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December 15, 1986

F-633

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

We have completed our audit of the fiscal and administrative management of the California State University, Long Beach Foundation (foundation) and the California State University, Long Beach (university). When this audit was requested, we were provided with copies of several allegations that had been made against the foundation and the university. The allegations that we found to have merit are included in the attached audit report (F-633). In this letter, we address the allegations that we were unable to substantiate or, in our opinion, are without merit.

Allegation: "At least one university administrator has received a personal loan from student body funds."

Background: In October 1984, the director of university relations obtained a \$10,000 loan from the 49er Shops. The 49er Shops' board of directors approved the loan in response to the administrator's request to help defray the costs of an applicant for a Federal Communications Commission (FCC) interim operating license at a San Diego radio station. In return, the applicant agreed to donate the San Diego radio station's profits to the university's radio station.

In August 1986, the director of university relations repaid the loan with interest, and in September 1986, the FCC approved the applicant's interim operating license. As of October 31, 1986, the university had not received any proceeds from the profits of the San Diego radio station; however, because of high start-up costs, the radio station does not expect to realize a profit until its second year of operations.

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Response: We interviewed the director of university relations and the general manager of the 49er Shops. We also reviewed applicable laws and the articles of incorporation and bylaws of the 49er Shops. Further, we reviewed accounts receivable records and board meeting minutes of the 49er Shops.

We found that the 49er Shops is a nonprofit auxiliary organization that operates the campus book store and food services but does not rely on or receive student-body funds. We also found that the law does not prohibit auxiliary organizations from making personal loans for educationally related purposes. By approving the loan, the board of directors hoped to provide increased opportunities for the university's radio station and communications students. We did not find any evidence that the 49er Shops made any other personal loans.

Allegation: "Contrary to state statutory and administrative law, the CSULB band was used for a political purpose."

Background: In September 1981, the university's marching band played at the gathering at which Mr. Deukmejian announced his candidacy for governor. The band received \$500 compensation for performing.

The university sought the advice of legal counsel following the event. The senior university counsel for the California State University (CSU) Office of the Chancellor advised the university that the band could participate at an event such as a political rally provided that its participation could not reasonably be viewed as an endorsement of a particular political candidate. In addition, the senior university counsel concluded that, since the university received a donation that reasonably reflected the value of the services provided, the activity could not be viewed as a misuse of public resources.

Response: We reviewed applicable laws and interviewed the director of university relations. We also interviewed the senior university counsel at the CSU Office of the Chancellor who advised the university on the incident.

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Relying upon the legal interpretation provided by the senior university counsel for the CSU Office of the Chancellor, we concluded that the band's participation at the political rally could not be reasonably viewed as an endorsement of a particular political candidate or as a misuse of public funds.

Allegation: Equipment purchased for the microbiology department in 1978 has remained unused since it was purchased.

Background: During fiscal year 1982-83, an audit of the microbiology department's equipment revealed that more than \$250,000 of equipment purchased in 1978 had never been used.

Response: We interviewed the dean of the School of Natural Sciences, the department chairperson, the interim department chairperson, and the department's equipment technician. We also visited the microbiology building and observed at various locations the storage of the equipment alleged to be unused. In addition, we reviewed inventory listings to determine whether the School of Natural Sciences subsequently purchased equipment of the same description.

We found several pieces of equipment, purchased in 1978, that were still in their original boxes; there were no apparent signs of use. Our review of the inventory listings indicates, however, that the School of Natural Sciences has not subsequently purchased equipment of the same description.

According to the department chairperson, who was responsible for purchasing the equipment, the equipment was purchased to support a significant increase in projected enrollment in microbiology classes. However, because of a shift in the field of microbiology, the projected enrollment never materialized. According to the dean of the School of Natural Sciences, the equipment was retained because the school plans to eventually use it to replace older equipment and to equip new laboratories. He stated that a new faculty member recently used some of the equipment to equip a research laboratory.

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Allegation: A department chairperson used university equipment for personal purposes.

Background: In fiscal year 1982-83, an inventory of the microbiology department's property disclosed that certain items of equipment were missing. Upon further investigation, the interim chairperson of the department determined that the primary purpose of the missing equipment was for melting, shaping, polishing, and setting stones and precious metals. The interim chairperson filed a grievance with the vice president for faculty and staff relations alleging that the equipment had been purchased for the department chairperson's wife to use in making jewelry.

Response: We interviewed the vice president for faculty and staff relations and reviewed the documentation contained in the grievance file.

We found that the vice president for faculty and staff relations adequately investigated the grievance following normal grievance procedures.

Allegation: "Budgetary allocations have been obtained under false pretenses, e.g., Library."

Background: According to the person making the allegation, the university created an overcrowded condition in the existing library to justify budgetary allocations for a new library--the North Campus Addition. The university library houses an art museum, foundation offices, deans' offices, computer labs, and academic advisory offices.

Response: We reviewed pertinent policies and procedures. We also interviewed the assistant vice chancellor for physical planning and development, the assistant vice president for physical planning and facilities management, and the principal capital outlay analyst for the Office of the Legislative Analyst. Finally, we reviewed the program justification for the new library for compliance with the identified policies and procedures.

We found that budgetary allocations for the North Campus Addition were obtained following normal capital outlay funding procedures. Budgetary allocations for capital

outlay projects are awarded after detailed analysis and review by the CSU Office of the Chancellor, the Department of Finance, and the Office of the Legislative Analyst. Further, we found that there are no policies that specifically prohibit the use of library space to house activities that are not related to the library.

Allegation: The university has not corrected serious health hazards in the microbiology building.

Background: In May 1983, the microbiology department chairperson reported a variety of potentially dangerous flaws in the design of the microbiology building. According to her report, these flaws resulted in a deficient fire alarm system, health hazards in the animal building, safety concerns in the laboratory preparation room, health hazards from pigeon waste, and a potential "biohazard" in the ventilation system.

Response: We interviewed the assistant vice president for physical planning and facilities management, the assistant vice president for personnel services, and three people who have chaired the microbiology department. We also reviewed correspondence files.

We found that the university has corrected or is investigating each of the purported health hazards.

Allegation: "Theft of files, nepotism, and failure to hold favored faculty responsible for normal faculty duties."

Background: In September 1982, a faculty member refused to perform his registration duties because he believed that the assignments for registration duty were unfair to department members who lacked seniority. At the time, university officials suggested that the department chairman withhold the pay of the faculty member. Instead, the department chairperson reprimanded the faculty member in a university memorandum for not performing the registration duties. The faculty member then filed a grievance asking that the "offending" memorandum be removed from the files of the department and that all copies circulated to members of the

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university community also be withdrawn. In July 1983, the campus representative for the grievance ruled in favor of the grievant and removed the memorandum from the department files and returned to the grievant all other copies of the memorandum.

Response: We interviewed the vice president for faculty and staff relations and the campus representative for the grievance proceedings. We also reviewed the documentation contained in the grievance file related to these allegations.

We found that the campus representative for the grievance acted within his authority and documented his justifications for removing the memorandum from departmental files. We could not find any evidence of nepotism or favoritism.

Allegation: The operation of the business office demonstrates financial mismanagement.

Background: In 1985, the trust manager in the business office embezzled \$13,400 from the university trust funds.

Response: We interviewed the person who discovered the embezzlement, and we identified the control weaknesses that enabled the embezzlement to occur. We also reviewed and evaluated controls established after the embezzlement, and we tested compliance with the new controls.

We found that the new control procedures, if applied as prescribed, correct the weaknesses that existed at the time of the embezzlement. Further, the business office staff is complying with the new procedures.

Allegation: During the fall 1983 semester, a history teacher lived in the eastern United States while drawing a full salary from the university.

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Response: We interviewed the director of university relations and the chairperson of the history department. We also examined faculty records maintained by the history department and the Division of Information Management and Analysis.

We found that, for the fall 1983 semester, the history teacher taught a history class on campus and fulfilled other university assignments, and, therefore, did not appear to be living in the eastern United States during this period.

Allegation: The university sponsored research that was purported to be objective but that was secretly funded by farm growers.

Background: From 1978 through 1980, the foundation collected approximately \$75,000 from farm growers to fund a research project. The research project, an analysis of the extent to which the Agriculture Labor Relations Board (ALRB) used precedents established by the National Labor Relations Act in arriving at its decisions, resulted in a report that was issued in 1982.

The project was unusual in that the principal researcher was not in any other way affiliated with the university, the research was conducted away from the university, and the president of the university showed a continuing interest in the project. In addition, it was purported that the principal researcher for the project was aware of the sources of funding for the project even though the sources of funding were not public knowledge until after the report was issued.

In 1983, in response to questions raised by the press about the university's involvement with the project, the academic senate created an investigative committee. The committee's report was inconclusive as to whether the research was biased. The report stated, "Put in the best light possible, it would appear that the university administration cannot say with confidence what information the researcher may have had as to contribution sources. This does not necessarily mean that the study itself was biased deliberately in favor of the contributors as a result of knowing who contributed."

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Response: We interviewed the director of grants and contracts of the foundation and a member of the academic senate investigative committee formed to review the ALRB project. We reviewed the report written by the academic senate's investigative committee; however, we were unable to obtain a copy of the research report.

We found that it is not unusual for the principal researcher to know the sources of funding for projects as most researchers take an active role in soliciting funds for their projects. We concur with the investigative committee's observation that knowing the source of funds does not necessarily result in biased research.

Allegation: An inordinate number of grievances have been filed against the university, and a large number of the grievants are successful. Recent grievances have cost the State thousands of dollars, and university funds may be inappropriately used to pay successful grievances that include monetary awards.

Response: We interviewed the director of collective bargaining for faculty and staff relations for the CSU system and the deputy business manager-budget. We prepared a comparative analysis of the number of grievances per 100 employees at each campus in the CSU system. We reviewed the outcome of the California Faculty Association arbitrations held through September 25, 1986.

We found that the number of grievances filed against the university is not inordinate. In addition, the evidence does not suggest that a large number of these grievances are successful. We also found that monetary awards have been limited to back pay and that the university has obtained funds for the monetary awards from the proper sources.

Allegation: "The foundation continues to violate the legal requirements for a nonprofit corporation" because the president of the university serves as chairman of the foundation's board of directors.

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Response: We reviewed the California Nonprofit Corporation Law, the California Administrative Code, the California Education Code, and the CSU Office of the Chancellor's policy related to this issue. We also reviewed the Articles of Incorporation and bylaws of the foundation.

We found that the applicable laws and policies either require or permit the president of the university to serve on the foundation's governing board.

Allegation: A former university administrator was reimbursed with state funds for private, job-seeking trips.

Response: We reviewed travel expense claims filed by the former administrator. We found that the State reimbursed the former administrator for expenses related only to state business.

Allegation: Promotions are not awarded fairly. Faculty without a PhD and without research accomplishments have been promoted to full professorships. Criteria for promotion have changed from year to year.

Response: We interviewed the vice president for faculty and staff relations. We reviewed the university policy statement on retention, tenure, and promotion. We tested a sample of promotion applicants for compliance with the applicable policies and standards.

The standards for promotion are set in Article 14 of the agreement between the CSU board of trustees and the California State Faculty Association, Unit-3-Faculty, for August 16, 1983 to June 30, 1986. In addition to these standards, schools in the university have developed promotion standards specific to their school.

We found that the university complies with the required policies and procedures for granting promotions. Additionally, the grievance procedure at the university allows faculty members to effectively maintain the integrity of the promotion process.

Allegation: There is "misuse of sabbatical leaves." (No specific examples were cited.)

Response: We interviewed the vice president for faculty relations. We reviewed the required policies and procedures for sabbatical leaves according to Article 27 of the agreement between the CSU board of trustees and the California Faculty Association, Unit-3-Faculty, for August 16, 1983 to June 30, 1986. In addition, we tested a sample of approved sabbatical leave applications for compliance with the applicable policies and procedures.

We found that the university complies with the required policies and procedures for sabbatical leaves.

Allegation: There is financial mismanagement in the Extended Education Office. (No specific examples were cited.)

Response: We interviewed the dean and the fiscal officer for the Extended Education Office. We reviewed and evaluated applicable policies and procedures governing the continuing education program. However, we did not test compliance with these procedures.

We found that the system of disbursing and allocating funds generated by the continuing education program, if applied as prescribed, is adequate to ensure that these funds are properly used to support program activities.

Allegation: There is "misuse of overseas trips." (No specific examples were cited.)

Response: We interviewed officials from the division of academic affairs and reviewed the CSU Office of the Chancellor policies related to travel. We also reviewed and evaluated the university's system for approving international travel; however, we did not test for compliance.

We found that the system for approving international travel, if applied as prescribed, is adequate to ensure that the purpose of the international travel is appropriate and that the trip is properly approved.

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Allegation: The foundation and the university approve research projects that are of a highly personal nature and are used only for personal gain, promotion, or other benefits for which only the select qualify. (No specific examples were cited.)

Response: We interviewed the director of university research and the director of grants and contracts for the foundation. We also reviewed and evaluated the process for approving research grant proposals; however, we did not test for compliance.

We found that research grants from external sponsors such as federal agencies, state and local governments, and private organizations are available to all faculty. A faculty member must develop an idea and submit a proposal requesting funding for the project; however, the sponsor makes the ultimate decision as to which projects receive funding. The university's process requires university officials to review and evaluate the appropriateness of all proposals.

Allegation: Candidates have graduated without fulfilling all of the graduation requirements. (No specific examples were cited.)

Response: We reviewed and evaluated the graduation approval process; however, we did not test compliance with these procedures. We found that the procedures, if applied as prescribed, are adequate to ensure that the university approves only qualified students for graduation.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Enclosure