fresno Unified School District (district) to provide Kids Invent programs. In general, revenues were appropriately received and accounted for by the Foundation; however, we learned that the Center had improperly established an off-campus bank account with PayPal to receive revenues for Kids Invent summer camps and other activities.

We met with the Center's finance manager, who informed us that revenues from the summer camps and some other Center programs were collected via an off-campus PayPal account, which was established prior to the finance manager's arrival. We found that there was a lack of segregation of duties related to the account. According to the PayPal records, both the director and the finance manager had access to the account, but they both told us that only the finance manager accessed the account. No account reconciliations were performed, and no one else reviewed the account records. Periodically, the finance

manager requested a withdrawal check from PayPal, and then deposited that check into Center accounts at the Foundation.

In addition to the withdrawal checks, there were other payments made from the PayPal account, including payments to the director. Between October 2013 and July 2015, the director received payments from the account totaling $6,377. According to the finance manager, the payments to the director were usually for instances when the director said he had made a purchase for the Center but did not have a receipt. In those instances, the finance manager said he saw the director's credit card bills, which showed the total amount of the purchase but did not have the detail a receipt would have had. Further, such payments to the director were normally triggered by a verbal or email request from the director; they did not have much actual documentation. The finance manager said that he entered notes into PayPal for those transactions to indicate their purpose; however, those notes did not appear when the account information is printed. As a result, we do not know what the director purchased or how it related to the Center.

The PayPal account was also used to provide advances to a Center employee who needed to make a large number of purchases for another Center program. The total of the advances was $7,600, and the employee subsequently submitted receipts totaling $7,394; the difference of $206 was unaccounted for and likely should have been returned by the employee.

Finally, there were other expenditures from the PayPal account totaling $8,685. The expenditures were made to a variety of individuals and entities, and the Center was unable to provide supporting documentation explaining what they were for.

During the course of our investigation, the campus informed us that it was closing the PayPal account.

The use of off-campus bank accounts for campus activities and programs increases the risk of loss from inappropriate acts, limits the campus's ability to detect errors and irregularities, and compromises accountability.

California Government Code Section 13400 states that fraud and errors in state programs are more likely to occur from a lack of effective systems of internal control in state agencies. Such effective control systems are necessary to ensure that state resources are adequately safeguarded. Elements of a satisfactory system of control shall include a plan of organization that provides segregation of duties and limits access to state agency assets, as well as a system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.

Integrated California State University Administrative Manual Section 3101.01, *Centralized Management of Cash and Investments*, states that it is the policy of the CSU that all money in the possession of, or controlled by, the CSU shall be deposited in the centralized bank(s) designated by the executive vice chancellor/chief financial officer of the CSU. Campus chief financial officers must ensure that cash is deposited in and disbursed from the CSU's approved centralized banks.

CSU Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*, states that the campus president is delegated authority and responsibility for effective oversight of all state funds held by the campus and all funds held in a fiduciary capacity. The campus chief financial officer shall be the primary campus financial officer in respect to administration of these delegations of authority and responsibility.

ANCILLARY FINDINGS

Failure to Obtain Approval for Websites

The Center improperly established websites that were not approved by the campus.

During our investigation, we found that the Center had established at least five websites that it used for its different programs. None of these websites had been approved by the campus, as required by campus policy. Specifically, campus policy requires that official university websites be hosted on university web servers, managed by the campus under the www.fresnostate.edu domain, unless there is prior written approval from campus Web Communications. Campus departments and programs, including the Center, are not permitted to acquire domains outside the www.fresnostate.edu domain without prior written approval. When we asked the director about this, he told us that he assumed approval was granted for the websites; however, we confirmed with Web Communications that it did not receive any requests for exemptions for those sites.

Lack of Segregation of Duties

The Center lacked segregation of duties in its warehouse operations.

The logistics manager handled both purchasing and receiving of the supplies. The basic idea underlying segregation of duties is that no employee or group should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. The purchasing and receiving functions need to be appropriately segregated if all control objectives are to be met.

The State Leadership Accountability Act requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls.

RECOMMENDATIONS

Our investigation was administrative in nature. The conclusions we drew were made within that context. Recommendations that would mitigate the recurrence of similar findings are presented below.

1. Conflicts of Interest Related to Center Business Activities and Other Conflicts

We recommend that the campus:

a. Consult with legal counsel to determine the best way to eliminate the director's conflicts of interest and begin implementing the solution.

b. Work with the director to identify and gather any unauthorized agreements. Notify the parties to the agreements that the agreements are invalid.

c. Remind the director that he has no authority to enter into agreements on behalf of the Center and that he must follow laws and policies regarding the use of campus and Center resources, including Center staff and the campus name.

Campus Response

a. We concur. We will work with campus counsel to begin implementing the solution by April 15, 2016.

b. We concur. The Office of the Vice President for Administration and the Provost and Vice President for Academic Affairs will work with the Center's director to obtain copies of all agreements executed in the name of the University and/or Lyles Center and will notify applicable parties that these agreements are invalid if they have not been signed/executed by authorized campus personnel. The review of these agreements and all notifications to any third parties will occur by April 15, 2016.

c. We concur. The Provost and Vice President for Academic Affairs and the Vice President for Administration will send a written reminder to the Center's director about compliance with CSU and campus policies pertaining to the use of the campus name and Center resources. This communication will also state that usage of such resources must be exclusively used for approved Center programs and events only. The director has been reminded that he does not have authority to execute agreements, MOU's, etc., on behalf of the University, the Center, or the Fresno State Foundation.

2. Payments Made to the Director

We recommend that the Foundation work with the Center to develop other payment methods, such as the use of purchase orders or procurement cards, for the Center's use, and instruct the director to discontinue the practice of providing Center staff with credit cards tied to his personal account.

Campus Response

We concur. The Foundation has been working with the Center staff to develop other payment methods as recommended. The director has received communication from the Foundation's executive director to immediately discontinue the practice of providing Center staff with credit cards tied to his personal account.

3. Center Revenues and Cash-Handling Procedures

We recommend that the campus and Foundation ensure that the PayPal account used by the Center has been closed and that all remaining funds have been transferred to appropriate Foundation accounts.

Campus Response

We concur. The PayPal account used by the Center has been closed and all remaining funds have been transferred to appropriate Foundation accounts.

4. Failure to Obtain Approvals for Websites

We recommend that the campus:

a. Review the unauthorized sites and determine whether they should be closed or moved to a campus domain.

b. Remind the Center director of the policy requirement to obtain approval for any domains outside the www.fresnostate.edu domain.

Campus Response

a. We concur. A review of all Center websites will be completed by April 15, 2016, and they will either be closed or moved to a campus domain.

b. We concur. The Center's director will be provided with a copy of the University's policy and the procedure for obtaining approval for any domains outside the www.fresnostate.edu domain.

5. Lack of Segregation of Duties

We recommend that the campus review the warehouse operations and establish appropriate segregation of duties over purchasing and receiving of supplies.

Campus Response

We concur. The Foundation will work with Center staff and the Foundation's external CPA firm to review the warehouse operations and establish appropriate segregation of duties over purchasing and receiving of supplies by April 1, 2016.

CALIFORNIA
STATE
UNIVERSITY,
FRESNO

January 28, 2016

Memorandum

To: Larry Mandel
Vice Chancellor and Chief Audit Officer

From: Joseph I. Castro, Ph.D., M.P.P.
President

Subject: Response to the Incomplete Draft Investigative Report 15-92 – Lyles Center for Innovation and Entrepreneurship

California State University, Fresno has reviewed the incomplete draft investigative report for the Lyles Center for Innovation and Entrepreneurship. Attached is the University's response to the recommendations. Please let me know if you have any questions. Thank you.

Attachment

c: Deborah Adishian-Astone, Interim Vice President for Administration
Lynnette Zelezny, Provost and Vice President for Academic Affairs
Darryl Hamm, University Counsel, Office of General Counsel
Cindy Sanford, CPA, Office of Audit and Advisory Services

Office of the President

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SPECIAL INVESTIGATION

LYLES CENTER FOR INNOVATION AND ENTREPRENEURSHIP

CALIFORNIA STATE UNIVERSITY, FRESNO

Investigative Report 15-92

1. Conflicts of Interest Related to Center Business Activities and Other Conflicts

We recommend that the campus:

a. Consult with legal counsel to determine the best way to eliminate the director's conflicts of interest and begin implementing the solution.

b. Work with the director to identify and gather any unauthorized agreements. Notify the parties to the agreements that the agreements are invalid.

c. Remind the director that he has no authority to enter into agreements on behalf of the Center and that he must follow laws and policies regarding the use of campus and Center resources, including Center staff and the campus name.

Campus Response

a. We concur. We will work with campus counsel to begin implementing the solution by April 15, 2016.

b. We concur. The Office of the Vice President for Administration and the Provost and Vice President for Academic Affairs will work with the Center's director to obtain copies of all agreements executed in the name of the University and/or Lyles Center and will notify applicable parties that these agreements are invalid if they have not been signed/executed by authorized campus personnel. The review of these agreements and all notifications to any third parties will occur by April 15, 2016.

c. We concur. The Provost and Vice President for Academic Affairs and the Vice President for Administration will send a written reminder to the Center's director about compliance with CSU and campus policies pertaining to the use of the campus name and Center resources. This communication will also state that usage of such resources must be exclusively used for approved Center programs and events only. The director has been reminded that he does not have authority to execute agreements, MOU's, etc. on behalf of the University, the Center or the Fresno State Foundation.

2. Payments Made to the Director

We recommend that the Foundation work with the Center to develop other payment methods, such as the use of purchase orders or procurement cards, for the Center's use, and instruct the director to discontinue the practice of providing Center staff with credit cards tied to his personal account.

Campus Response

We concur. The Foundation has been working with the Center staff to develop other payment methods as recommended. The director has received communication from the Foundation's executive director to immediately discontinue the practice of providing Center staff with credit cards tied to his personal account.

3. Center Revenues and Cash-Handling Procedures

We recommend that the campus and Foundation ensure that the PayPal account used by the Center has been closed and that all remaining funds have been transferred to appropriate Foundation accounts.

Campus Response

We concur. The PayPal account used by the Center has been closed and all remaining funds have been transferred to appropriate Foundation accounts.

4. Failure to Obtain Approvals for Websites

We recommend that the campus:

a. Review the unauthorized sites and determine whether they should be closed or moved to a campus domain.

b. Remind the Center director of the policy requirement to obtain approval for any domains outside the www.fresnostate.edu domain.

Campus Response

a. We concur. A review of all Center websites will be completed by April 15, 2016 and they will either be closed or moved to a campus domain.

b. We concur. The Center's director will be provided with a copy of the University's policy and the procedure for obtaining approval for any domains outside the www.fresnostate.edu domain.

5. Lack of Segregation of Duties

We recommend that the campus review the warehouse operations and establish appropriate segregation of duties over purchasing and receiving of supplies.

Campus Response

We concur. The Foundation will work with Center staff and the Foundation's external CPA firm to review the warehouse operations and establish appropriate segregation of duties over purchasing and receiving of supplies by April 1, 2016.