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ABBREVIATIONS

Cal Poly California Polytechnic State University, San Luis Obispo
CCCE California Center for Construction Education
CI Centers and Institutes
CPC Cal Poly Corporation
CSU California State University
EO Executive Order
ICSUAM Integrated California State University Administrative Manual
ITRC Irrigation Training and Resource Center
OUA Office of the University Auditor
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 Polytechnic State University, San Luis Obispo campus from April 15, 2013, through May 24, 2013, and audited the procedures in effect at that time.

In our opinion, the fiscal, operational, and administrative controls for CI activities in effect as of May 24, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

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]

Campus policies relating to centers and institutes were outdated. For example, the campus policy did not reflect organizational changes that had occurred at the campus since the policy’s last revision in 2005, and did not address how inactive centers would be evaluated, reactivated, or discontinued. In addition, ownership for center activity and program funds had not been documented.

CENTER ADMINISTRATIVE CONTROLS [7]

Periodic reviews of centers and institutes were not always performed in accordance with campus policy.

CENTER FISCAL CONTROLS [8]

Receipt of funds at the Irrigation Training and Resource Center (ITRC) needed improvement. Specifically, credit card payments that included full credit card information were received by fax, checks were not always timely deposited, and segregation of duties was inadequate. In addition, Cal Poly Corporation policies and procedures did not adequately address accounts receivable administered by centers and institutes. Also, written agreements or contracts were not always in place for center activities. Further, administration of ITRC fee-for-service agreements needed improvement. For example, some ITRC fee-for-service agreements were executed via email or electronic acceptance rather than with a written signature, and policies and procedures did not detail the situations and circumstances in which this type of acceptance could be utilized.
INTRODUCTION

BACKGROUND

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

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

At the CSU, CI are governed at the campus level. Each campus makes its own policy decisions on how CI shall be approved, reviewed, monitored, and discontinued. At California Polytechnic State University, San Luis Obispo, centers report programmatically to the vice provost of research and industry relations, and center fiscal administration is performed by the Cal Poly Corporation. 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.
INTRODUCTION

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.
INTRODUCTION

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 May 24, 2013.

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

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

CAMPUS ADMINISTRATION

POLICIES AND PROCEDURES

Campus policies relating to centers and institutes were outdated.

We found that the campus policy:

- Did not reflect organizational changes that had occurred at the campus since the policy’s last revision in 2005.

- Stated that periodic reviews of centers and institutes would be performed every five years, although other campus guidance on periodic reviews for centers stated that these reviews would be repeated every six years.

- Did not address how inactive centers would be evaluated, reactivated, or discontinued.

- Encouraged the creation of standardized center bylaws as a method to document organizational structure, including management and reporting mechanisms, but was unclear as to whether the bylaws were required. We noted that most centers did have bylaws; however, these were mostly outdated and did not always reflect current center practices.

Executive Order (EO) 751, Centers, Institutes and Similar Organizations on Campuses of the California State University, dated July 5, 2000, states that each California State University (CSU) campus is to have explicit policies and procedures for establishing, operating, monitoring, reviewing, and discontinuing centers, institutes, and similar entities.

California Polytechnic State University, San Luis Obispo (Cal Poly) Policy for the Establishment, Evaluation, and Discontinuation of University Centers and Institutes, revised August 2005, states that administration of finances of centers and institutes, except for that portion from the state budget, will normally be handled by the Cal Poly Foundation, and that annual reports shall be submitted to the provost and vice president for academic affairs, college dean, and dean of research and graduate programs. It further states that centers and institutes will undergo review every five years as part of the university’s academic program review process.

Cal Poly Centers and Institutes Guidance for Deans, Unit Directors and Faculty, revised June 16, 2005, states that the program review process is normally repeated every six years.

The interim vice provost for research and industry relations stated his belief that due to the long-standing nature of centers on the campus, and due to the fact that there was no process control in place to initiate reviews of the campus policy related to centers, the need to update the policy had not been recognized.
Inconsistent or outdated campus policies increase the risk of misunderstandings and inconsistencies in the administration of centers and institutes.

**Recommendation 1**

We recommend that the campus review and update policies relating to centers and institutes to reflect current campus organizational structure, remove inconsistencies, address the treatment of inactive centers, and address the use of bylaws.

**Campus Response**

We concur. The campus will revise the policy relating to the formation of centers and institutes in order to reflect current campus organizational structure, remove inconsistencies, address the treatment of inactive centers, and address the use of bylaws.

**Date of completion:** December 15, 2013

**PROGRAM FUNDS**

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

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

- The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.

- Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Integrated California State University Administrative Manual (ICSUAM) §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only the campus presidents or their designees may authorize a campus activity or program. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It further states that campus policies and procedures regarding activities and programs must provide specific guidance in regard to campus centers and institutes (e.g. ownership of component activities/programs generating separate receipts must be clear, as should be restrictions on funds), workshops and conferences, instructionally related events and activities, and documentation requirements. As deemed by the president in the interest of the campus and the CSU, a determination must be made as to whether the university or an auxiliary organization will receive proprietorship over an activity or program, which includes acceptance of both risks and rewards associated with ownership.

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

The assistant vice president of fiscal services and auxiliary reporting stated that because the center funds fall under the sponsored programs office, the campus had not considered them to be part of the campus programs group of accounts, and therefore did not address them last fall when creating the original campus policy and process for addressing the placement and control of receipts for campus activities and programs. She further stated that the systemwide policy had recently been updated in January 2013 to include centers and institutes, and that the campus had not yet had the chance to address these changes.

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

**Recommendation 2**

We recommend that the campus document:

a. The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.

b. Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

**Campus Response**

We concur.

a. The campus will document the determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.

b. The campus will document policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Date of completion: December 15, 2013

**CENTER ADMINISTRATIVE CONTROLS**

Periodic reviews of centers and institutes were not always performed in accordance with campus policy.
We reviewed eight centers and institutes and found that seven had not received a periodic review within the last five years.

Cal Poly Policy for the Establishment, Evaluation, and Discontinuation of University Centers and Institutes, revised August 2005, states that centers and institutes will undergo review every five years as part of the university’s academic program review process.

The interim vice provost for research and industry relations stated his belief that periodic reviews had not been performed in a timely manner in the past because centers were not part of the normal academic program review process, and therefore a schedule or monitoring mechanism to identify when centers were due for periodic review had not been implemented.

Failure to perform periodic reviews of centers and institutes in accordance with campus policy increases the risk that center objectives will not be met, centers will not be aligned with campus priorities, and campus resources will not be used wisely.

Recommendation 3

We recommend that the campus perform periodic review of centers and institutes in accordance with campus policy.

Campus Response

We concur. In order to facilitate this, the campus will revise the policy relating to periodic review of centers and institutes so as to assure appropriate periodic review. The campus will also adopt a periodic review schedule for all campus centers and institutes.

Date of completion: December 15, 2013

CENTER FISCAL CONTROLS

RECEIPT OF FUNDS

Receipt of funds at the Irrigation Training and Resource Center (ITRC) needed improvement.

We found that:

- Credit card payments that included full credit card information were received by fax.
- Checks were not endorsed on the day they were received and were not always deposited to the Cal Poly Corporation (CPC) in a timely manner.
- Segregation of duties was inadequate.
• One employee received and processed workshop registrations, followed up on non-payment, received payments, and prepared and made deposits.

• One employee received orders and payments for publications and other items sold, prepared invoices, followed up on non-payment, prepared and made deposits, and had primary responsibility for item inventory.

• One employee prepared invoices for fee-for-service contracts and consulting work, received payments, followed up on non-payment, and prepared and made deposits.

ICSUAM §3102.05, *Debit/Credit Card Payment Policy*, revised July 1, 2011, states that the university will not accept payment by email or fax transmission.

ICSUAM §3102.02, *Segregation of Cash Handling Duties*, revised September 19, 2012, states, in part, that it is the policy of the CSU to establish and maintain an adequate separation of duties in the area of cash handling, so that no one individual has exclusive control over a given process. 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. It further states that mailed remittances must be verified, processed by a separate individual, and restrictively endorsed for deposit or electronically deposited by the close of business on the date of receipt.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure the integrity of existing internal controls.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of cash receipts.

The sponsored programs manager stated her belief that ICSUAM cashiering policies did not apply to auxiliary organizations. She further stated that the lack of segregation of duties was due to limited staffing resources at the ITRC. The assistant vice president of fiscal services and auxiliary reporting stated that there was no specific reference to auxiliary organizations in the ICSUAM policies.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.
Recommendation 4

We recommend that the campus, in coordination with the CPC:

a. Discontinue acceptance of credit card payments by fax.

b. Restrictively endorse checks by the close of the business day they are received, and deposit the checks to the CPC at least weekly.

c. Implement appropriate segregation of duties or compensating mitigating controls for receipt of funds for workshops, publications and other items sold, and fee-for-service contracts and consulting work.

Campus Response

We concur. We will review our cash-handling procedures to ensure conformance with the guidelines established in the CSU Compilation of Policies and Procedures for California State University Auxiliary Organizations and/or ICSUAM policies to ensure sound business practices for internal controls over receipt of funds. This will include those that apply to acceptance of credit card payments, endorsement of checks, and segregation of duties or compensating mitigating controls for receipt of funds for workshops, publications and other items sold, and fee-for-service contracts and consulting work. Revised procedures will be distributed to applicable center personnel.

Date of completion: December 15, 2013

ACCOUNTS RECEIVABLE

CPC policies and procedures did not adequately address accounts receivable administered by centers and institutes.

We found that the policies did not address:

- When center and institute receivables should be reported to the CPC for inclusion in CPC accounts receivable records.

- Who should take responsibility for ensuring that collection and follow-up activity for past-due accounts is performed and documented.

CPC Credit/Collection Procedures, revised March 15, 2012, state, in part, that all invoices rendered by CPC are to be paid within 30 days of the invoice date. Past-due accounts are monitored at 31, 61, 91, and 120 days, and all documents and back-up relating to the account are maintained in a file. It further states that write-off requests are submitted to the corresponding department for initial approval, the accounts receivable manager for additional approval, and, if applicable, forwarded to the appropriate manager for final approval based on a dollar threshold.
The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of delinquent accounts receivable.

The sponsored programs manager stated her belief that CPC policies needed to be updated to address receivables administered by centers and institutes.

Inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

**Recommendation 5**

We recommend that the campus, in coordination with the CPC, update policies and procedures to address accounts receivable administered by centers and institutes, including:

a. When center and institute receivables should be reported to the CPC for inclusion in CPC accounts receivable records.

b. Who should take responsibility for ensuring that collection and follow-up activity for past-due accounts is performed and documented.

**Campus Response**

We concur. The campus, in coordination with CPC, will update policies and procedures to address accounts receivable administered by centers and institutes. This will include documenting when centers and institutes transactions should be reported for inclusion in accounts receivable records, and who should take responsibility for ensuring that collection and follow-up activity for past-due accounts is performed and documented.

Date of completion: December 15, 2013

**CONTRACT AGREEMENTS**

Written agreements or contracts were not always in place for center activities.
We found that:

- Current written agreements or contracts were not always in place for California Center for Construction Education (CCCE) workshops and activities. For example:
  - The memorandum of understanding between CCCE and Continuing Education (now Extended Education) for administration of CCCE workshops was not current.
  - There was no contract in place for CCCE-hosted Design Build Institute of America boot camps.
  - A service agreement with appropriate terms and insurance had not been executed for a guest instructor who participated in a CCCE workshop on the campus.

- ITRC performed various small-dollar consulting activities, such as provisioning off-site training and performing site evaluations, but these arrangements were not always documented. Rather, the nature and scope of work and payment provisions were generally agreed upon verbally.

- Properly executed agreements were not always in place for services provided to centers and institutes. For example:
  - One expenditure for electrical work performed at a campus facility did not have a corresponding contract or service agreement.
  - In two instances, contracts for off-site catering services were not properly executed.

ICSUAM §5233.0, *Risk Allocation and Performance Assurance*, effective April 20, 2004, states, in part, that contracts should be formed to ensure the fair and reasonable allocation of risk and to assure satisfactory performance by the contractor. Each contract should be reviewed to determine the proper contract provisions to mitigate CSU risks. It further states that the requirements for successful contract performance should be clearly defined within the contract documents.

Technical Letter Risk Management 2012-01, dated June 1, 2012, establishes approved hold harmless provisions for contracts and states that under the terms and conditions of a contract or agreement for services, the contractor, consultant, or vendor must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance that includes additional insured endorsements.

ICSUAM §5706.0, *Services Provided by Campus Auxiliary Organizations*, effective March 19, 2001, states that CSU campuses and campus auxiliaries may contract with state agencies and other entities to provide services related to research, workshops, institutes, and other educationally related studies or projects. Where the primary responsibility for fulfilling the contractual obligations will rest with an auxiliary organization, the contract should be placed directly with the auxiliary organization.

CPC Policy 102, *Delegation of Signature Authority*, revised September 10, 2004, states, in part, that the executive director is authorized to sign documents required for operations of the CPC. The
executive director may delegate and limit the signature authority through management guidelines issued and maintained by the executive director’s office. Operational transactions and documents for which signature authority may be delegated, if in writing in guidelines, include, but are not limited to, contracts, agreements on behalf of the CPC, and externally sponsored project agreements and awards.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete written agreements that are properly executed.

The sponsored programs manager stated her belief that the lack of current CCCE contracts was due to the overlap in responsibilities between Extended Education, which administered CCCE workshops, and the CPC, which administered general center finances. She further stated that the other contract issues were due to oversight.

The lack of current written agreements for services provided by the campus increases the risk of misunderstandings of the business terms, responsibilities, and liabilities involved in performance of the work, and the lack of current written agreements for services provided to the campus exposes the university to financial and legal liability.

**Recommendation 6**

We recommend that the campus, in coordination with the CPC:

a. Ensure that written agreements or contracts related to CCCE workshops and activities are in place and current.

b. Establish a process to document ITRC consulting arrangements.

c. Ensure that properly executed agreements are in place for services provided to centers and institutes.

**Campus Response**

We concur. The campus, in coordination with CPC, will develop policies and procedures requiring written agreements or contracts for workshops, activities, consulting arrangements, and other services related to centers and institutes. This will include a periodic review process to ensure implementation and adherence to the policy.

Date of completion: December 15, 2013

**FEE FOR SERVICE AGREEMENTS**

Administration of ITRC fee-for-service agreements needed improvement.
We found that:

- The process used to create and execute ITRC fee-for-service agreements did not require a documented delegation of authority to the individual who generally signed the agreements on behalf of the ITRC and the CPC.

- Some agreements were executed via email or electronic acceptance, rather than with a written signature, and policies and procedures did not detail the situations and circumstances in which this type of acceptance could be utilized.

CPC Policy 102, *Delegation of Signature Authority*, revised September 10, 2004, states, in part, that the executive director is authorized to sign documents required for operations of the CPC. The executive director may delegate and limit the signature authority through management guidelines issued and maintained by the executive director’s office. Operational transactions and documents for which signature authority may be delegated, if in writing in guidelines, include, but are not limited to, contracts, agreements on behalf of the CPC, and externally sponsored project agreements and awards.

*CPC Guidelines on Eliminating “Ink Signatures” Authorizations*, effective November 14, 2011, states, in part, that the CPC has begun to accept electronic signatures on documents and these guidelines serve to document the acceptability of electronic signatures. Electronic signatures are not appropriate for contracts, notes payable or receivable, or where not allowed by law or statute.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete, properly executed, written agreements.

The sponsored programs manager stated that the approval process for the fee-for-service program contained an implied delegation of authority, and therefore, the need for a formal delegation of authority had not been recognized. She further stated that the CPC had informally allowed email acceptance for some contracts, but had not yet updated its policy to reflect this practice.

The lack of appropriate delegations of authority increases the possibility of unauthorized or invalid contracts, and the use of electronic or email acceptance without appropriate policies and safeguards in place increases the risk that contracts will not be upheld.

**Recommendation 7**

We recommend that the campus, in coordination with the CPC:

a. Update the process used to create and execute ITRC fee-for-service agreements to require a documented delegation of authority to the individuals who sign the agreements on behalf of the ITRC and the CPC.
b. Decide whether email or electronic acceptance is appropriate for the execution of agreements, and if necessary, update policies and procedures to reflect the situations and circumstances in which this type of acceptance can be utilized.

**Campus Response**

We concur. The campus, in coordination with CPC, will:

a. Update the process used to create and execute center and institute fee-for-service agreements to require documented delegation of authority for signing of agreements.

b. Determine what the appropriate acceptance channel is for execution of agreements and update policies and procedures to document that determination.

Date of completion: December 15, 2013
# APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeffrey D. Armstrong</td>
<td>President</td>
</tr>
<tr>
<td>Bradford Anderson</td>
<td>Interim Vice Provost for Research and Industry Relations</td>
</tr>
<tr>
<td>Marc Benadiba</td>
<td>Director, Payroll and Accounts Payable</td>
</tr>
<tr>
<td>Kathleen Enz Finken</td>
<td>Provost</td>
</tr>
<tr>
<td>Jessica Frazier</td>
<td>Coordinator, California Center for Construction Education</td>
</tr>
<tr>
<td>Karen Hampshire</td>
<td>Finance Manager, Irrigation Training and Research Center</td>
</tr>
<tr>
<td>Barbara Jackson</td>
<td>Director, California Center for Construction Education</td>
</tr>
<tr>
<td>Lawrence Kelley</td>
<td>Senior Vice President, Administration and Finance (At time of review)</td>
</tr>
<tr>
<td>Starr Lee</td>
<td>Associate Executive Director, Administration</td>
</tr>
<tr>
<td>Lorlie Leetham</td>
<td>Assistant Vice President, Fiscal Services and Auxiliary Reporting</td>
</tr>
<tr>
<td>Dave Marshall</td>
<td>Assistant Director, Internal Control and GAAP</td>
</tr>
<tr>
<td>Melissa Mullen</td>
<td>Sponsored Programs Manager, Cal Poly Corporation</td>
</tr>
<tr>
<td>Gayle Nakano</td>
<td>Grant Analyst, Cal Poly Corporation</td>
</tr>
<tr>
<td>Coral Norris</td>
<td>Program/Budget Analyst, Irrigation Training and Research Center</td>
</tr>
<tr>
<td>Stan Nosek</td>
<td>Interim Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Joanna Snyder</td>
<td>Director, Collaborative-Agent Design Research Center</td>
</tr>
<tr>
<td>Stuart Styles</td>
<td>Director, Irrigation Training and Research Center</td>
</tr>
<tr>
<td>Dean Wendt</td>
<td>Interim Dean of Research and Director, Center for Coastal Marine Sciences</td>
</tr>
<tr>
<td>Dru Zachmeyer</td>
<td>Director, Contracts and Procurement</td>
</tr>
</tbody>
</table>
August 7, 2013

Mr. Larry Mandel
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The California State University
401 Golden Shore Road
Long Beach, CA 90805-4275

Subject: Campus Responses to Recommendations of Incomplete Draft Audit Report Number 13-38, Centers and Institutes, California Polytechnic State University, San Luis Obispo

Dear Larry:

Enclosed are responses to the recommendations in the incomplete draft of the Centers and Institutes audit report (Audit Report 13-38). The responses are submitted to you for review and acceptance by the Chancellor. The responses include a corrective action plan and time frame for completion.

Please direct questions to Lorie Leetham, Assistant Vice President, Fiscal Services and Auxiliary Reporting, at (805)756-5421 (lleetham@calpoly.edu).

Sincerely,

Stan Nosek
Interim Vice President for Administration and Finance

cc: J. Armstrong, L. Leetham
CENTERS AND INSTITUTES
CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO
Audit Report 13-38

CAMPUS ADMINISTRATION

POLICIES AND PROCEDURES

Recommendation 1

We recommend that the campus review and update policies relating to centers and institutes to reflect current campus organizational structure, remove inconsistencies, address the treatment of inactive centers, and address the use of bylaws.

Campus Response

We concur. The campus will revise the policy relating to the formation of centers and institutes in order to reflect current campus organizational structure, remove inconsistencies, address the treatment of inactive centers, and address the use of bylaws.

Date of completion: December 15, 2013

PROGRAM FUNDS

Recommendation 2

We recommend that the campus document:

a. The determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.

b. Policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.

Campus Response

a. We concur. The campus will document the determination by the campus president or designee as to whether the campus or an auxiliary organization should receive proprietorship over centers and institutes, including acceptance of both the risks and rewards associated with ownership.

b. We concur. The campus will document policies and procedures that provide specific guidance in regard to ownership of component activities/programs of campus centers and institutes.
Date of completion: December 15, 2013

CENTER ADMINISTRATIVE CONTROLS

Recommendation 3

We recommend that the campus perform periodic review of centers and institutes in accordance with campus policy.

Campus Response

We concur. In order to facilitate this, the campus will revise the policy relating to periodic review of centers and institutes so as to assure appropriate periodic review. The campus will also adopt a periodic review schedule for all campus centers and institutes.

Date of completion: December 15, 2013

CENTER FISCAL CONTROLS

RECEIPT OF FUNDS

Recommendation 4

We recommend that the campus, in coordination with the CPC:

a. Discontinue acceptance of credit card payments by fax.

b. Restrictively endorse checks by the close of the business day they are received, and deposit the checks to the CPC at least weekly.

c. Implement appropriate segregation of duties or compensating mitigating controls for receipt of funds for workshops, publications and other items sold, and fee-for-service contracts and consulting work.

Campus Response

We concur. We will review our cash handling procedures to ensure conformance with the guidelines established in the CSU Compilation of Policies and Procedures for California State University Auxiliary Organizations and/or ICSUAM policies to ensure sound business practices for internal controls over receipt of funds. This will include those that apply to acceptance of credit card payments, endorsement of checks, and segregation of duties or compensating mitigating controls for receipt of funds for workshops, publications and other items sold, and fee-for-service contracts and consulting work. Revised procedures will be distributed to applicable center personnel.

Date of completion: December 15, 2013
ACCOUNTS RECEIVABLE

Recommendation 5

We recommend that the campus, in coordination with the CPC, update policies and procedures to address accounts receivable administered by centers and institutes, including:

a. When center and institute receivables should be reported to the CPC for inclusion in CPC accounts receivable records.

b. Who should take responsibility for ensuring that collection and follow-up activity for past-due accounts is performed and documented.

Campus Response

We concur. The campus, in coordination with CPC, will update policies and procedures to address accounts receivable administered by centers and institutes. This will include documenting when centers and institutes transactions should be reported for inclusion in accounts receivable records, and who should take responsibility for ensuring that collection and follow-up activity for past-due accounts is performed and documented.

Date of completion: December 15, 2013

CONTRACT AGREEMENTS

Recommendation 6

We recommend that the campus, in coordination with the CPC:

a. Ensure that written agreements or contracts related to CCCE workshops and activities are in place and current.

b. Establish a process to document ITRC consulting arrangements.

c. Ensure that properly executed agreements are in place for services provided to centers and institutes.

Campus Response

We concur. The campus, in coordination with CPC, will develop policies and procedures requiring written agreements or contracts for workshops, activities, consulting arrangements, and other services related to centers and institutes. This will include a periodic review process to ensure implementation and adherence to the policy.

Date of completion: December 15, 2013
FEE FOR SERVICE AGREEMENTS

Recommendation 7

We recommend that the campus, in coordination with the CPC:

a. Update the process used to create and execute ITRC fee-for-service agreements to require a documented delegation of authority to the individuals who sign the agreements on behalf of the ITRC and the CPC.

b. Decide whether email or electronic acceptance is appropriate for the execution of agreements, and if necessary, update policies and procedures to reflect the situations and circumstances in which this type of acceptance can be utilized.

Campus Response

We concur. The campus, in coordination with CPC, will:

a. Update the process used to create and execute center and institute fee-for-service agreements to require documented delegation of authority for signing of agreements.

b. Determine what the appropriate acceptance channel is for execution of agreements and update policies and procedures to document that determination.

Date of completion: December 15, 2013
September 4, 2013

MEMORANDUM

TO: Mr. Larry Mandel  
    University Auditor
FROM: Timothy P. White  
    Chancellor
SUBJECT: Draft Final Report 13-38 on Centers and Institutes,  
    California Polytechnic State University, San Luis Obispo

In response to your memorandum of September 4, 2013, I accept the response  
as submitted with the draft final report on Centers and Institutes, California  
Polytechnic State University, San Luis Obispo.

TPW/amd