



AUDIT AND ADVISORY SERVICES

Blum Center for Developing
Economies
Audit
Project No. 15-642

April 7, 2015

Prepared by:

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April 7, 2015

Claude Steele
Executive Vice Chancellor and Provost

Executive Vice Chancellor and Provost Steele:

We have completed our audit of the Blum Center for Developing Economies as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Blum Center, Campus Shared Services Team 2/Engineering Research Support Organization, campus Risk Services, College of Engineering, the Committee for the Protection of Human Subjects and Intellectual Property and Industry Research Alliance for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Vice Provost Andrew Szeri
Vice Chancellor Cathy Koshland
Dean and Faculty Director Shankar Sastry
Executive Director Maryanne McCormick
Service Director Cathy Jen
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Associate Chancellor Linda Morris Williams
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University of California, Berkeley
Audit and Advisory Services
Blum Center for Developing Economies

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EXECUTIVE SUMMARY

The preliminary objective of this audit was to assess the Blum Center for Developing Economies' system of internal control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as international, federal, and state regulations.

As part of our audit planning process, we considered administrative processes and key business risks that were uniquely related to the Blum Center's unique programmatic pillars: the Global Poverty & Practice Minor (GPP)/Development Engineering Graduate Designated Emphasis, Impact Ecosystem (including the Big Ideas competition), and the Development Impact Lab (DIL). These programs are notable for their interdisciplinary nature as well as their programmatic emphasis on experiential learning and research fieldwork conducted onsite in developing economies around the world, which we assessed as having a higher risk profile relative to other operational processes related to domestic campus operations.

As a result, after conducting process walkthroughs, we decided not to conduct detailed transaction testing of payroll, purchasing, travel, entertainment, revenue, cash handling, contract management, asset management, or budgeting transactions, among other routine business transactions, because we concluded the design of internal controls we observed in place appear to reasonably mitigate routine risk related to these processes.

We assessed procedures and controls related to preparing students for an experiential learning internship placement through a third-party for the GPP minor and, in consultation with campus Risk Services, determined they reasonably mitigate routine risks for these students, who are typically on summer break and will be working under the direction and supervision of a third-party located in a developing country.

We also assessed procedures and controls related to the Big Ideas competition and the OnRamp class and determined that, in consultation with Office of Intellectual Property and Industry Research Alliances, the intellectual property risks are minimal as such rights typically belong to the student and not the University since they usually are student-generated ideas and there is little or no campus funds used.

Lastly, we assessed procedures and controls related to DIL, specifically those typically associated with mitigating sponsored-research risks related to travel, award management, subaward management, financial reporting, and budgeting. Our assessment of these procedures and controls is that they appear to reasonably mitigate risks associated with those activities.

Although we do not have reportable observations specifically related to the Blum Center, we do note opportunities in general to improve campus support by central units for units conducting international research which are contained in a separate audit report (Project No. 15-660, Supporting International Research) and would be applicable to the Blum Center as well.

OVERVIEW

Source and Purpose of the Audit

The preliminary objective of this audit was to assess the Blum Center's system of internal control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as international, federal, and state regulations.

Scope and Methodology of the Audit

As part of our audit planning process, we considered administrative processes and key business risks that were uniquely related to the Blum Center's unique programmatic pillars: the GPP Minor/Development Engineering Graduate Designated Emphasis, Impact Ecosystem (including the Big Ideas competition), and the DIL. These programs are notable for their interdisciplinary nature as well as their programmatic emphasis on experiential learning and research fieldwork conducted onsite in developing economies around the world.

Based upon our preliminary risk assessment, we focused on those key business processes at the Blum Center that support the onsite experiential learning and research in developing countries, which we assessed as having a higher risk profile relative to other operational processes related to domestic campus operations.

As a result, after conducting process walkthroughs, we decided not to conduct detailed transaction testing of payroll, purchasing, travel, entertainment, revenue, cash handling, contract management, asset management, or budgeting transactions, among other routine business transactions, because we concluded the design of internal controls we observed in place appear to reasonably mitigate routine risk related to these processes.

Background Information

Founded in 2006 by Regent Richard Blum, the Blum Center is the campus's interdisciplinary hub for students, researchers, and scholars focusing on issues related to global poverty and inequality. The Blum Center has five initiatives that fall within their three programmatic pillars:

Pillar 1: Educating Global Citizens

- **Global Poverty & Practice Minor:** The GPP minor trains undergraduates to critically analyze the history and sources of poverty and inequality, and prepares them to engage with poverty alleviation in communities all over the world. To date, 13,000 students have taken GPP classes and have worked in over 50 countries.
- **Development Engineering:** Development Engineering is a new interdisciplinary training program launched in 2014 for graduate students who aim to use technology to address the needs of people living in poverty. Development Engineering coursework prepares

students in engineering, business, and the social sciences to create, pilot, and evaluate technological interventions and solutions for low-resource settings.

Pillar 2: Supporting Student Innovators: Impact Ecosystem

- **BigIdeas@Berkeley:** BigIdeas@Berkeley is one of the oldest university-based student idea contests. In a rigorous year-long process, the contest provides funding, support, and mentoring to students seeking to have real-world impact in the pressing areas of clean energy, global health, food security, and others.
- **Social Innovator OnRamp Resources:** The Social Innovator OnRamp helps students grow their own novel ideas for social impact while they are still in school. The OnRamp course and its online resource guide are designed to bridge the gap between early stage ideation (from design classes, research, or competitions like Big Ideas) and off-campus implementation. The program supports graduate and undergraduate students from across campus with best practices, tools, and networks (e.g., angel/social investors, accelerators, impact hubs, practitioners) as they plan, grow, and evaluate their own social change projects and social startups.

Pillar 3: Scaling Solutions

- **The Development Impact Lab:** DIL was founded in 2012 with a \$20 million investment from USAID. DIL is a global consortium of researchers, non-governmental organizations, and industry partners committed to advancing international development through science and technology. Today, more than 90 DIL innovations are being tested and scaled in 30 countries with partners in the private and nonprofit sectors.

The operating budget for the Blum Center was approximately \$4 million in FY2015, including research grants. As an organized research unit on campus in the College of Engineering, many business process transactions are made, in part, by non-Blum Center staff, including central units such as Campus Shared Services Team 2 [formally known as Engineering Research Support Organization (ERSO)], Payroll, Supply Chain Management, and Accounts Payable. As a standard operating practice for the organizations supported by Campus Shared Services Team 2, all transactions are reviewed and approved by the principal investigators responsible for the budget being expensed and the Executive Director and Chief Financial Officer, who is ERSO staff.

Summary Conclusion

The Blum Center is noteworthy for its interdisciplinary nature as well as its programmatic emphasis on experiential learning and research fieldwork related to global poverty and inequality that is conducted onsite in developing countries by both students and faculty. We assessed these areas as having a higher risk profile relative to other business processes on campus-focused operations.

We conducted walkthroughs of routine domestic business processes and concluded that the design of related internal controls appear to mitigate routine risk related to these processes. The

majority of our work related to program-related activities conducted in developing countries or intellectual-property development programs.

We assessed procedures and controls related to preparing students for an experiential learning internship placement through a third-party for the GPP minor and, in consultation with campus Risk Services, determined they reasonably mitigate risks for these students, who are typically on summer break and will be working under the direction and supervision of a third-party located in a developing area or country. Students in the minor must complete a domestic or international practice experience as part of the requirements for the minor. They create the project that they will be working on, do extensive research on the area or country they will be working in and they identify and enter into a volunteer agreement with a local organization that is working in the area that they plan to do their project in. In preparation for the practice experience, the students take a semester long class where they conduct the aforementioned research and project proposal creation before seeking approval for the project, location, sponsoring organization, and budget for funding. Upon their return, there is a course the students take that allows them to reflect on their practice experience.

We also assessed procedures and controls related to the Big Ideas competition and the OnRamp class and determined that, in consultation with Office of Intellectual Property and Industry Research Alliances, the intellectual property risks are minimal as such rights typically belong to the student and not the University since they usually are student-generated ideas and there is little or no campus funds used.

Lastly, we assessed procedures and controls related to the DIL, specifically those typically associated with mitigating sponsored-research risks related to travel, award management, subaward management, financial reporting, and budgeting. Our assessment of these procedures and controls is that they are designed to reasonably mitigate risks associated with those activities.

Although we do not have reportable observations specifically related to the Blum Center, we do note opportunities in general to improve campus support by central units for units conducting international research which are contained in a separate audit report (Project No. 15-660, Supporting International Research) and would be applicable to the Blum Center as well.