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November 6, 2019

Report #18-202

Dr. Gayle E. Hutchinson, President
California State University, Chico
400 West First Street
Chico, CA 95929

Dear Dr. Hutchinson:

Pursuant to a request from your office and approval from the Chair of the Board of Trustees' Committee on Audit on August 24, 2018, Audit and Advisory Services has conducted an investigation in response to allegations raised by California State University, Chico (campus) administrators. Specifically, we investigated allegations that a professor (professor A) used the campus name, facilities, and other resources inappropriately, had a conflict of interest due to his multiple roles, used University Foundation or instructionally related activities (IRA) funds inappropriately, used grant funds inappropriately, and had for-profit business ventures that conflicted with applicable criteria.

We substantiated that professor A misused the campus's name and other resources to promote and operate his non-profit business and misused campus facilities to conduct a for-profit training course without paying for the use of the facilities. The professor also engaged in multiple roles that made it difficult to determine in which capacity or whose interest he was acting when he solicited donations. Further, he improperly used IRA funds to pay for travel expenses related to his non-profit for individuals who were not students and paid a student to work on his for-profit training course using IRA work-study funds.

In addition, professor A falsified invoices in an attempt to receive reimbursement for expenses for which he did not have proper documentation and increased students' pay in a way that obfuscated the true purpose of the expenditure. Professor A also violated campus policy when he required students to buy his electronic course materials.

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Jack McGrory, Chair, Committee on Audit
Timothy P. White, Chancellor

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SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY, CHICO
MISUSE OF CAMPUS RESOURCES AND IMPROPER REIMBURSEMENT CLAIMS

Investigative Report 18-202
November 6, 2019

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ABBREVIATIONS

| | |
|------------|---|
| Campus | California State University, Chico |
| Center | Center for Entrepreneurship |
| COB | College of Business |
| Foundation | The University Foundation, California State University, Chico |
| IRA | Instructionally Related Activity |
| SAGE | Students for the Advancement of Global Entrepreneurship |
| SUSI | Study of the United States Institute |
| TRIS | Turning Risk into Success |

EXECUTIVE SUMMARY

ALLEGATIONS

Allegations were made related to a professor (professor A) in the California State University, Chico (campus) College of Business (COB). It was alleged that professor A:

- Used the campus name, facilities, and other resources inappropriately and not in compliance with applicable criteria.
- Had a conflict of interest due to his multiple roles as a principal investigator on a federal grant, chief executive officer of a non-profit, campus faculty member, and advisor to a campus student group.
- Used University Foundation (Foundation) or instructionally related activities funds inappropriately.
- Used Study of the United States Institute (SUSI) grant funds inappropriately.
- Had for-profit business ventures that conflicted with applicable criteria.

INVESTIGATION RESULTS

Misuse of the Campus Name, Facilities, and Other Resources

Professor A misused the campus's name and other resources to promote and operate his non-profit business and misused campus facilities to conduct a for-profit training course without paying for the use of the facilities.

Conflict of Interest

Professor A engaged in multiple roles that made it difficult to determine in which capacity or whose interest he was acting when he solicited donations.

Misuse of Instructionally Related Activity (IRA) Funds

Professor A improperly used IRA funds to pay for travel expenses related to his non-profit for individuals who were not students. He used Foundation funds for similar purposes but had broader spending authority for those funds. The professor also paid a student to work on his for-profit Turning Risk into Success (TRIS) venture using IRA work-study funds.

Misuse of SUSI Grant Funds

Professor A falsified invoices in an attempt to receive reimbursement for expenses for which he did not have proper documentation and increased students' pay in a way that obfuscated the true purpose of the expenditure.

EXECUTIVE SUMMARY

Violation of Campus Policy Regarding Faculty Profits on Course Materials

Professor A violated campus policy when he required students to buy his electronic course materials.

INTRODUCTION

BACKGROUND

As part of this investigation, we found the term “SAGE” was used in reference to two organizations: SAGE Global, professor A’s non-profit corporation, and the SAGE student organization on campus, in which students mentor teens in creating and operating their own businesses. This ubiquitous use of the name was a point of confusion for the campus, students, and even professor A. There was a general lack of clarity regarding where the division lay between the two entities.

Students for the Advancement of Global Entrepreneurship (SAGE Global)

Professor A founded SAGE Global, a 501(c)(3) non-profit corporation, for which he is the chief executive officer. It is an international entrepreneurship program for teens. According to SAGE Global’s website, the program combines three components: curriculum, mentoring, and competition. The curriculum helps teens identify and operate real businesses that solve critical problems. The teens are then connected with campus students or other allies who mentor them, and the teens later showcase their businesses with written reports and live presentations at competitions judged by community leaders. Professor A funds the corporation’s activities through donations and income earned through registration fees for his TRIS educational workshops described below.

SAGE Student Organization

SAGE is also the name of a campus student organization whose mission is to create the next generation of entrepreneurial leaders whose innovations address some of the world’s most urgent needs. Members go through a certification process created by professor A and mentor teens from across the nation, showing them how to create and operate their own business. Professor A is the faculty advisor for the SAGE student organization, and his classroom students can earn extra credit for participating in it. Professor A funds the student organization from a combination of sources that include campus, Foundation, and SAGE Global funds.

SAGE World Cup and Other Competitions

To participate in SAGE, a team of teenagers from a school or community organization is created. Teams are often mentored by campus students who are part of the SAGE student organization. At the end of each year, there is a regional and/or national competitive tournament in the United States where teams present their results, both orally and in writing. For example, teams may first participate in SAGE California, a regional competition, and advance to SAGE USA, the national tournament. The top teams are invited to participate in an international tournament called the SAGE World Cup (World Cup). The World Cup is held in different countries, and SAGE teams from many countries compete.

Funding for the World Cup and other competitions comes from SAGE Global, campus, and Foundation sources.

Turning Risk into Success

Professor A leads the TRIS workshops, which are marketed to teachers. The two-day workshop features a curriculum focused on entrepreneurship and teaching teenagers how to identify and operate their own business. Teachers are encouraged to take the course and become TRIS-Certified Master Teachers so they can teach the curriculum to their students. In addition to charging teachers to attend the workshop, professor A requires schools that want to implement the curriculum to pay a licensing fee to SAGE Global, although according to professor A, as of April 2019, no one had purchased a license.

Office of Research and Sponsored Programs

The Office of Research and Sponsored Programs provides support to campus faculty and others in their research, scholarly activity, and community service programs. Their services include orientation for new principal investigators, management of grant funds, and submission of financial reports.

The University Foundation, California State University, Chico

The Foundation is the steward of gifts for the campus. Its mission is to support the campus's strategic plan by raising, investing, and disbursing funds "to fuel the growth and excellence of the University." Donations to the SAGE student organization go to an account within the Foundation.

Study of the United States Institute

The Study of the United States Institute (SUSI), a program of the Department of State, provides multinational groups with a deeper understanding of United States society, education, and culture. The SUSI program on campus brought approximately 20 student leaders from Africa to the U.S. for a five-week program focused on social enterprise development, with an examination of social entrepreneurship. The program included a four-week academic seminar, meetings with U.S. peers and regional business leaders, leadership training, community service, site visits to topically relevant enterprises, a one-week study tour to Missouri and Washington, D.C., and the completion of team-designed business plans related to the students' social entrepreneurial interests. Professor A was involved in the campus's SUSI program during the summers of 2017 and 2018.

CAMPUS ACTIONS AND NOTIFICATIONS

In April 2018, the campus began to have concerns related to potential conflicts of interest and misuse of campus resources on the part of a professor and began to conduct an inquiry. In August 2018, an employee in the campus's Office of Research and Sponsored Programs noted that some practices on professor A's SUSI grant were out of the ordinary and raised those concerns to administrators. On August 24, 2018, the campus president requested that the Office of the Chancellor conduct an investigation into the concerns that resulted from their inquiry; the request was endorsed by the chancellor and approved by the chair of the Board of Trustees' Committee on Audit.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we reviewed applicable policies and procedures, as well as information gathered by the campus. We also obtained various financial records from the campus and the Foundation, online information about SAGE Global and its related activities, and professor A's campus email. In addition, we interviewed campus staff members, including professor A, as well as several students involved with SAGE activities. We reviewed information for the time frame of January 1, 2016, through December 31, 2018, unless otherwise noted in the report.

RESULTS OF INVESTIGATION

ALLEGATIONS AND FINDINGS

Allegations were made related to a professor (professor A) in the California State University, Chico (campus) College of Business (COB). It was alleged that professor A:

- *Used the campus name, facilities, and other resources inappropriately and not in compliance with applicable criteria.*
- *Had a conflict of interest due to his multiple roles as a principal investigator on a federal grant, chief executive officer of a non-profit, campus faculty member, and advisor to a campus student group.*
- *Used University Foundation (Foundation) or instructionally related activities funds inappropriately.*
- *Used Study of the United States Institute (SUSI) grant funds inappropriately.*
- *Had for-profit business ventures that conflicted with applicable criteria.*

Misuse of the Campus Name, Facilities, and Other Resources

Misuse of the Campus Name and Other Resources

The website for SAGE Global, professor A's non-profit organization, listed the campus address, as well as professor A's campus phone number and email address as the contact information, even though SAGE Global had its own email domain. In fact, in December 2018, professor A questioned why he was not receiving emails sent to him at a SAGE Global address. The SAGE Global chief operating officer (COO) replied that professor A had always had a SAGE Global email account and that he had lobbied professor A to use it on more than one occasion many years ago, but professor A continued to default to his campus email account. The COO asked professor A whether he was ready to begin using his SAGE Global account, but professor A continued to use his campus email account for issues related to SAGE Global.

Professor A also used COB letterhead for a section of the SAGE Information Handbook titled "How to Start a SAGE Program in Another Country" and used a campus email address for a SAGE Global listserv.

As discussed in more detail below, professor A held for-profit workshops using campus facilities. The marketing for the workshop on the SAGE Global website promised that students who completed it would receive a certificate of completion from the campus's Center for Entrepreneurship (Center). Despite cautions from campus administrators, professor A used the campus's logo, not the center's, on the certificates. Professor A told us he was never told that he could not use the campus logo, just that he might want to be careful. However, according to a May 29, 2018, email on which professor A was copied, the interim dean said he agreed that the certificates should not indicate an affiliation with the campus or COB, and that the professor was "happy to clean up that language." Nevertheless, certificates of completion issued by professor A in January 2019 still included the campus logo.

RESULTS OF INVESTIGATION

In each of these situations, using the campus name and logo, using COB letterhead, and listing campus-affiliated contact information implies that the campus and/or COB supports, endorses, or is affiliated with SAGE Global.

Misuse of Campus Facilities

Professor A developed a for-profit training workshop using a curriculum he called TRIS and hosted the workshops in the dean's conference room in the COB without paying for the use of the facilities. The curriculum was designed to help teens identify and operate their own business. Teachers and SAGE mentors were encouraged to attend the workshop and become TRIS-Certified Master Teachers. Campus students involved in the SAGE student organization who wanted to be SAGE mentors were required to take the TRIS workshop, and professor A offered it to them free of charge. Course costs to teachers varied depending on the timing of the registration and whether or not the attendee was from the U.S., but the early registration rate for U.S. attendees was \$350.

Professor A said he has held six TRIS workshops since 2015, but two had zero paying attendees, because all were campus students. He also told us that the most attendees in any one workshop was 17, but about half of them were campus students. However, we found an email professor A wrote in January 2019 just after a TRIS workshop that said he had 17 participants attend at \$350 each (a total of \$5,950).

When the TRIS courses started a few years ago, participants were instructed to make their registration payments to SAGE Global. Professor A told us he gave participants the option to have their payments go to SAGE Global or the university (a Foundation account called SAGE fund). If they asked professor A where he wanted their money to go, he said he told them that the Foundation took a 5 percent administrative fee, but SAGE Global did not. Professor A said he was not sure how many payments went to the Foundation versus SAGE Global, but he said he thought the split was about 50/50. However, we only saw three TRIS-related payments deposited with the Foundation between fiscal years 2014/15 and 2017/18. Because not all registration fees went to the Foundation and we do not know the number of attendees who were required to pay for the course, we were unable to determine the full amount collected by professor A for the TRIS courses.

The interim dean of the COB told professor A that the TRIS money should go to the university because he was using campus facilities, and for the January and May 2019 workshops, professor A listed the Foundation as the payee on the registration forms. After that change, 25 payments totaling \$11,200 were deposited in the Foundation account for these workshops. However, the Foundation was removed as the payee for the workshop scheduled for August 2019. Instead, registrants were instructed to make their checks out to SAGE and send them to the SAGE Global senior vice president. In addition, the registration form still listed the campus as the location for the workshop. Despite this, the dean of the COB told us that no campus facilities were used for the August workshop.

Conflict of Interest

Ambiguity Regarding Solicitation of Donations

Professor A is the chief executive officer of SAGE Global, as well as the faculty advisor for the SAGE student organization. He noted in an email that "EVERYTHING I do is integrated." However, this

RESULTS OF INVESTIGATION

integration can lead to confusion, and professor A told us that sometimes the delineation between the entities is not even clear to him.

According to a campus executive, professor A said he allows and directs donors to donate directly to SAGE Global. The professor also gives donors the option of donating to the Foundation but tells them that the Foundation will take a 5 percent administrative fee if they choose that option, similar to what he told TRIS participants. The executive questioned whether presenting the options this way was misleading to donors. According to professor A, it is the donors who ask him where to send their donations, and it is his policy to place the donation where the donors want it. According to SAGE Global's tax documents, the corporation received over \$400,000 in donations between 2014 and 2018. During that same time, professor A received \$173,550 in donations to SAGE's Foundation account.

He further explained that there is no SAGE California or SAGE USA entity (those are names for the regional and national competitions), and "therein lies the fuzzy line." Professor A said that he tries to put funds for SAGE California and SAGE USA in the Foundation, though that explanation differs from asking donors where they want the funds to go.

The campus does not know the amount and name of the donor for donations that go directly to professor A's non-profit corporation. Even though professor A frequently ties the campus name to the SAGE name when soliciting donations, the campus has no oversight of funds deposited with the non-profit corporation.

Misuse of Instructionally Related Activities Funds

Travel Expenses

The IRA program provides financial support for student competitions, performances, and athletics that occur outside the classroom, as well as club, intramural, and recreational sports. IRA funds may not be used for non-students to travel and/or participate in IRA activities. Although professor A used IRA funds appropriately for students to attend and participate in SAGE competitions, he improperly spent more than \$5,200 in IRA funds for the following:

- A portion of hotel and food expenses for at least 12 non-students at the 2016 SAGE USA competition in Sacramento, California. Due to inconsistencies and a lack of relevant information in professor A's reimbursement claim for these expenses, we were not able to determine the exact dollar amount he was reimbursed for the non-students.
- Flights for three former SAGE student group members to attend the 2016 SAGE World Cup in the Philippines. The cost of the flights totaled \$2,852.39.
- Flight, mileage, and two nights of lodging for one non-student to attend the 2017 SAGE World Cup in Ukraine. These expenses totaled \$964.23.
- Flight for another non-student to attend the 2017 SAGE World Cup in Ukraine. This attendee was reimbursed directly from the campus for \$1,296.86.

RESULTS OF INVESTIGATION

In addition to using IRA funds to reimburse travel expenses related to SAGE competitions, professor A also used Foundation funds for similar expenses for non-students. However, Foundation funds may be used more broadly than IRA funds. As a result, we did not take exception to professor A's use of those funds.

Work-Study Funds

The IRA program, through its advisory committee, also allocates work-study funds annually, specifically for students working in support of IRA-certified activities and programs. The funds cannot be used for competitions, but can be used for students supporting a competition. Professor A received work-study funding for SAGE, which is a certified activity, during fiscal years 2017/18 and 2018/19. In his work-study funding request, the professor asserted that the funds would be used to provide administrative support for SAGE students who plan, organize, and deliver three major SAGE events. However, one SAGE student said that professor A instructed him to spend his work-study hours on creating learning materials for professor A's for-profit TRIS workshop, described previously. The student earned about \$3,600 from IRA work-study funds over the two years he worked for professor A. According to the student, he charged all his work-study hours to work related to the TRIS program. Professor A's use of IRA work-study funds in this scenario was inappropriate because he used them to support his for-profit venture.

Misuse of SUSI Grant Funds

Falsified Invoices

As part of the SUSI grant, students from Africa come to the U.S. to, among other things, experience U.S. culture. Toward that end, in 2018, the students were taken to events at a local raceway and an IMAX theater. According to professor A, he was unable to attend the events but gave cash to one of the campus students serving as a mentor to pay for the admission tickets for the SUSI students. Professor A told us he tried later to get receipts for the purchases but was not able to, so he created falsified invoices totaling \$510 in order to obtain reimbursement. When he was unable to obtain receipts, he said he tried talking to campus representatives about what to do and was told he had to "get a receipt or eat the cost." The individuals reviewing the reimbursement requests questioned the requests because professor A submitted invoices (i.e., bills) instead of receipts (i.e., proof of payment) and because the invoices were identical in format even though they were ostensibly from different entities. Because professor A could not provide a receipt, he was not reimbursed for these expenses.

In addition, professor A admitted to falsifying another invoice we questioned. This invoice was related to a gathering of SUSI students in Ghana. Specifically, in order to recover other costs he said he incurred but for which he did not have receipts, professor A and the consultant he hired to assist with the grant added costs to an invoice from a Ghanaian company. The original invoice from the company converted to \$1,303 in U.S. dollars. After the modifications made by professor A and the consultant, the invoice total increased by \$2,447 to \$3,750, for which professor A was reimbursed from SUSI grant funds.

Professor A acknowledged this was an error in judgment, but said that at no time were his actions intended for self-enrichment; he said he was simply trying to recoup his losses for expenses he had not been reimbursed for.

RESULTS OF INVESTIGATION

Professor A Obfuscated the True Purpose of Some Expenditures

In 2018, professor A wanted SAGE student mentors to accompany the SUSI students on a trip to Kansas City and Washington, D.C. He said he paid for their airfare using his credit card and increased the number of hours for which the students were paid by the grant; the students then used the additional money to pay professor A for the cost of their airfare. This scenario was corroborated by one of the students. According to professor A, the students earned the money but had to pay for their airfare. By paying the students an additional amount and subsequently having them reimburse him for the cost of their airfare, professor A obfuscated the true nature of the expenditures.

Violation of Campus Policy Regarding Faculty Profits on Course Materials

Beginning in fall 2017, professor A required his students to purchase a “course pass” (electronic textbook) online to be used in place of a physical textbook. Students were told that if they did not do so, they would be administratively disenrolled from the course. The cost of the course pass was \$89.95. From fall 2017 through spring 2019, professor A earned approximately \$30,000, representing 50 to 75 percent of revenues from course pass sales. The remaining amount went to cover costs such as software fees and a revenue split with the individual who administered the website that sold the materials.

Professor A told us the now-former dean of the COB gave him approval in 2017 to sell the course pass; however, she denied ever doing so. She told us there is a process faculty have to follow to sell their own course materials, which includes sending them to the bookstore, whose staff check for copyright requirements and handle the sale of the materials. The now-former dean said she would not want any faculty to sell course materials on the side. Furthermore, campus Executive Memo 92-043, *Interim Policy Regarding Faculty Profits on Course Materials*, prohibits faculty from personally profiting from the local sale of course materials to campus students unless those materials are the result of substantial creative effort by the faculty member and have undergone substantial peer review. Even when those conditions are met, faculty are limited to a royalty of 10 percent of the local sales prices. According to the current associate dean of the COB, professor A’s course pass did not undergo peer review. Because the materials were not peer reviewed and professor A took a royalty exceeding 10 percent, professor A violated the campus policy regarding faculty profits on course materials.

RECOMMENDATIONS

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

We recommend that the campus:

1. Remind all campus employees about appropriate and inappropriate uses of the campus's name, facilities, and other resources.
2. Notify all campus employees that fundraising efforts made in their capacity as campus employees should be coordinated with/through University Advancement.
3. Remind the individuals responsible for reviewing requests for reimbursement about what their review should include. This includes reimbursements from IRA funds, as well as Foundation funds.
4. Evaluate the appropriateness of the role of SAGE Global in activities that involve students or campus or Foundation funds.
5. If SAGE Global remains connected with activities that involve students or campus or Foundation funds, consider renaming the SAGE student group to help differentiate it from SAGE Global.
6. Require professor A to stop selling his CoursePass materials until they undergo peer review. If the materials are approved, ensure that professor A follows the appropriate sales process and that his royalties are reduced to the 10 percent level allowed by campus policy.
7. File the required reports under Executive Order 1104, *Campus Reporting of Fiscal Improprieties*, now that it has information pertaining to a dollar amount of the fiscal improprieties.

CAMPUS RESPONSE

We concur. The campus will:

1. Establish a process to inform and remind employees about the appropriate and inappropriate uses of the campus's name, facilities, and other resources.

Estimated completion: March 31, 2020

RECOMMENDATIONS

2. Develop a process to educate employees that any fundraising efforts made in their capacity as campus employees must be coordinated through University Advancement.

Estimated completion: March 31, 2020

3. Develop a process to ensure that employees with signature authority understand their fiduciary responsibilities. In addition, the campus will provide training to appropriate employees related to reimbursement requests and determining the appropriateness of expenditures based on funding source (e.g., student fee, state, and auxiliary funds).

Estimated completion: March 31, 2020

4. Evaluate the appropriateness of the role of SAGE Global in activities that involve students or campus or Foundation funds.

Estimated completion: March 31, 2020

5. Rename the SAGE student group to help differentiate it from SAGE Global.

Estimated completion: March 31, 2020

6. Require professor A to stop selling his CoursePass materials.

Estimated completion: November 30, 2019

Further, revise the policy governing faculty profits on course materials and communicate the changes to all faculty.

Estimated completion: September 30, 2020

7. Comply with the requirements specified in Executive Order 1104, *Campus Reporting of Fiscal Improprieties*, including reporting, determining whether to contact the appropriate prosecuting authority, evaluating restitution, and considering discipline. Discipline should be imposed in accordance with the California Faculty Association's Collective Bargaining Agreement, if warranted.

Estimated completion: March 31, 2020