CENTERS AND INSTITUTES
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
Audit Report 13-42
October 11, 2013

Members, Committee on Audit
Lupe C. Garcia, Chair
Steven M. Glazer, Vice Chair
Rebecca D. Eisen  William Hauck
Hugo Morales

Staff
University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Wendee Shinsato
Senior Auditor: Linda Rathfelder

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
## CONTENTS

Executive Summary ......................................................................................................................... 1

Introduction ........................................................................................................................................ 2
  Background ..................................................................................................................................... 2
  Purpose .......................................................................................................................................... 3
  Scope and Methodology .................................................................................................................. 4

### OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Campus Administration ..................................................................................................................... 5
  Governance ..................................................................................................................................... 5
  Policies and Procedures .................................................................................................................. 6

Center Administrative Controls .......................................................................................................... 7
  Center Establishment ....................................................................................................................... 7
  Center Review ................................................................................................................................ 8

Center Fiscal Controls ....................................................................................................................... 9
CONTENTS

APPENDICES

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

ABBREVIATIONS

CAAPA  Center for Achievement through Adapted Physical Activity
CI     Centers and Institutes
CO     Office of the Chancellor
CSU    California State University
CSUN   California State University, Northridge
EO     Executive Order
ERC    Energy Resource Center
ICSUAM Integrated California State University Administrative Manual
OUA    Office of the University Auditor
MMC    Marilyn Magaram Center
EXECUTIVE SUMMARY

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

We visited the California State University, Northridge campus from July 8, 2013, through August 3, 2013, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for CI activities as of August 3, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include campus administration, center administrative controls, and center fiscal controls.

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

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

CAMPUS ADMINISTRATION [5]

Administration of campus centers and institutes did not always comply with campus and California State University requirements. For instance, initial and renewal charters for centers and institutes were not approved by the campus president. In addition, the campus policy on research misconduct had not been reviewed or revised since 1998.

CENTER ADMINISTRATIVE CONTROLS [7]

Establishment and renewal of centers and institutes did not always comply with campus policies. In addition, centers and institutes did not always comply with campus annual review requirements.

CENTER FISCAL CONTROLS [9]

Cash receipts and deposits needed improvement. For example, duties were not properly segregated at two centers, and one center’s cash handling policies were not consistent with current systemwide policies.
Centers, institutes, and similar organizations (CI) are entities that are affiliated with California State University (CSU) campuses and offer non-credit instruction, information, or other services beyond the campus community.

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

At the CSU, CI are governed at the campus level. Each campus makes its own policy decisions on how CI shall be approved, reviewed, monitored, and discontinued. At CSU Northridge, centers report programmatically to the center director, and center fiscal administration is performed by the manager of academic resources under the college dean. Each year, campuses provide the chancellor’s office with a list of approved CI, which is posted to the CSU website. As of March 1, 2013, there were 585 CI in the CSU system that had been reported.

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

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

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

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

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

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

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

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

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with Board of Trustee policies and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2010, through August 3, 2013.

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

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

GOVERNANCE

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

We found that:

- Initial and renewal charters for centers and institutes were not approved by the campus president.

- Four campus centers and institutes that met the definition for reportable centers and institutes under Executive Order (EO) 751 – the Center for Teaching and Learning, the Teaching Learning and Counseling Consortium, the Center on Disabilities, and the PEPNet Resource Center – were not reported to the chancellor’s office (CO) or recognized as presidentially chartered entities by the campus.

California State University, Northridge (CSUN) Policy 150-60, Organization and Administration of Centers, dated May 14, 2002, states that the president has final authority of approval for all centers.

Executive Order (EO) 751, Centers, Institutes, and Similar Organizations on Campuses of the California State University, dated July 5, 2000, states that centers, institutes, and similar organizations are entities affiliated with California State University campuses to offer non-credit instruction, information, or other services beyond the campus community, to public or private agencies or individuals. Campuses may create such entities to facilitate the conduct and dissemination of research, perform public service, or provide special training. The campus is also to make available to the Office of the Chancellor a list of all centers, institutes, and similar entities, including the name and purpose of each entity. This list is to be updated at least annually. The EO further states that the establishment and continuation of the entity is to be subject to the approval of the campus president, following appropriate faculty consultation in accordance with campus policy.

The vice provost stated that the centers and institutes were not approved by the president because the campus had delegated the approval process to the provost. She further stated that the campus did not consider the four centers to be reportable under the definition of EO 751.

Noncompliance with CSU requirements for the administration of centers and institutes increases the risk that campus objectives will not be met and centers will not be aligned with campus priorities, and increases the university’s legal exposure.

Recommendation 1

We recommend that the campus:

a. Obtain presidential approval for initial and renewal charters for centers and institutes.
b. Recognize and report to the CO each center or institute that meets the definition of a reportable center or institute under EO 751.

**Campus Response**

We concur.

a. The coversheets for initial and renewal charters for centers and institutes now include a line for the signature of the campus president.

b. The campus will recognize and report to the CO each center or institute that meets the definition of a reportable center or institute under EO 751.

Expected completion date: January 31, 2014.

**POLICIES AND PROCEDURES**

The campus policy on research misconduct, *Responding to Allegations of Scientific Misconduct*, had not been reviewed or revised since 1998.

State Administrative Manual §20050 states that symptoms of control deficiencies include policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

The vice provost stated that the need to update the policy had not been recognized.

Inconsistent or outdated campus policies increase the risk of misunderstandings and inconsistencies in allegations of misconduct.

**Recommendation 2**

We recommend that the campus review and update the campus policy on research misconduct, *Responding to Allegations of Scientific Misconduct*.

**Campus Response**

We concur. The policy on *Responding to Allegations of Scientific Misconduct* will be reviewed at a meeting of the provost’s council. A determination of the need to update the policy will be made at that time.

Expected completion date: April 30, 2014.
CENTER ADMINISTRATIVE CONTROLS

CENTER ESTABLISHMENT

Establishment and renewal of centers and institutes did not always comply with campus policies.

We reviewed ten centers and institutes and found that:

- One center did not have a charter.
- One center did not renew its charter within the appropriate time period.
- Three centers did not have advisory boards as required by campus policy.

CSUN Policy 150-60, *Organization and Administration of Centers*, dated May 14, 2002, states that charter or re-charter proposals will be submitted for review and approval to the appropriate committee, dean, provost’s council and president. Center charters cannot extend beyond June 30 of the fifth year following the center’s establishment, and centers seeking re-charter must submit a proposal prior to the charter termination date. In addition, a proposal to form a center should contain the proposed organizational structure of the center, including an appropriate advisory group, comprised mostly of faculty, which will advise the director.

CSUN *Centers and Institutes Operating Manual*, dated April 2013, requires all charters to follow the required format.

The vice provost stated that the campus could not find the charter for the center in question; however, it could demonstrate that the center was approved in 2009 by the provost council. She also stated that the untimely re-charter and lack of advisory boards were due to oversight.

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

**Recommendation 3**

We recommend that the campus comply with its policies regarding establishment and renewal of centers and institutes.

**Campus Response**

We concur. The campus will reiterate its policies regarding establishment and renewal of centers and institutes. In addition, the campus will revisit CSUN Policy 150-60 regarding the requirement of advisory boards for centers at a meeting of the provost’s council.

Expected completion date: November 30, 2013.
CENTER REVIEW

Centers and institutes did not always comply with campus annual review requirements.

We reviewed ten centers and institutes and found that:

- Five centers did not submit annual reports by the deadlines established in campus policy.
- Four annual reports did not contain all of the required elements as stated in campus policy. Specifically, two reports did not contain financial and activity statements, and two centers did not use the annual report form.

CSUN Policy 150-60, Organization and Administration of Centers, dated May 14, 2002, states that the director shall issue a written progress report by August 15 of each year. The annual report must include an executive summary of the center’s programs and activities sufficient to make clear the nature of the various projects and activities. An income statement and balance sheet for the year must also be included, as well as a detailed budget plan for the next academic year. Reviews of annual reports will involve comparison of reported activities and the stated goals of the center.

CSUN Centers and Institutes Operating Manual, dated April 2013, states that all centers and institutes are required to submit an annual report form, including the financial and activities statement, and a business plan.

The vice provost stated that the centers did not always comply with the required deadlines due to faculty schedules, and that required elements of the annual reports were omitted due to oversight.

Untimely submission of incomplete reports increases the risk that areas needing improvement will not be identified in a timely manner.

Recommendation 4

We recommend that the campus comply with its policies regarding annual review requirements for centers and institutes.

Campus Response

We concur. The campus will reiterate the annual review requirements for centers and institutes.

Expected completion date: November 30, 2013.
CENTER FISCAL CONTROLS

Cash receipts and deposits needed improvement.

We reviewed cash controls for five centers and found that:

- Duties were not properly segregated at two of the centers. Specifically, at both the Energy Resource Center (ERC) and Marilyn Magaram Center (MMC), one individual received checks, posted receipts, prepared and delivered deposits to the main cashier, and reconciled receipts.

- Cash-handling policies at the Center of Achievement Through Adapted Physical Activity (CAAPA) were not consistent with current systemwide policies. Specifically, the CAAPA procedures stated that accumulated receipts of any amount must be deposited within ten working days, while systemwide policies require that deposits be made weekly, or sooner if the amount is more than $500. In addition, CAAPA policies state that a single employee will not transport more than $3,000 in cash at one time, while systemwide policies require a police escort at $2,500 or more.

Integrated California State University Administrative Manual (ICSUAM) §3102.02, Segregation of Cash Handling Duties, dated April 1, 2011, states that separation of duties must be maintained when cash is received, and no single person should have complete control. Specifically, the person collecting cash, issuing cash receipts, and preparing the departmental deposit must be someone other than the person performing the monthly review of the general ledger, the person maintaining accounts receivable records, or the person following up on collectibles.

ICSUAM §3102.11, Deposits and Transfers to the Bank, dated May 23, 2013, states that collections at other cashiering locations and departments are deposited at the designated main cashiering station at least weekly or whenever collections exceed $500.

ICSUAM §3102.04, Physical Protection of Cash and Cash Equivalents, dated July 10, 2012, states that the campus chief financial officer must establish campuswide procedures to ensure the safety and security of deposits and personnel while in transit between campus locations. At a minimum, transport must be accomplished jointly by at least two employees. When deposits exceed $2,500, employees shall be escorted by campus police. When determined necessary, armored car service or police escort will be used. Transporting deposits between cashiering sites or to the bank will be accomplished in a secure manner in order to protect the financial assets and individuals involved in transport.

The vice provost stated that the lack of segregation of duties was due to limited staffing resources. She further stated that due to the lack of staffing, updating internal center policies was a low priority.

Inadequate administration of cash receipts and deposits increases the risk of loss or misappropriation of funds.
Recommendation 5

We recommend that the campus:

a. Implement adequate segregation of duties at the ERC and MMC, or compensating mitigating controls for the reconciliation and deposit of fund collections.

b. Review and update CAAPA center policies to be consistent with current systemwide policies.

Campus Response

We concur.

a. The campus will implement adequate segregation of duties at the ERC and MMC, or compensating mitigating controls for the reconciliation and deposits of funds. Expected completion date: November 30, 2013.

b. CAAPA policies will be updated to reflect systemwide policies. Expected completion date: November 30, 2013.
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dianne F. Harrison</td>
<td>President</td>
</tr>
<tr>
<td>Richard Barrett</td>
<td>Manager of Academic Resources, College of Engineering and Computer Science</td>
</tr>
<tr>
<td>Carol Bennett</td>
<td>Center Coordinator, Center for Achievement Through Adapted Physical Activity</td>
</tr>
<tr>
<td>Shira Brown</td>
<td>Director, Women’s Resource Center</td>
</tr>
<tr>
<td>Nazaret Dermendjian</td>
<td>Chair, Department of Civil Engineering and Construction Management</td>
</tr>
<tr>
<td>Colin Donahue</td>
<td>Vice President of Administration and Finance</td>
</tr>
<tr>
<td>Hamid Johari</td>
<td>Department Chair, Mechanical Engineering</td>
</tr>
<tr>
<td>Larissa Lopez</td>
<td>Accounting Specialist, Center for Achievement Through Adapted Physical Activity</td>
</tr>
<tr>
<td>Nathan Lopez</td>
<td>Administrative Support, Marilyn Magaram Center</td>
</tr>
<tr>
<td>Howard Lutwak</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Abhijit Mukherjee</td>
<td>Director, Energy Resource Center</td>
</tr>
<tr>
<td>Michael Neubauer</td>
<td>Vice Provost (Currently)</td>
</tr>
<tr>
<td>Becky O’Brien</td>
<td>Client Coordinator, Center for Achievement Through Adapted Physical Activity</td>
</tr>
<tr>
<td>Scott Pérez</td>
<td>Director, Research and Sponsored Projects</td>
</tr>
<tr>
<td>S.K. Ramesh</td>
<td>Dean, College of Engineering and Computer Science</td>
</tr>
<tr>
<td>Cynthia Rawitch</td>
<td>Vice Provost (At time of review)</td>
</tr>
<tr>
<td>Louis Rubino</td>
<td>Interim Executive Director, Marilyn Magaram Center</td>
</tr>
<tr>
<td>Diane Stephens</td>
<td>Associate Vice President, Academic Resources and Planning</td>
</tr>
<tr>
<td>Stella Theodoulou</td>
<td>Dean, Social and Behavioral Sciences</td>
</tr>
<tr>
<td>Elizabeth Whirledge</td>
<td>Manager of Academic Resources, Humanities</td>
</tr>
<tr>
<td>Renate Wigfall</td>
<td>Manager of Academic Resources, College of Health and Human Development</td>
</tr>
<tr>
<td>Edith Winterhalter</td>
<td>Director of Academic Budget Management, Academic Resources and Planning, College of Humanities</td>
</tr>
</tbody>
</table>
October 21, 2013

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report Number 13-42, Centers and Institutes at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your email on October 17, 2013.

We have read the report including the observations and recommendations, and agree with them. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN’s systems of internal control.

Sincerely,

Colin Donahue
Vice President Administration and Finance and CFO

Enclosures

cc: Dr. Dianne F. Harrison, President
    Howard Lutwak, Director, Internal Audit
CAMPUS ADMINISTRATION

GOVERNANCE

Recommendation 1

We recommend that the campus:

a. Obtain presidential approval for initial and renewal charters for centers and institutes.

b. Recognize and report to the CO each center or institute that meets the definition of a reportable center or institute under EO 751.

Campus Response

We concur.

a. The coversheets for initial and renewal charters for centers and institutes now include a line for the signature of the campus president.

b. The campus will recognize and report to the CO each center or institute that meets the definition of a reportable center or institute under EO 751.

Expected completion date: January 31, 2014.

POLICIES AND PROCEDURES

Recommendation 2

We recommend that the campus review and update the campus policy on research misconduct, Responding to Allegations of Scientific Misconduct.

Campus Response

We concur. The policy on Responding to Allegations of Scientific Misconduct will be reviewed at a meeting of the Provost’s Council. A determination of the need to update the policy will be made at that time.

Expected completion date: April 30, 2014.
CENTER ADMINISTRATIVE CONTROLS

CENTER ESTABLISHMENT

Recommendation 3

We recommend that the campus comply with its policies regarding establishment and renewal of centers and institutes.

Campus Response

We concur. The campus will reiterate its policies regarding establishment and renewal of centers and institutes. In addition, the campus will revisit CSUN Policy 150-60 regarding the requirement of advisory boards for centers at a meeting of the provost’s council.

Expected completion date: November 30, 2013.

CENTER REVIEW

Recommendation 4

We recommend that the campus comply with its policies regarding annual review requirements for centers and institutes.

Campus Response

We concur. The campus will reiterate the annual review requirements for centers and institutes.

Expected completion date: November 30, 2013.

CENTER FISCAL CONTROLS

Recommendation 5

We recommend that the campus:

a. Implement adequate segregation of duties at the ERC and MMC, or compensating mitigating controls for the reconciliation and deposit of fund collections.

b. Review and update CAAPA center policies to be consistent with current systemwide policies.
Campus Response

We concur.

a. The campus will implement adequate segregation of duties at the ERC and MMC, or compensating mitigating controls for the reconciliation and deposits of funds.

   Expected completion date: November 30, 2013.

b. CAAPA policies will be updated to reflect systemwide policies.

   Expected completion date: November 30, 2013.
November 7, 2013

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Timothy P. White
Chancellor

SUBJECT: Draft Final Report 13-42 on Centers and Institutes,
California State University, Northridge

In response to your memorandum of November 7, 2013, I accept the response as submitted with the draft final report on Centers and Institutes, California State University, Northridge.

TPW/amd