The California State University
OFFICE OF THE CHANCELLOR

Vlad Marinescu
Vice Chancellor and
Chief Audit Officer
562-951-4430
vmarinescu@calstate.edu

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

May 6, 2022

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407

Dear Dr. Morales:

Subject: Audit Report 21-33, *Centers and Institutes*, California State University, San Bernardino

We have completed an audit of *Centers and Institutes* as part of our 2021-2022 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 will be 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,

Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor
    Adam Day, Chair, Committee on Audit

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus

CENTERS AND INSTITUTES

California State University, San Bernardino

Audit Report 21-33
May 6, 2022

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 ensure compliance with relevant government regulations; Trustee policy; Office of the Chancellor (CO) directives; and related campus and auxiliary organizational procedures.

CONCLUSION

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 centers and institutes as of February 25, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit revealed that the campus needed to provide enhanced administration and oversight of CI to ensure compliance with campus and systemwide requirements. Specifically, we found that campus CI establishment documentation was not consistently maintained or properly approved, and one active CI had not been reported to the CO. In addition, annual and periodic reports were not consistently completed, submitted, or adequately documented in a timely manner. Also, suspension and dissolution of CI did not follow campus requirements, and CI activities required attention in some key financial areas related to expenditures, tracking of sensitive equipment, and submission of travel claims. Further, the campus did not have a formal governance structure in place to ensure oversight of Payment Card Industry (PCI) compliance requirements.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CENTER ESTABLISHMENT AND REPORTING

OBSERVATION

Establishment and reporting of CI did not always comply with campus and California State University (CSU) systemwide policies.

We reviewed proposals for four centers and found that in one instance, the proposal did not include documentation of required approvals by the faculty senate or university president. In another instance, the campus could not provide proposal documentation.

Additionally, we found that one CI had not been reported to the CO; therefore, it was not listed in the CO database of CI.

Adequate administration of campus establishment of CI provides oversight and helps to ensure that center objectives will be aligned with campus priorities and that campus resources will be used appropriately. Further, reporting all active CI to the CO helps to ensure that the campus and the CO are aware of all CI to provide proper administrative oversight.

RECOMMENDATION

We recommend that the campus:

a. Remind personnel involved in CI establishment and approval processes of related campus policies.

b. Update the CI listing and provide it to the CO.

MANAGEMENT RESPONSE

We concur.

a. The provost's office will send annual reminders to CSUSB faculty and deans about the CI establishment and approval process. Annual reminders will be sent at the beginning of the fall semester every academic year. Estimated completion date is October 31, 2022.

b. The updated listing of CSUSB CI was submitted to the CO on February 9, 2022.

2. CENTER REVIEWS

OBSERVATION

Annual and periodic reviews of CI needed improvement.

The campus educational policy resources committee (EPRC) under the faculty senate is responsible for performing five-year comprehensive reviews for all CI. We found that EPRC did not complete a five-year review for one of the 26 CI on campus as required by campus policy. This was likely because the tracking system used by the committee was not always updated and did not include all active CI. Additionally, we found that none of the EPRC review reports included evidence of submission to the university president as required by campus policy.

Further, CI are required to complete and submit an annual report to a designated individual by October 30 of each year. In general, this individual is the head of the academic unit or administrative division of the university who has programmatic oversight of the CI. The individual is responsible for routing the annual reports, including their recommendations, to the faculty senate office by December 15 annually. We reviewed the annual reports for 14 CI and found that:

- The annual report template did not include a date field, and therefore, we were unable to determine whether ten reports were submitted by the deadlines established in campus policy. Additionally, two annual reports that included submission dates were not submitted timely.

- 11 of the annual reports reviewed did not include the methods used to review and verify the information contained in the report, as required in the report template.

- Six annual reports were not submitted to the faculty senate by the deadlines established in campus policy.

- One annual report did not include the submission date or a recommendation and was not signed by the designated individual to whom it was submitted.

- One annual report did not include the designated individual's recommendations.

Timely submission of reports and adequate documentation of reviews improves accountability and oversight and increases the likelihood that CI will be compliant with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus:

a. Update the EPRC tracking system for five-year comprehensive reviews to include all active CI, and perform five-year reviews for all active CI on campus.

b. Provide the report of the EPRC's periodic five-year reviews to the president as required by campus policy.

c. Review and update the annual report template as necessary to address the issues noted above, and provide training and guidance to personnel involved in the annual review process to ensure that all requirements are met.

MANAGEMENT RESPONSE

We concur.

The faculty senate will send reminders for five-year reviews of CI.

The new cloud system will automatically track five-year reviews and route the reports to the president's office.

The new system and templates will have instructions on how to use them.

Additionally, ITS will provide training to the staff that will be assigned to manage this system in each college.

The faculty senate will update the templates to include the date and the instructions for all users, including the document reviewers. The new system will use these updated templates.

Estimated completion date: October 31, 2022

3. SUSPENSION AND DISSOLUTION

OBSERVATION

Suspension and dissolution of CI did not always follow campus requirements.

We found that:

- The Center for Teaching English Learners was dissolved in 2021; however, the campus was unable to provide evidence that recommendations for a change in status to "terminated" were made by the provost or that the final decision for termination was made by the university president, as required by campus policy.

- The California Council on Economic Education (CCEE) was placed on inactive status in January 2022. The CCEE was established in 1999; however, it was not included in the five-year review tracking system used by the EPRC and, therefore, had never received a periodic review. We further noted that the CCEE had not submitted an annual report in 2020 or 2021 and, therefore, should have been placed on inactive status per campus policy.

Adequate review and approval of suspended and dissolved CI ensures that the campus is aware of CI activities and reduces the risk that campus resources will be misappropriated.

RECOMMENDATION

We recommend that the campus review and update the campus policy as necessary to reflect current practices for review and approval of suspended and dissolved CI.

MANAGEMENT RESPONSE

We concur. The findings of this audit were shared with the EPRC and faculty senate. Campus policies will be reviewed and updated as necessary to ensure proper review and approval of suspended and dissolved CI.

Estimated completion date: October 31, 2022

4. EXPENDITURES

OBSERVATION

Authorization and administration of CI expenditures needed improvement.

We reviewed 50 CI expenditures (22 campus and 28 auxiliary expenditures), and although the disbursements were appropriate in nature, we found that three of the 22 campus disbursements did not contain evidence of expenditure approval. The campus did not always require invoice approval when there was an underlying purchase order for the procurement of goods and services. However, the three-way match for goods was not documented in campus procedures, and the campus should obtain invoice approval or verification of services rendered for service-related disbursements.

Additionally, we reviewed three purchases of equipment and found that one piece of sensitive equipment valued at $918 was not reported to property management. Therefore, it was not assigned an asset ID or tag number and was not included in the asset management system for tracking.

Further, one of the four travel claims we reviewed was not submitted within 30 days of completion of travel, as required by campus procedures.

Proper authorization of expenditures increases assurance of appropriate administration of CI funds and decreases the risk that errors, inconsistencies, or misappropriation will occur. Adequate accountability for assets, especially those that contain confidential information or have access to such protected information, decreases the risk of loss and inappropriate use of auxiliary resources and decreases exposure to information security breaches.

RECOMMENDATION

We recommend that the campus:

a. Update accounts payable policies to align with current practices for review of a three-way match for purchases of goods and include a requirement for invoice approval or verification of services rendered for purchases of services.

b. Provide refresher training and guidance to the appropriate CI and accounts payable personnel to reiterate key disbursement policies and procedures, including expenditure authorizations and travel procedures noted above.

c. Assign an asset ID for the equipment noted above and provide training to the appropriate CI personnel regarding UEC policies for tagging and tracking sensitive equipment.

MANAGEMENT RESPONSE

We concur.

a. AP and procurement will document a policy on invoice approvals that will include a three-way match for goods received and department approval for services.

b. AP will provide refresher training and additional guidance to key personnel on key disbursement policies and procedures, including expenditure authorizations and travel procedures.

c. The IPAD Pro will be assigned an asset ID by property management, which will provide training on policies regarding sensitive equipment.

Estimated completion date: October 31, 2022

5. PCI COMPLIANCE

OBSERVATION

The campus did not have a formal governance and oversight structure to ensure that all PCI requirements were being addressed on an annual and ongoing basis.

Specifically, the existing structure did not ensure that documentation of all payment process flows and corresponding self-assessment questionnaires, and assurance of PCI compliance in all products used in credit card processing during CI activities was being performed.

RECOMMENDATION

We recommend that the campus implement formal governance to provide ongoing oversight to ensure that all PCI requirements are being addressed on an annual and ongoing basis.

MANAGEMENT RESPONSE

We concur. Our campus will implement formal governance to provide ongoing oversight to ensure that all PCI requirements are being addressed on an annual and ongoing basis.

Estimated completion date: October 31, 2022

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

At California State University, San Bernardino (CSUSB), individual academic units or administrative divisions of the university are responsible for overseeing CI, including ensuring compliance and operational integrity. Additionally, the office of academic research within the Academic Affairs division is responsible for compiling an official list of all CI annually. The college deans and CI directors are directly responsible for the day-to-day operations and programmatic activities of CI. Additionally, the EPRC is responsible for review of CI and advises the faculty senate, the provost, and ultimately the university president on decisions of acceptance and continuation.

The most recent report to the CO indicated that CSUSB had 26 recognized CI. CI activities vary greatly and include, but are not limited to, delivering programs and services to help facilitate the growth of entrepreneurial ventures; promoting the optimal development and well-being of the children and families within the geographic region; providing opportunities in research, assessment, and professional development to enhance collaborations between program areas, faculty, graduate students, and community agencies; and developing applied and innovation education solutions for industry, academia, and government. Some examples of the diverse nature of CI on campus include the Inland Empire Center for Entrepreneurship; Institute for Child Development and Family Relations; University Center for Developmental Disabilities; Institute for Research, Assessment, and Professional Development; and the Cybersecurity Center.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from January 10, 2022, through February 25, 2022. 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 January 1, 2020, to February 25, 2022.

Specifically, we reviewed and tested:

- CI administration and organization, including clear lines of organizational authority and responsibility, documented delegations of authority, and current and comprehensive policies and procedures.

- Processes to identify, review, and report all authorized CI to the Chancellor's Office.

- Establishment and approval of CI, including alignment with the university mission and strategic plan.

- Operation and monitoring of CI, including annual reporting and periodic reviews.

- Suspension and dissolution of CI.

- Appropriate placement and administration of CI funds, including sponsored program funds, in accordance with governmental and CSU regulation.

- Appropriate reimbursement to the campus by CI for services and resources used.

- CI activities, including the sale of goods and services, and the administration of conferences and other events, including appropriate approvals, financial controls, and risk management review, when necessary.

- Processes to ensure that CI expenditures are appropriate, allowable, authorized, and processed in accordance with CSU and campus policy, as well as relevant governmental regulations.

- Activities and risks associated with the specific CI selected for review.

- Compliance with PCI standards for credit card processing during CI activities.

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 and administrative controls, included interviews, walkthroughs, and detailed testing on certain aspects of campus CI. Our review was limited to gaining reasonable assurance that essential elements for the administration of campus CI were in place and did not examine all campus CI.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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 2018-18, *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
- CSUSB Faculty Administrative Manual No. 105.4, *Policy Guidelines for the Formation and Review of Institutes and Centers*
- CSUSB *Accounts Payable Procedures*
- CSUSB *UEC Equipment Management Policy*
- CSUSB *Travel Procedures*

AUDIT TEAM

Audit Manager: Christina Chen
Internal Auditor: Stephanie Martinelli