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July 19, 2018

Dr. Leslie E. Wong, President
San Francisco State University
1600 Holloway Avenue
San Francisco, CA 94132

Dear Dr. Wong:

Subject: Audit Report 18-33, Centers and Institutes, San Francisco State University

We have completed an audit of *Centers and Institutes* as part of our 2018 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

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

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor



CENTERS AND INSTITUTES
San Francisco State University

Audit Report 18-33
June 14, 2018

EXECUTIVE SUMMARY

OBJECTIVE

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

CONCLUSION

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

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for CI as of May 4, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

At San Francisco State University (SFSU), CI are referred to as research and service organizations (RSO). Overall, the audit revealed that the campus needed to provide enhanced administration and oversight of RSOs to ensure compliance with campus and systemwide requirements. We found that RSO annual and periodic reports were not timely completed, submitted, and documented, and periodic reviews were not always performed and documented. In addition, campus RSO policies and procedures regarding ownership of activities and program funds and operations needed to be formally documented. Also, RSO activities required attention in some key financial areas related to expenditures, execution of contracts and agreements, and deposits. Further, the status of the Confucius Institute at SFSU as an RSO, including the reporting structure, contractual agreements, and program activities, needed to be reviewed and re-evaluated.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CAMPUS ADMINISTRATION AND OVERSIGHT

OBSERVATION

Campus administration and oversight of RSO annual and periodic reports and reviews needed improvement.

We reviewed the details of the annual and periodic reports over a two-year period for seven RSOs, and we found that:

- The annual and periodic reports were not always timely completed or submitted and did not always include all the details required by the RSO *Guidelines*, such as income and expense details and the names of faculty and student members.
- The annual and periodic reports were not signed and dated by the reviewers, and therefore, we were unable to determine whether the reports were timely reviewed by the appropriate personnel. Additionally, the reports did not include reviewers' notes, recommendations, or methods used to verify the accuracy of information contained in the reports.
- The periodic reports did not always include the review committee's report of findings, the RSO director's response to the committee report, and the provost's recommendation to the campus president for the continuation of the RSO.

We also found that ten-year continuation reviews were not completed and documented. Due to this lack of documentation, we could not determine whether all RSOs were appropriately evaluated and approved as non-self-supporting entities.

Timely completion and submission of annual and periodic reports and formally documented reviews ensure that RSO objectives are met and RSOs are aligned with campus priorities and comply with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus:

- a. Provide training and guidance to the appropriate RSO directors, colleges, and accounting personnel regarding annual and periodic report requirements, including timely completion and submission and RSO *Guidelines* requirements.
- b. Develop and document a process to ensure that periodic and ten-year continuation reviews are timely completed and documented.

MANAGEMENT RESPONSE

We concur.

- a. We will annually remind RSO key administrators of their oversight responsibilities and provide training and guidance when appropriate.
- b. Under the direction of the associate vice president for the office of research and sponsored programs, we will develop a system and document a process to ensure that all RSOs comply with campus and systemwide requirements in a timely manner, including the approval of establishment paperwork, submission of complete annual reports, formal review of centers for continuation, and reviews done through the appropriate channel.

Anticipated date of completion: December 31, 2018

2. RSO POLICIES AND PROCEDURES

OBSERVATION

Campus RSO policies and procedures needed improvement.

We found that in general, RSOs adhered to campus and auxiliary policies for activities and programs; however, specific guidance regarding RSO ownership of activities and program funds had not been formally documented. Additionally, the campus did not have specific operating policies and procedures for RSOs, nor did it make clear whether RSOs should operate under campus, auxiliary, or other relevant policies and procedures.

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

RECOMMENDATION

We recommend that the campus formally document policies and procedures that include ownership of activities and program funds and provide clear indication of whether RSOs operate under campus, auxiliary, or other relevant policies and procedures.

MANAGEMENT RESPONSE

We concur. The campus has been begun reviewing and revising policy and procedures for the creation, administration, and oversight of RSOs to ensure that all RSOs have clear reporting and operating structure within campus units.

Anticipated date of completion: December 31, 2018

3. RSO ACTIVITIES

OBSERVATION

RSO activities did not always comply with campus requirements.

We reviewed the operating activities for seven RSOs, including hosted conferences, seminars, and events, and we found that:

- Three RSOs did not have expenditures approved by authorized signatories noted on the account trust fund agreements.
- Three RSOs did not execute event-related contracts or agreements with partnering entities stipulating the roles and responsibilities of each involved party.
- Two RSOs did not fully execute facility or independent contractor agreements.
- Three RSOs did not always comply with the campus travel policy. Specifically, travel authorizations were not always timely completed and properly approved.

We also reviewed the revenue-generating activities for seven RSOs, including sales of goods and fees for services, and we found that:

- The campus did not have an unrelated business income policy to evaluate the revenue-generating activities of RSOs.
- Two RSOs, including the Health Equity Institute and the Confucius Institute at SFSU, handled cash or cash equivalents but were not authorized as cash-handling locations.
- Four RSOs were not always complying with the campus or auxiliary deposit procedures. Specifically, deposits were not always timely submitted and verified, and deposit documents were not always retained.

Adherence to campus requirements ensures that campus resources will be used properly, funds will be properly collected and deposited, and tax implications will be evaluated. Additionally, contracts and agreements that are properly established decrease the potential for misunderstanding of the business terms, responsibilities, and liabilities of the parties involved and protect the campus from financial and legal risks.

RECOMMENDATION

We recommend that the campus:

- a. Provide training and guidance to the appropriate RSO director, college, and accounting personnel to reiterate key campus procedures, including, but not limited to, fiscal processes and responsibilities, the proper execution of contracts and agreements, travel authorization requirements, and deposit procedures.
- b. Develop and document an unrelated business income policy to evaluate the revenue-generating activities of RSOs.
- c. Determine whether the RSOs noted above should be designated as official cash-handling locations, and if so, obtain and document the proper approvals.

MANAGEMENT RESPONSE

We concur.

- a. We will provide training and guidance to reiterate established university policies and procedures to deans, RSO directors, and accounting personnel with RSO oversight responsibility to ensure they understand and comply with established protocols.
- b. The campus will work with fiscal affairs and UCORP to review its existing revenue-generating policy for RSOs and will update campus policy to address issues concerning unrelated business income.
- c. The campus will work with fiscal affairs and UCORP to review its existing cash-handling policy and determine whether RSOs should be authorized as cash-handling locations. If so, we will obtain and document the proper approvals.

Anticipated date of completion: December 31, 2018

4. CONFUCIUS INSTITUTE AT SFSU

OBSERVATION

The campus needed to review and re-evaluate the classification of the Confucius Institute at SFSU (Institute) as an RSO, including the reporting structure, contractual agreements, and program activities.

In 2008, the campus and Hanban, a non-profit public education organization affiliated with the Chinese Ministry of Education, established the Institute to provide programs and services including, but not limited to, Chinese teaching (credit and non-credit courses), Chinese teacher training, Chinese curriculum development, Chinese language and cultural events for the community, and research on the Chinese language. The Institute was initially funded by a cost-share arrangement with Hanban, and as an RSO, it reported to academic affairs until 2015, when it was moved under student affairs. Throughout this time, the Institute director reported to the associate vice president of international education who, with the vice president of student affairs, was the approving authority for all financial transactions.

In reviewing the Institute, we found that agreements were not always properly executed and, in some cases, were nonexistent. Specifically, we found that:

- The *Renewal of Agreement Between Confucius Institute Headquarters and San Francisco State University on Co-Development of Confucius Institute at San Francisco State University* was signed by the prior campus president on February 12, 2011, and included articles that were not clearly defined or enforceable.
- Agreements were not established for the five teaching sites in the San Francisco Bay Area offering Chinese courses.

- Agreements were not properly established with proper indemnification clauses, periods of validity, approvals, and monitoring responsibilities for the Institute classrooms at five high schools.
- A supplemental agreement was not developed between the Institute and Beijing Normal University (BNU), even though BNU was sending visiting scholars, providing “Chinese Bridge” programs in cooperation with the Institute, and occupying three seats on the Institute board.
- The agreement for undertaking the Chinese proficiency tests had expired and had not been renewed. Also, the agreement had been signed and approved after the effective date and had not been revised to reflect the current fee reimbursement arrangement.
- The agreement for the Chinese language teacher certificate program had not been established, and fees were not collected from Hanban.
- Advertisement fee agreements or sponsorship contracts were not developed for the advertisement published in the booklet for the Chinese Language Bridge Cup Contest.

Additionally, the campus did not review and re-evaluate cost-matching, risk management, and human resources. Specifically, we found that:

- A ten-year continuation review had not been performed to evaluate the need for campus support. We found that the Institute had significantly grown over the years with additional Chinese-language testing and certificate programs, cultural events, visits to China, outreach and collaborations with external entities, and employees and visiting scholars. However, the campus continued to support more than 50 percent of the total expenditures, including travel costs to China, and the campus had not been reimbursed for indirect costs, such as facilities and administrative costs.
- Risk management of the Institute’s Chinese Bridge Summer Camps for American High School Students needed improvement. We found that background checks were not performed and volunteer forms were not obtained from the non-campus employee volunteers chaperoning high school students to China. Additionally, the summer camps’ requirements and applications included discriminatory language based on the age of the chaperone and the physical and mental health of students and chaperones. Further, medical and mental health information obtained in the applications were not considered for HIPAA requirements.
- Possible human resources issues relative to the hiring and training of the Institute’s visiting scholars had not been evaluated. Specifically, there were five visiting scholars who were teaching and working for the Institute, but there were no contracts in place outlining their roles and responsibilities. Also, systemwide and campus required training was not provided to these scholars.

Review and re-evaluation of the Institute’s activities ensure that the Institute’s objectives are aligned with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus review and re-evaluate the status of the Institute as an RSO, including the reporting structure, contractual agreements, and program activities. Specifically, the campus should:

- a. Evaluate the status of the Institute as an RSO and determine whether RSO policies and procedures should be updated or whether a different structure should be applied; in addition, document the evaluation.
- b. As appropriate, renew and establish the agreements noted above, and consult with the campus counsel as necessary.
- c. Perform a ten-year continuation review to evaluate the need for campus support.
- d. Review and evaluate the risk-management issues noted above for the Chinese Bridge Summer Camps for American High School Students, and document the evaluation and corrective action as appropriate.
- e. Evaluate the need for contracts and training of visiting scholars, and document the evaluation and corrective action as appropriate.

MANAGEMENT RESPONSE

We concur.

- a. The associate vice president for the office of research and sponsored programs will work with the provost and the vice president for student affairs and enrollment management to review the fit of the Confucius Institute with current campus RSO policies. Depending on the outcome, the campus will either apply a different oversight mechanism for the Confucius Institute or will update campus RSO policies to accommodate the existing governance structure. We will document the results of this review.
- b. In the meantime, the campus will work with the director of the Confucius Institute to review all existing agreements and documentation to ensure that they are both current and in compliance with university policy and procedures.
- c. SFSU will conduct a ten-year continuation review to evaluate the need for campus support for the Confucius Institute.
- d. We will ask the Confucius Institute for a list of common activities, and the campus will review and carefully evaluate the risk level for the Chinese Bridge Summer Camps, documenting corrective action when appropriate.
- e. The campus will ask human resources and faculty affairs to work with the director of the Confucius Institute to evaluate the processes for recruiting, employing, and training all visiting scholars, certifying that all university policies are followed.

Anticipated date of completion: December 31, 2018

GENERAL INFORMATION

BACKGROUND

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

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

At SFSU, CI are referred to as RSO. The provost, in conjunction with the associate vice president for research and sponsored programs, is charged with overseeing RSO, including ensuring compliance and operational integrity and maintaining an official list of all RSO. The college deans and RSO directors are directly responsible for the day-to-day operations and programmatic activities of RSO.

There are currently 27 recognized RSOs at SFSU. RSO activities vary greatly and include, but are not limited to, facilitating instructional and research collaborations; disseminating the results of research and scholarly and creative activities through conferences, meetings, and other activities; strengthening graduate and undergraduate education by providing students with training opportunities and access to facilities; seeking extramural support; and carrying out university and public service programs related to the RSO's expertise. Some examples showing the diverse nature of RSOs on campus include the Confucius Institute at SFSU; Center for Research on Gender Sexuality; Documentary Film Institute; Health and Equity Institute; Institute for Geographic Information Science; Institute for Holistic Healing; and Paul K. Longmore Institute on Disability.

SCOPE

We visited the SFSU campus from March 26, 2018, through May 4, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2016, through May 4, 2018.

Specifically, we reviewed and tested:

- RSO administration and organization, including clear lines of organizational authority and responsibility, documented delegations of authority, and current and comprehensive policies and procedures.
- Processes to identify, review, and report all authorized RSO to the chancellor's office.
- Establishment and approval of RSO, including alignment with the university mission and strategic plan.

- Operation and monitoring of RSO, including annual reporting and periodic reviews.
- Suspension and dissolution of RSO.
- Appropriate placement and administration of RSO funds, including sponsored program funds, in accordance with governmental and California State University (CSU) regulations.
- Appropriate reimbursement to the campus by RSO for services and resources used.
- RSO activities, including the sale of goods and services, and the administration of conferences and other events, including appropriate approvals, financial controls, and risk management review, when necessary.
- Processes to ensure that RSO expenditures are appropriate, allowable, authorized, and processed in accordance with CSU and campus policy, as well as relevant governmental regulations.
- Specific areas of the Confucius Institute at SFSU, including, but not limited to, governance structure, partnerships or collaborative agreements, Chinese proficiency tests, Confucius classrooms, and cost-matching.

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

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

CRITERIA

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

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

- Coded memorandum Academic Affairs 2014-18, *Centers and Institutes: Guidelines Replacing Executive Order (EO) 751*
- Coded memorandum Academic and Student Affairs 2016-32, *Report on Campus Centers, Institutes, and Similar Entities*
- Coded memorandum Risk Management 2012-01, *Insurance Requirements*
- EO 1000, *Delegation of Fiscal Authority*
- EO 1059, *Utilization of Campus Auxiliary Organizations*

- Integrated California State University Administrative Manual (ICSUAM) §1101.00, *Delegation of Authority to Obligate the University*
- ICSUAM §3000, *General Accounting*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §5000, *Contracts and Procurement*
- ICSUAM §11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Programs Activities*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Government Code §13402 and §13403
- Internal Revenue Code §512-514
- Office of Research and Sponsored Programs *Cost Share/Matching Funds/In-Kind Contribution Policy*
- *RSO Guidelines*
- *SFSU Cashiering and Cash Handling Guidelines*
- *SFSU Departmental Deposits Policy*
- *SFSU Honorarium Policy*
- *SFSU Hospitality Policy*
- *SFSU International Travel Procedures*
- *SFSU Travel Policy*
- *The University Corporation, San Francisco State (UCorp) Deposit Procedures*
- *UCorp Hospitality Policy*
- *UCorp Procurement Policy*
- *UCorp Travel Policy*

AUDIT TEAM

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