

**CONTRACTS AND GRANTS**  
**CALIFORNIA STATE UNIVERSITY,**  
**SACRAMENTO**

**Report Number 01-35**  
**September 25, 2001**

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## **ABBREVIATIONS**

ACUC	Animal Care and Use Committee
BA	Business Affairs – Office of the Chancellor
CCR	California Code of Regulations
CFR	Code of Federal Regulations
CSU	California State University
Foundation	CSU Sacramento Foundation
EO	Executive Order
FPPC	Fair Political Practices Commission
FSR	Faculty and Staff Relations – Office of the Chancellor
IRB	Institutional Review Board
NIH	National Institutes of Health
NSF	National Science Foundation
OMB	Office of Management and Budget
ORSP	Office of Research and Sponsored Projects
PHS	Public Health Service
SAM	State Administrative Manual

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## **INTRODUCTION**

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### **PURPOSE**

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of contract and grant activity and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective and to ascertain that the campus contract and grant program provides for an effective internal control environment, which includes both externally and internally developed policies and procedures, specific goals of our review included determining whether:

- ▶ Certain essential administrative and managerial internal controls are in place, including delegations of authority and responsibility, formation of independent oversight committees, and documented policies and procedures.
- ▶ Federal single audits are performed timely and noted audit findings are timely and sufficiently resolved.
- ▶ Financial interests in sponsors of research are disclosed timely and reviewed for conflicts of interest.
- ▶ Federal and other awards are appropriately expended and such expenditures comply with regulatory agency cost principles regarding allowability, allocability, and reasonableness.
- ▶ Financial, performance, and other project-related reports are appropriately prepared, completed timely, and correctly submitted to sponsoring agencies and organizations.
- ▶ Research activities involving human subjects and live vertebrate animals are properly approved by an independent review committee.
- ▶ Sponsored program proposals are reviewed and approved by authorized campus personnel prior to submission to awarding agencies and organizations.

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### **SCOPE AND METHODOLOGY**

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. Additionally, this review took into consideration fiscal procedures and management systems to ensure that they allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. The audit review period was July 1999 to date. At California State University (CSU), Sacramento, the office of research, graduate, and extended studies has overall responsibility for sponsored programs' pre-award activities. The CSU Sacramento Foundation (Foundation) performs post-award activities and is the fiscal manager of campus-sponsored programs.

Our primary focus involved internal administrative, compliance, and operational controls over the management of the sponsored programs. Specifically, we reviewed and tested policies, procedures, and processes for:

- ▶ Documenting policies, rules, regulations, and delegations of authority.
- ▶ Resolving prior single audit issues.
- ▶ Disclosing and managing financial conflicts of interest in sponsors of research.
- ▶ Reviewing and approving human subject testing and animal research.
- ▶ Reviewing and approving sponsored program proposals and indirect cost rates.
- ▶ Controlling, authorizing, and processing expenditures of award funds.
- ▶ Documenting and tracking cost sharing and matching commitments.

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## BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 1999, the Committee on Audit, at its January 2001 meeting, directed that *Contracts and Grants* be reviewed.

The proposed scope of the audit as presented in Attachment B, Agenda Item 2 of the January 23-24, 2001, meeting of the Committee on Audit, stated that *Contracts and Grants* includes all sponsored programs, special projects, and activities involving external funding sources (outside of continuing/extended education).

As research funding at colleges and universities grew from approximately \$15 million in 1940 to \$1.3 billion in 1966, it became apparent that federal funding would provide a significant portion of the research budgets of colleges and universities. Beginning with the Department of Defense and the Atomic Energy Commission and expanding to the National Institutes of Health, National Science Foundation, and the National Aeronautics and Space Administration, funding levels increased; and along with those increases, requirements for management and administration of federal research funds also developed and prospered.

In the mid-1970s to late 1980s, the Office of Management and Budget (OMB) promulgated the following government-wide policies to ensure proper stewardship of federal research funds:

- ▶ OMB Circular A-21, *Cost Principles for Educational Institutions*, establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. These principles are designed to provide that the federal government bears its fair share of total costs, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law.

- ▶ OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, sets forth the standards for obtaining consistency and uniformity among federal agencies in the administration of grants to and agreements with the institutions of higher education, hospitals, and other nonprofit organizations.
- ▶ OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, was issued pursuant to the Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments of 1996, Public Law 104-156. This circular sets forth consistency and uniformity among federal agencies for the audit of states, local governments, and nonprofit organizations expending federal awards.

Executive Order (EO) No. 168, *CSU and Colleges Auxiliary Organizations – Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, dated January 19, 1973, promulgated systemwide policies in the sponsored programs area and, of greater importance, reinforced the need to ensure the fiscal integrity and viability of the auxiliary organizations who, at certain campuses, were responsible for both pre-award and post-award administration activities. The EO also sets forth requirements that auxiliary administration activities be performed in a manner which enables the Board of Trustees to satisfy its responsibilities to the state of California, federal agencies, public and private sponsors, the campuses, and the auxiliaries.

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## OPINION

We visited the CSU Sacramento campus from March 5, 2001, through April 13, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of sponsored programs provided reasonable assurance that CSU Sacramento was in compliance with applicable regulations, CSU policies, and other directives. Areas in need of improvement are referenced in the executive summary and the body of the report.

## **EXECUTIVE SUMMARY**

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **SPONSORED PROGRAM ADMINISTRATION [6]**

#### **CONFLICTS OF INTEREST [6]**

The campus and the CSU Sacramento Foundation (Foundation) did not exercise sufficient control over the conflict-of-interest process for principal investigators. Maintaining effective conflict-of-interest policies and procedures for principal investigators and project directors decreases liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

#### **WRITTEN POLICIES AND PROCEDURES [8]**

Written policies and procedures were not developed and/or updated for certain contract and grant activities performed by the campus and/or the Foundation. Properly developing, documenting, and communicating policies and procedures improve internal controls.

#### **DELEGATIONS OF AUTHORITY [10]**

The campus had not documented delegations of authority for the approval of sponsored program proposals. Documenting delegations of authority enhances internal controls.

#### **INDEPENDENT REVIEW COMMITTEES [11]**

The campus did not maintain independence and diversity in sponsored program oversight committees. Maintaining independence and diversity in independent review committees reduces the risk of partiality and perceived conflicts of interest.

#### **RESOLUTION OF PRIOR EXTERNAL AUDIT ISSUES [12]**

Foundation processes did not ensure timely and sufficient resolution of prior audit issues. Resolving prior audit issues reduces regulatory scrutiny that may include, but not be limited to, possible disallowances and suspension or termination of current awards.

### **PERSONNEL ADMINISTRATION AND TRAINING [13]**

Hiring and succession practices for principal investigators and project directors did not ensure that appointments were properly documented and that an adequate separation of duties existed. Adequate controls over the hiring and succession of principal investigators and project directors decrease the risk of providing oversight of sponsored projects by unqualified or inappropriate personnel.

### **PRE-AWARD CONTROLS [15]**

Pre-award practices do not comply with campus, Foundation, and CSU policies. Adequate controls over the pre-award approval process decrease the risk of accepting sponsored program awards that do not meet management's criteria.

### **POST-AWARD CONTROLS [17]**

Foundation post-award administration of various projects did not always ensure that all required approval forms and/or budgets were on file prior to opening project accounts and authorized signers approved expenditures. Sufficient controls decrease the risk of regulatory scrutiny, disallowances, and suspension and termination of projects.

### **INDIRECT COSTS [18]**

Processes for shared indirect cost reimbursements made by the Foundation were not clearly defined and did not ensure that reimbursement monies were returned to the campus. Adequate controls over indirect costs decrease the risk of inaccurate, incomplete, and untimely reimbursement to the General Fund, noncompliance with state policy, and reduced funds for research programs.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### SPONSORED PROGRAM ADMINISTRATION

#### CONFLICTS OF INTEREST

The campus and the CSU Sacramento Foundation (Foundation) did not exercise sufficient control over the conflict-of-interest process for principal investigators.

Both the campus and the Foundation, who individually hire principal investigators or project directors for sponsored programs, maintained conflict-of-interest policies. The campus policy states that faculty members applying for a nongovernmental contract or grant are required to complete a principal investigator statement of economic interest form. However, we noted that the campus had neither developed an economic interest form nor were principal investigators required to disclose financial economic interests for applicable projects. In addition, the campus policy did not include principal investigator conflict-of-interest disclosure requirements for related federal projects (e.g., National Institutes of Health). We further noted that the Foundation conflict-of-interest policy did not include the aforementioned financial economic disclosure requirements for principal investigators or project directors that were hired by the Foundation and working on sponsored programs. Similarly, these individuals were not required to disclose financial economic interests for applicable projects, and there was no established form for this information.

42 Code of Federal Regulations (CFR), Part 50.604, *Institutional Responsibility Regarding Conflicting Interests of Investigators*, states, in part, that each institution must (a) maintain an appropriate written, enforced policy on conflict of interest and inform each investigator of that policy, the investigator's reporting responsibilities, and of these regulations; (b) designate an institutional official(s) to solicit and review financial disclosure statements from each investigator who is planning to participate in Public Health Service (PHS) funded research; (c)(1) require that by the time an application is submitted to PHS each investigator who is planning to participate in the PHS-funded research has submitted to the designated official(s) a listing of his/her known significant financial interests (and those of his/her spouse and dependent children) (i) that would reasonably appear to be affected by the research for which PHS funding is sought and (ii) in entities whose financial interests would reasonably appear to be affected by the research.

The National Institutes of Health (NIH) Grants Policy Statement, Part II, *Conflict of Interest*, states, in part, that NIH requires grantees and investigators to comply with the requirements of 42 CFR, Part 50, Subpart F, "Responsibility of Applicants for Promoting Objectivity in Research for which NIH Funding is Sought," pertaining to investigators' actual or potential conflicts of interest.

The National Science Foundation (NSF) Grant Policy Manual, §510, states, in part, that an institutional conflict-of-interest policy should require that each investigator disclose to a responsible representative of the institution all significant financial interests of the investigator (including those of the investigator's spouse and dependent children) (i) that would reasonably appear to be affected by the

research or educational activities funded or proposed for funding by NSF or (ii) in entities whose financial interests would reasonably appear to be affected by such activities.

CSU directive Faculty and Staff Relations – Office of the Chancellor (FSR) 86-05, *Conflict of Interest Policy for: Principal Investigator*, dated February 14, 1986, states that unlike business position financial disclosures which occur when the incumbent enters or leaves the positions as well as the annual April 1 filing, financial disclosure by principal investigators must take place whenever the faculty member applies for a nongovernmental contract or grant. The first safeguard concerning principal investigator conflict-of-interest disclosure is that no nongovernmental contract or grant may proceed without the principal investigator filing a financial statement (Fair Political Practices Commission (FPPC) Form 730-U).

The campus' *Principal Investigators Conflict of Interest* policy states that the form entitled "Conflict of Interest, Principal Investigators" will be completed when faculty members apply for a nongovernmental contract or grant.

The associate vice president of research, graduate, and extended programs stated that in the past, the campus had minimal nongovernmental projects and that priority was placed on developing policies and processes for misconduct in research. The director of research and sponsored programs stated that not implementing a conflict-of-interest disclosure form was an oversight and that corrective action for this issue was in process. The Foundation interim director of contract services also stated there was a need to develop a conflict-of-interest policy for ongoing grants and contracts.

Failure to implement effective conflict-of-interest policies and procedures for principal investigators and project directors increases liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

### **Recommendation 1**

We recommend that the campus and Foundation fully implement effective policies and procedures for financial conflicts of interest in sponsored programs that consider:

- ▶ Comprehensive disclosure by all affected principal investigators and project directors.
- ▶ Timely and adequate review of such disclosures by an independent review committee.
- ▶ Sufficient monitoring of affected employees by responsible management personnel.

### **Campus Response**

We concur. By January 31, 2002, the Office of Research and Sponsored Projects (ORSP) will strengthen policies and procedures regarding the receipt, review, and monitoring of financial conflicts of interest disclosures from principal investigators or project directors. Additionally, the ORSP informed the campus community of the compliance requirements regarding conflict of interest disclosure related to contracts or grants received from non-governmental entities. This notification was included in the March 2001 issue of *Opportunities*, an ORSP publication.

By January 31, 2002, the CSUS Foundation will implement a policy to ensure that conflict of interest disclosures are received from ORSP and maintained in the legal files.

To clear this finding, we will provide the following copies:

- Policies and procedures from the ORSP and CSUS Foundation, and
- The March 2001 issue of ORSP publication, *Opportunities*.

## **WRITTEN POLICIES AND PROCEDURES**

Written policies and procedures were not developed and/or updated for certain contract and grant activities performed by the campus and/or the Foundation.

We noted that written policies and procedures were not developed and/or updated for the following areas:

- ▶ Faculty release time and certification of release time.
- ▶ Tracking and monitoring academic overload.
- ▶ Cost sharing and in-kind commitments.
- ▶ Budget preparation (including application of salary rates, fringe benefit charges, student assistant salary and benefits, etc.).

California Code of Regulations (CCR), Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. This includes adequate documentation of contract and grant policies and procedures.

State Administrative Manual (SAM) §20050 states that a satisfactory system of internal administrative control shall include, but not be limited to, an established system of practices to be followed in performance of duties and functions. Further, the nonexistence of policy and procedural or operational manuals is a danger signal of a vulnerable control system.

The associate vice president of research, graduate, and extended programs acknowledged the oversight and indicated that corrective measures would be taken. The Foundation interim director of contract and services indicated that updating and developing policies and procedures related to contract and grant activities would be given a greater priority in the future.

Failure to develop, document, and communicate policies and procedures compromises internal controls.

## **Recommendation 2**

We recommend that the campus and the Foundation develop and/or update formalized policies and procedures for the noted areas and implement appropriate monitoring controls to ensure procedures are timely updated and distributed to responsible personnel.

### **Campus Response**

We concur. By March 31, 2002, the CSUS Foundation will implement policies and procedures related to faculty release time and time and effort reporting of faculty overload.

By March 31, 2002, the Office of Research and Sponsored Projects (ORSP) will develop a chart of salary and benefits information from University and CSUS Foundation sources. This chart will be updated and distributed annually.

By June 30, 2002, the CSUS Foundation and the ORSP will implement policies and procedures related to cost sharing and in-kind commitments.

To clear this finding, we will provide copies of the policies and procedures from the ORSP and CSUS Foundation.

### **DELEGATIONS OF AUTHORITY**

The campus had not documented delegations of authority for the approval of sponsored program proposals.

The NIH Grants Policy Statement, page I-9, states, in part, that an authorized institutional official is the designated representative of the grantee organization in matters related to the award and administration of its NIH grants. In signing a grant application, this individual indicates the applicant organization's intent to comply with all applicable terms and conditions of the award, including assurances and certifications referenced in the application and attests to the fact that the administrative, fiscal, and scientific information in the application is true and complete and in conformance with governing federal and organizational requirements. NIH does not specify the organizational location or full set of responsibilities for such an official; however, it requires the designation of such an official as the focal for the organization's responsibilities as the grantee.

The NSF Policy Manual, §210, states that an authorized organization representative is the administrative official who, on behalf of the proposing organization, is empowered to make certifications and assurances and can commit the organization to the conduct of a project that NSF is being asked to support as well as adhering to various NSF policies and grant requirements.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The associate vice president of research, graduate, and extended programs stated that delegations of authority for contract and grant activity had been in place for many years. He further stated that the failure to document these delegations was an oversight.

Internal controls are compromised when delegations of authority are not fully documented.

### **Recommendation 3**

We recommend that the campus document delegations of authority for the approval of sponsored programs and implement a process to ensure that such delegations are appropriately maintained.

#### **Campus Response**

We concur. By February 28, 2002, the campus will obtain, from the appropriate authority, documentation delegating the authority for the approval of sponsored program proposals. The director of Research and Sponsored Projects will perform an annual review of the delegated authority to ensure it is appropriately maintained. This review will be documented in a memo placed in the Office of Research and Sponsored Projects files.

To clear this finding, we will provide a copy of the delegated authority.

### **INDEPENDENT REVIEW COMMITTEES**

The campus did not maintain independence and diversity in sponsored program oversight committees.

Sponsored program proposals received final approval from the director of research and sponsored programs, who is also responsible for performing federal certifications and assurances. We noted, however, that this same director was also the acting chairperson and a voting member of the campus Animal Care and Use Committee (ACUC) and the Committee for Protection of Human Subjects. Additionally, the campus ACUC did not include a community member who was not affiliated with the university.

45 CFR, §46.107(e), *Institutional Review Board (IRB) Membership*, states that no IRB may have a member participate in the IRB's initial or continuing review of any project in which the member has a conflicting interest, except to provide information requested by the IRB.

CCR, Title 9 §2.31(b)(3) states, in part, that of the members of the Committee, at least one shall not be affiliated in any way with the facility other than as a member of the Committee and shall not be a member of the immediate family of a person who is affiliated with the facility. The secretary intends that such person will provide representation for general community interests in the proper care and treatment of animals.

The campus *Policy and Procedures for the Protection of Human Subjects*, §1.2.2, states that no member of the Committee for Protection of Human Subjects shall be involved in either the initial or continuing review of an activity in which he/she has a conflicting interest, except to provide information requested by the Committee.

The campus *Animal Care and Use Committee* policy states, in part, that the university ACUC composition should include a community member not affiliated with the university.

The director of research and sponsored programs stated that the former chairpersons retired from the campus and that, by default, he assumed these positions until new chairpersons were identified. The director also stated that the campus is recruiting for a community member for the ACUC.

Not maintaining independence and diversity in campus oversight committees increases the risk of partiality and perceived conflicts of interest.

#### **Recommendation 4**

We recommend that campus management implement procedures and controls that ensure independence, diversity, and objectivity in sponsored program oversight committees.

#### **Campus Response**

We concur. By December 31, 2001, chairpersons will be selected for the Animal Care & Use Committee and the Committee for the Protection of Human Subjects who are independent from the Office of Research and Sponsored Projects. In addition, the campus will recruit for a community member to serve on the Animal Care & Use Committee.

To clear this finding, we will provide a listing of the committee members.

### **RESOLUTION OF PRIOR EXTERNAL AUDIT ISSUES**

Foundation processes did not ensure timely and sufficient resolution of prior audit issues.

We found that:

- ▶ Resolution of prior single audit issues related to federal program reporting was contingent on implementation of the new grants management computer software module. Although some progress was made to implement this module, the project was behind schedule due to management turnover. We also noted that the project plan had not been updated, and project activity responsibilities were not clearly defined. The lack of timely reporting was cited in two prior single audits.
- ▶ Corrective action for a prior Department of Corrections audit issue included the modification of all independent contracting agreements for certain licensure requirements. We noted that although the Foundation obtained certain documents (e.g., Certificate of Good Standing) from various subcontractors, the independent contracting agreements were not modified to include these licensure requirements.

Office of Management and Budget (OMB) Circular A-133 – *Audits of States, Local Governments, and Non-Profit Organizations*, §.315 (a), states that the auditee is responsible for follow-up and corrective action on all audit findings.

The Foundation interim director of contract services provided an updated project plan for the grants management module implementation project and stated that recent meetings were held with Foundation management to address this issue. She further stated that not updating the independent contracting agreement form was an oversight.

Not resolving prior audit issues increases the risk of regulatory scrutiny that may include, but not be limited to, possible disallowances and suspension or termination of current awards.

### **Recommendation 5**

We recommend that the Foundation timely implement the grants management module and/or other processes that would help ensure timely federal program reporting. We also recommend that management update independent contracting agreements.

### **Campus Response**

We concur. As of August 31, 2001, the CSUS Foundation implemented the grants management module that will assist the University with timely federal program reporting. The 2000/2001 financial audit conducted by PriceWaterhouseCoopers LLP (PWC) reflects the implementation of this module. Additionally, PWC did not issue any findings related to the submission of program reports.

By February 28, 2002, Contract Services will update subcontract templates to include appropriate language to ensure subcontractors are in good standing. Additionally, Contract Services will implement a procedure to obtain annual renewals of certifications.

To clear this finding, we will provide the applicable section from the 2000/2001 financial audit conducted by PriceWaterhouseCoopers LLP. We will also submit a copy of the updated subcontract template and a copy of the procedure for certification renewals.

## **PERSONNEL ADMINISTRATION AND TRAINING**

Hiring and succession practices for principal investigators and project directors did not ensure that appointments were properly documented and that an adequate separation of duties existed.

We noted that:

- ▶ An emeriti faculty was hired by the Foundation as a project director without documented approval by, or a memorandum of understanding with, the campus. In addition, responsibilities for obtaining employment documentation and evidence of insurance coverage for this emeriti had not been formally defined by the campus or the Foundation.

- ▶ Project directors were hired by the Foundation for sponsored programs related to a systemwide initiative for educational reform at the request of the chancellor's office. Although the project directors were not affiliated with the campus, there was no formal memorandum of understanding or other approval document in place for this arrangement between the campus and the chancellor's office.
- ▶ The director of research and sponsored programs was the principal investigator for a project that was managed by a former faculty member. Assigning principal investigator responsibilities to the office of research and sponsored programs instead of appointing a new principal investigator does not represent an adequate separation of duties.

The campus *Project Development Handbook*, §V, states that at CSU Sacramento, the principal investigator/project director must be a full-time, tenure tract member of the faculty or a full-time CSU Sacramento manager/administrator. In very rare cases, an individual employed full-time by the Foundation may serve as the project director. Generally, the principal investigator and the project director are the same individual. However, some nonfaculty colleagues at CSU Sacramento are active in the sponsored projects process. They may serve as principal investigator on a project as long as another faculty member, a department chair, a program director, school dean, or other university official serves as the project director. Any exceptions to these rules are made upon recommendation by research and sponsored projects, with the concurrence of the associate vice president for research and graduate studies, the appropriate department chairperson, and the school dean.

Executive Order (EO) No. 168, *California State University and Colleges Auxiliary Organizations – Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, dated January 19, 1973, states, in part, that project directors, consultants, or project staff members should not be hired on any project until the terms and conditions of employments, particularly salary, have been computed, agreed to, and confirmed in writing between the individuals and the campus administration.

The associate vice president of research, graduate, and extended programs stated that the campus had previously documented the emeriti faculty's employment status via a memorandum of understanding; however, the campus could not locate this document. He also stated that the arrangement with the CSU Institute of Educational Reform was a courtesy between the campus and the Office of the Chancellor, and no memorandum of understanding or approval documentation was prepared. The director of research and sponsored programs stated that the campus was recruiting for a new principal investigator for the noted project.

Inadequate controls over the hiring and succession of principal investigators and project directors increase the risk of providing oversight of sponsored projects by unqualified or inappropriate personnel.

### **Recommendation 6**

We recommend that the campus implement controls that ensure proper approval is obtained for the hiring and succession of principal investigators and project directors. In this regard, the campus should review existing policies and criteria with Foundation management and obtain agreement thereof for the current operating environment. Foundation management should also reevaluate the need for operating policies and procedures that align with and/or supplement campus policies in this area.

### **Campus Response**

We concur. By June 30, 2002, the Office of Research and Sponsored Projects (ORSP) will strengthen policies and procedures regarding the approval and succession of principal investigators and project directors.

By June 30, 2002, the CSUS Foundation will strengthen policies and procedures regarding the hiring of emeriti faculty.

To clear this finding, we will provide copies of the policies and procedures from the ORSP and CSUS Foundation.

## **PRE-AWARD CONTROLS**

Pre-award practices do not comply with campus, Foundation, and CSU policies.

We noted during a review of recently submitted proposal files that:

- ▶ Internal approvals for sponsored programs were not always received by the office of research and sponsored programs prior to award submission. In certain instances, approvals were received up to six weeks after the proposal submission date.
- ▶ Current practice does not require the vice president of administration to review and approve the fiscal aspects of each proposal. We also noted that the executive director of the Foundation and the vice president of administration did not approve indirect cost deviations for related projects.
- ▶ The campus was not listed as the applicant agency for two federal proposals.

EO No. 168, *California State University and Colleges Auxiliary Organizations – Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, dated January 19, 1973, states, in part, that the chief fiscal officer of the campus shall review and approve the fiscal aspects of each proposal for funding.

The campus *Submission Procedures for Grant Proposals and Sponsored Projects* policy, dated February 19, 1999, states, in part, that:

- ▶ Before a proposal can be submitted to an external funding agency, it must be approved by the appropriate dean (program head) and the director of research and sponsored project, as designated by the provost and vice president for academic affairs.
- ▶ The university shall be listed as the applicant agency for all proposals for grant or contract funds submitted by faculty and staff to federal agencies and to private foundations and the Foundation will continue as the applicant agency for all other proposals.

The campus *Project Development Handbook*, §VIII, states that the internal routing sheet must be completed and signed by the principal investigator, the department chair, and school dean; and in certain instances, other signatures may be needed. These required signatures must be secured before a proposal is sent to the sponsor.

The Foundation *Policy on Indirect Costs*, states, in part, that indirect cost and service charges lower than those specified shall be approved only in cases where the impact of such lower rates will not impair the fiscal viability of the Foundation. The policy also states that the executive director may approve acceptance of programs at indirect cost rates lower than the approved rates and, when appropriate, the executive director will consult with the vice president for academic affairs before granting the exception.

The director of research and sponsored programs agreed that proposals should not be submitted without internal campus approval. He stated that these situations occur when the campus is tracking to stringent agency deadlines. The executive director acknowledged the issue regarding approval for indirect cost deviations.

Inadequate controls over the pre-award approval process increase the risk of accepting sponsored program awards that do not meet management's criteria.

### **Recommendation 7**

We recommend that the campus and Foundation establish controls that ensure appropriate approvals are received for all sponsored program proposals. Monitoring controls should also be implemented to ensure compliance with existing policy and management's expectations.

### **Campus Response**

We concur. By February 28, 2002, documentation delegating the authority for the approval of the fiscal aspects and any indirect cost deviations for sponsored program proposals will be obtained from the appropriate authorities.

By March 31, 2002, the Office of Research and Sponsored Projects will implement policies and procedures regarding the timely receipt of appropriate approvals for sponsored program proposals. To clear this finding, we will provide copies of the delegated authorities and applicable policies and procedures.

## POST-AWARD CONTROLS

Foundation post-award administration of various projects did not always ensure that all required approval forms and/or budgets were on file prior to opening project accounts and authorized signers approved expenditures.

We found that properly completed and approved proposal approval forms and/or project budgets were not always on file prior to opening project accounts at the Foundation. We also noted that individuals who did not sign related signature authorization forms approved project director expenditures.

OMB Circular A-21 – *Cost Principles, Allowable Costs*, §\_4(d)(1) states that the recipient institution is responsible for ensuring that costs are charged to a sponsored agreement and are allowable, allocable, and reasonable under these cost principles.

OMB Circular A-110 – *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §\_51 (a), states that recipients are responsible for managing and monitoring each project, program, award, function, or activity supported by the award.

CCR, Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to adequately manage and control expenditures, which includes proper approval and oversight.

The interim director of contract services stated that the Foundation requires receipt of a properly executed award document or contract for new projects; however there are no procedures in place to ensure that all campus approval forms are received. She also stated that signature authorization forms are signed by the principal investigators for project expenditures; however, it is not their practice to obtain the responsible dean's signature for the principal investigator's expenditures on each grant or contract signature authorization form. It is also the practice of the Foundation to require the department chair's and/or dean's signatures on all principal investigator expenditure requests.

A lack of sufficient controls exposes the institution to regulatory scrutiny, disallowances, and suspension and termination of projects.

### **Recommendation 8**

We recommend that the Foundation implement procedures that ensure all required forms and/or budgets are on file prior to opening new accounts and that expenditure authorization forms reflect appropriate approval signatures.

### **Campus Response**

We concur. By March 31, 2002, the CSUS Foundation will strengthen its policies and procedures regarding the timely receipt of required University forms and budgets.

Additionally, the Foundation will implement a process whereby deans submit written documentation regarding oversight and expenditure approval for contracts and grants domiciled in their area. The director of contract services will review this documentation annually to ensure it is appropriately maintained. A signature authorization form from each college will be placed in contract services' files to document this review.

To clear this finding, we will provide a copy of the applicable policies and procedures. Additionally, we will submit a copy of a signature authorization form from a dean.

### **INDIRECT COSTS**

Processes for shared indirect cost reimbursements made by the Foundation were not clearly defined and did not ensure that reimbursement monies were returned to the campus.

We noted that the campus had not developed a written cost allocation plan to ensure sufficient recovery of indirect costs related to sponsored programs. We further noted that the Foundation made a yearly \$250,000 allocation to the campus for the encouragement of research programs. Although the campus president acknowledged and approved this allocation in 1993, we could not locate a commensurate approval and distribution plan for the current \$350,000 allocation to the campus. In addition, these reimbursement monies were not returned to the campus but deposited directly into accounts maintained by the Foundation.

CSU directive Business Affairs – Office of the Chancellor (BA) 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, requires auxiliaries to pay for services provided by the campus. *EO No. 753, Allocation of Costs to Auxiliary Enterprises, effective July 28, 2000, superseded this directive.*

*EO No. 753, Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

SAM §8752 indicates that state policy is for departments to recover full costs whenever goods or services are provided to others.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative control include an established system of practices to be followed in performance of duties and functions in each of the state agencies.

The associate vice president of finance stated that his department is in the process of preparing the cost allocation plan. The director of research and sponsored programs indicated that the indirect cost sharing agreement and distribution methodology for the yearly allocation had been in place for many years. He further stated that not obtaining an updated approval was an oversight.

Inadequate controls over indirect costs increase the risk of inaccurate, incomplete, and untimely reimbursement to the General Fund, noncompliance with state policy, and reduced funds for research programs.

### **Recommendation 9**

We recommend that the campus:

- a. Complete its development of a cost allocation plan to ensure full reimbursement of General Fund monies used for sponsored programs.
- b. Obtain the president's approval for the distribution of indirect cost reimbursement monies.
- c. Ensure the transfer of state funds held in accounts at the Foundation to appropriate state accounts.

### **Campus Response**

We concur and plan to take the following action.

- a. By March 31, 2002, the campus cost allocation plan will be documented, for implementation with the fall 2002 semester.
- b. By December 31, 2001, the distribution of indirect cost monies for the 2001/2002 academic year will be completed. Appropriate approval will be obtained prior to the distribution of funds.
- c. By March 31, 2002, a process will be implemented regarding the indirect cost monies held in CSUS Foundation accounts on behalf of the University. This process will be determined based upon the results of the cost allocation plan currently under development.

To clear this finding, we will provide the following documentation:

- a. Copies of Memorandums of Understanding between the University and application entities documenting the cost allocation process.
- b. Copy of memo authorizing amount and method of distribution of indirect cost monies to the campus.
- c. Copy of memo describing process regarding deposit of indirect cost monies.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Donald R. Gerth	President
Kenneth Alger	Research Coordinator/Budget Specialist
Bernice Bass de Martinez	Provost and Vice President for Academic Affairs
Ric Brown	Associate Vice President, Research, Graduate, and Extended Programs
Michael Christensen	Director, Environmental Health and Safety
Edward Del Biaggio	Vice President for Administration
Sue DeRosa	Interim Director, Contract Services, CSU Sacramento Foundation
Kate Donaldson	Grants and Contracts Specialist
Judy Evey	Grants and Contracts Specialist
Marlene Franz	Grants and Contracts Specialist
Kathy Harris	Administrative Office Coordinator
Trina Knight	Interim Director, Human Resources, CSU Sacramento Foundation
Lawrence Kushman	Systems Analyst, CSU Sacramento Foundation
Maria Leon	Receptionist, Office of Research and Sponsored Programs
Elroy Littlefield	Executive Director, CSU Sacramento Foundation
Nancy Loeb	Research Development Specialist
Terence Manns	Director of Research and Sponsored Programs
Kathi McCoy	Manager, Auditing Services
Mary McGraw	Information Technology Manager, CSU Sacramento Foundation
Paula Mikal	Grants and Contracts Specialist
Sheila Orman	Director of Faculty Affairs
Donna Parenti	Controller, CSU Sacramento Foundation
Vicki Pearson-Rounds	Research Development Specialist
Carolyn Pittman	Budget Officer, Budget Planning and Administration
Mary Ellen Pozzebon	Research Associate
Wayne Quinn	Director, Financial and Business Services, CSU Sacramento Foundation
Jonathan Self	Associate Vice President for Finance



RECEIVED  
University Auditor

CALIFORNIA STATE UNIVERSITY, SACRAMENTO  
OFFICE OF THE VICE PRESIDENT FOR ADMINISTRATION

NOV 21 2001

The California State  
University

November 13, 2001

Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

Subject: Campus Response to Recommendations of Audit Report 01-35  
CSU, Sacramento - Contracts and Grants

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Manager of Auditing Services, at 916 278-7439.

Sincerely,

Edward C. Del Biaggio  
Vice President for Administration

Attachment

cc: R. Brown  
D. Gerth  
E. Littlefield  
K. McCoy  
J. Self

**California State University, Sacramento**  
**Contracts and Grants**  
**Audit No. 01-35**

Recommendation 1: “We recommend that the campus and Foundation fully implement effective policies and procedures for financial conflicts of interest in sponsored programs that consider:

- Comprehensive disclosure by all affected principal investigators and project directors.
- Timely and adequate review of such disclosures by an independent review committee.
- Sufficient monitoring of affected employees by responsible management personnel.”

Campus Response: We concur. By January 31, 2002, the Office of Research and Sponsored Projects (ORSP) will strengthen policies and procedures regarding the receipt, review, and monitoring of financial conflicts of interest disclosures from principal investigators or project directors. Additionally, the ORSP informed the campus community of the compliance requirements regarding conflict of interest disclosure related to contracts or grants received from non-governmental entities. This notification was included in the March 2001 issue of *Opportunities*, an ORSP publication.

By January 31, 2002, the CSUS Foundation will implement a policy to ensure that conflict of interest disclosures are received from ORSP and maintained in the legal files.

To clear this finding, we will provide the following copies:

- Policies and procedures from the ORSP and CSUS Foundation, and
- The March 2001 issue of ORSP publication, *Opportunities*.

Recommendation 2: “We recommend that the campus and Foundation develop and/or update formalized policies and procedures for the noted areas and implement appropriate monitoring controls to ensure procedures are timely updated and distributed to responsible personnel.”

Campus Response: We concur. By March 31, 2002, the CSUS Foundation will implement policies and procedures related to faculty release time and time and effort reporting of faculty overload.

By March 31, 2002, the Office of Research and Sponsored Projects (ORSP) will develop a chart of salary and benefits information from University and CSUS Foundation sources. This chart will be updated and distributed annually.

By June 30, 2002, the CSUS Foundation and the ORSP will implement policies and procedures related to cost sharing and in-kind commitments.

To clear this finding, we will provide copies of the policies and procedures from the ORSP and CSUS Foundation.

Recommendation 3: “We recommend that the campus document delegations of authority for the approval of sponsored programs and implement a process to ensure that such delegations are appropriately maintained.”

Campus Response: We concur. By February 28, 2002, the campus will obtain, from the appropriate authority, documentation delegating the authority for the approval of sponsored program proposals. The director of Research and Sponsored Projects will perform an annual review of the delegated authority to ensure it is appropriately maintained. This review will be documented in a memo placed in the Office of Research and Sponsored Projects files.

To clear this finding, we will provide a copy of the delegated authority.

Recommendation 4: “We recommend that campus management implement procedures and controls that ensure independence, diversity, and objectivity in sponsored program oversight committees.”

Campus Response: We concur. By December 31, 2001, chairpersons will be selected for the Animal Care & Use Committee and the Committee for the Protection of Human Subjects who are independent from the Office of Research and Sponsored Projects. In addition, the campus will recruit for a community member to serve on the Animal Care & Use Committee.

To clear this finding, we will provide a listing of the committee members.

Recommendation 5: “We recommend that the Foundation timely implement the grants management module and/or other processes that would help ensure timely federal program reporting. We also recommend that management update independent contracting agreements.”

Campus Response: We concur. As of August 31, 2001, the CSUS Foundation implemented the grants management module that will assist the University with timely federal program reporting. The 2000/2001 financial audit conducted by PriceWaterhouseCoopers LLP (PWC) reflects the implementation of this module. Additionally, PWC did not issue any findings related to the submission of program reports.

By February 28, 2002, Contract Services will update subcontract templates to include appropriate language to ensure subcontractors are in good standing. Additionally, Contract Services will implement a procedure to obtain annual renewals of certifications.

To clear this finding, we will provide the applicable section from the 2000/2001 financial audit conducted by PriceWaterhouseCoopers LLP. We will also submit a copy of the updated subcontract template and a copy of the procedure for certification renewals.

Recommendation 6: “We recommend that the campus implement controls that ensure proper approval is obtained for the hiring and succession of principal investigators and project directors. In this regard, the campus should review existing policies and criteria with Foundation management and obtain agreement thereof for the current operating environment. Foundation management should also reevaluate the need for operating policies and procedures that align with and/or supplement campus policies in this area.”

Campus Response: We concur. By June 30, 2002, the Office of Research and Sponsored Projects (ORSP) will strengthen policies and procedures regarding the approval and succession of principal investigators and project directors.

By June 30, 2002, the CSUS Foundation will strengthen policies and procedures regarding the hiring of emeriti faculty.

To clear this finding, we will provide copies of the policies and procedures from the ORSP and CSUS Foundation.

Recommendation 7: “We recommend that the campus and Foundation establish controls that ensure appropriate approvals are received for all sponsored program proposals. Monitoring controls should also be implemented to ensure compliance with existing policy and management’s expectations.”

Campus Response: We concur. By February 28, 2002, documentation delegating the authority for the approval of the fiscal aspects and any indirect cost deviations for sponsored program proposals will be obtained from the appropriate authorities.

By March 31, 2002, the Office of Research and Sponsored Projects will implement policies and procedures regarding the timely receipt of appropriate approvals for sponsored program proposals.

To clear this finding, we will provide copies of the delegated authorities and applicable policies and procedures.

Recommendation 8: “We recommend that the Foundation implement procedures that ensure all required forms and/or budgets are on file prior to opening new accounts, and expenditure authorization forms reflect appropriate approval signatures.”

Campus Response: We concur. By March 31, 2002, the CSUS Foundation will strengthen its policies and procedures regarding the timely receipt of required University forms and budgets.

Additionally, the Foundation will implement a process whereby deans submit written documentation regarding oversight and expenditure approval for contracts and grants domiciled in their area. The director of contract services will review this documentation annually to ensure it is appropriately maintained. A signature authorization form from each college will be placed in contract services’ files to document this review.

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Recommendation 9: “We recommend that the campus:

- a. Complete its development of a cost allocation plan to ensure full reimbursement of General Fund monies used for sponsored programs.
- b. Obtain the president’s approval for the distribution of indirect cost reimbursement monies.

- c. Ensure the transfer of state funds held in accounts at the Foundation to appropriate state accounts.”

Campus Response: We concur and plan to take the following action.

- a. By March 31, 2002, the campus cost allocation plan will be documented, for implementation with the fall 2002 semester.
- b. By December 31, 2001, the distribution of indirect cost monies for the 2001/2002 academic year will be completed. Appropriate approval will be obtained prior to the distribution of funds.
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- c. Copy of memo describing process regarding deposit of indirect cost monies.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

December 18, 2001

CHICO

MEMORANDUM

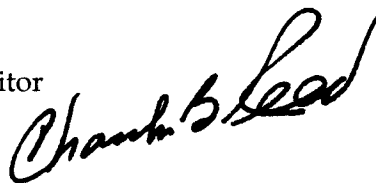
DOMINGUEZ HILLS

TO: Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-35 on *Contracts and Grants* at California State University, Sacramento

LONG BEACH

LOS ANGELES

In response to your memorandum of December 18, 2001, I accept the response as submitted with the draft final report on *Contracts and Grants* at California State University, Sacramento.

MARITIME ACADEMY

MONTEREY BAY

CBR:amd

NORTHRIDGE

Enclosure

POMONA

SACRAMENTO

cc: Donald R. Gerth, President  
Jonathan Self, Associate Vice President for Finance

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS