

CONTRACTS AND GRANTS

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

Report Number 01-36

November 16, 2001

Members, Committee on Audit

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ABBREVIATIONS

Cal Poly San Luis Obispo	California Polytechnic State University, San Luis Obispo
CSU	California State University
EO	Executive Order
Foundation	Cal Poly San Luis Obispo Foundation
FSR	Faculty and Staff Relations - Office of the Chancellor
OMB	Office of Management and Budget
SAM	State Administrative Manual

INTRODUCTION

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 and timely approved by an independent review committee.
- ▶ Sponsored program proposals are reviewed and approved by authorized personnel prior to submission to awarding agencies and organizations.

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 1, 1999, to date. At California Polytechnic State University,

San Luis Obispo (Cal Poly San Luis Obispo), the office of research and graduate studies has overall responsibility for sponsored programs' pre-award activities. The Cal Poly San Luis Obispo 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.

BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 1999, the Board of Trustees, 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 set 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.

OPINION

We visited the Cal Poly San Luis Obispo campus from April 9, 2001, through June 1, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of sponsored programs provided reasonable assurance that Cal Poly San Luis Obispo was in compliance with applicable regulations, California State University (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 [5]

The campus and Cal Poly San Luis Obispo Foundation (Foundation) did not exercise sufficient control over the conflict-of-interest review process for principal investigators. Maintaining effective control over the conflict-of-interest disclosure process decreases liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

PRE-AWARD CONTROLS [6]

Internal approvals for sponsored project proposals were not always timely or properly received prior to proposal submission. Project proposals receiving timely required approval decrease the risk of failure to meet the best interests of the university, both programmatically and fiscally.

POST-AWARD CONTROLS [8]

Documentation to evidence that final technical reports and other technical deliverables were submitted to the sponsor was not contained in project files. Adequate documentation decreases the risk of penalties and disallowances for noncompliance with grant and contract terms.

INDIRECT COSTS [9]

The campus did not establish a cost allocation plan to ensure sufficient return of reimbursed costs incurred by the university for sponsored programs. Adequate control over indirect costs decreases the risk of inaccurate and incomplete reimbursement to the General Fund, noncompliance with state policy, and reduced funds for research programs.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SPONSORED PROGRAM ADMINISTRATION

The campus and Cal Poly San Luis Obispo Foundation (Foundation) did not exercise sufficient control over the conflict-of-interest review process for principal investigators.

We noted that although the dean of research and graduate studies and the director of grants development reviewed conflict-of-interest disclosures by principal investigators, the campus did not establish an independent review committee for this area as required by Foundation policy. We also noted that the campus and Foundation conflict-of-interest policy for principal investigators was not finalized.

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 presidents, after appropriate consultation with faculty groups including the Academic Senate, shall establish a procedure for independent substantive review including the designation of or establishment of a committee to conduct the review and criteria for the conduct of the review by such a committee. The independent review committee shall have at least three individuals: (a) a faculty or staff person as appropriate from another department or occupational area, (b) an administrator, and (c) a member at large.

State Administrative Manual (SAM) §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

The dean of research and graduate studies stated that her office reviewed conflicts of interest as the principal investigators disclosed them, and the advice of the Foundation legal counsel had been solicited as necessary. She further stated that the establishment of the independent review committee had not occurred due to time constraints and few significant conflict-of-interest disclosures. The dean of research and graduate studies also stated that finalizing the conflict-of-interest policy and procedures had been difficult due to multiple constituent interests in this area.

Insufficient control over the conflict-of-interest disclosure and review process 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 finalize the conflict-of-interest policy and establish an independent review committee to review conflict-of-interest disclosures by principal investigators.

Campus Response

We concur. The Independent Review Committee called for in the Foundations' Interim Conflict of Interest Policy for Investigators was formed in November 2001. The committee met for the first time on November 9, 2001. The second meeting of the Committee was held on December 11, 2001.

The following plan emerged from these meetings:

1. The University's Human Resources Director will be invited to the next meeting to clarify the University's policies and procedures for compliance with CSU and state of California conflict of interest regulations.
2. The Dean of Research and Graduate Programs will develop specific policy for the University with respect to identification and management of possible conflict of interest on grants and contracts. This policy will be substantially similar to the Foundation's interim policy.
3. Starr Lee, Foundation representative on the Independent Review Committee, will recommend that the Foundation adapt its policy in accord with the University policy that emerges.
4. In the meanwhile, the interim Foundation policy will continue in effect and the Independent Review Committee will continue to carry out the functions identified in that policy.
5. The Director of Grants Development will henceforth bring all significant potential conflicts of interest identified on proposals/contracts to the Independent Review Committee for its review and recommendations in accord with the interim policy.

Anticipated Date of Completion: June 30, 2002

PRE-AWARD CONTROLS

Internal approvals for sponsored project proposals were not always timely or properly received prior to proposal submission.

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

- ▶ Internal approvals for sponsored project proposals were not always received by the grants development office prior to proposal submission.
- ▶ Current practice did not require the chief financial officer to review and approve the fiscal aspects of each proposal. This responsibility had been delegated to an assistant vice president, whose signature was evidenced on each proposal approval form via a rubber stamp. We noted that various campus individuals, including student assistants, applied the rubber stamp to the proposal approval forms.

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.

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 the chief fiscal officer of the campus shall review and approve the fiscal aspects of each proposal for funding.

The campus *Instructions for Completing Proposal Approval Form for Application for Grant or Contract* states that the proposal approval form is to be completed and routed for any proposal involving external support for an instructional, research, or public service project. Approval signatures must be obtained before a proposal may be submitted or, in the case of a contract, which comes to the University, before a contract may be signed or an account set up.

The dean of research and graduate studies stated that every effort was made to obtain authorizing signatures prior to submission of proposals; however, timely submission to sponsoring agencies took precedence over signature obtainment since approval was always obtained shortly after submission. It was her contention that the time between proposal submission and award enabled the campus to mitigate noted risks. She also stated that an award may be refused or a proposal may be withdrawn at any time after submission.

Project proposals receiving untimely required approval increase the risk of failure to meet the best interests of the university, both programmatically and fiscally.

Recommendation 2

We recommend that the campus:

- a. Establish controls that ensure appropriate approvals are received for all sponsored program proposals.
- b. Immediately address the control and use of facsimile signature stamps by nonauthorized personnel.

Campus Response

- a. Although our internal procedures called for ALL signatures noted on the Proposal Approval Form (PAF) to be obtained prior to submission, Executive Order 168 requires that only two signatures be obtained: that of the President or his designee and that of the Chief Fiscal Officer. We have therefore modified our internal procedures to comply with Executive Order 168.

- b. The single facsimile signature stamp that had been utilized by authorized personnel has been destroyed. Personnel now sign on behalf of the chief financial officer in accordance with written delegations of signature authority from the Campus Financial Officer.

Anticipated Date of Completion: January 11, 2002

POST-AWARD CONTROLS

Documentation to evidence that final technical reports and other technical deliverables were submitted to the sponsor was not contained in project files.

The sponsored programs office maintains a database for required technical reports, informs principal investigators when reports are coming due, and performs follow-up with principal investigators if copies of technical reports are not received at the Foundation. We noted that for approximately 400 of 1,000 (40%) reports, there was no documented evidence to confirm submission of technical reports to the sponsored programs office and the appropriate awarding agency or organization.

Office of Management and Budget (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.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

The executive director of the Foundation stated that when agency funding is not contingent upon timely report filing, it is difficult to compel principal investigators to submit reports timely.

Lack of documentation to evidence submission of final technical reports and other technical deliverables increases the risk of penalties and disallowances for noncompliance with grant and contract terms.

Recommendation 3

We recommend that campus and Foundation controls be strengthened to include documentation of evidence that technical reports and other technical deliverables are submitted to sponsoring agencies.

Campus Response

We concur. The development and submission of sponsor required technical reports are ultimately the responsibility of the Project Director. The Sponsored Programs Office monitors the technical reporting requirements to ensure that these requirements have been met.

An e-mail reminder is sent to the Project Director 30 days prior to the due date of the technical report. At that time, it is requested that the Project Director submit the required technical report directly to the sponsoring agency (or in accordance with the specific terms of the contract/grant), and provide a copy of the report and/or transmittal letter to the Sponsored Programs Office. If the required report is not received within 30 days after the due date, a second e-mail notice is sent to the Project Director. Reports delinquent beyond 60 days are then handled on a case-by-case basis, with follow-up made by the assigned Sponsored Programs Grant Analyst and/or Director, as needed.

Sponsored Programs staff shortages/position vacancies during fiscal year 2000/2001 prevented the timely monitoring and follow-up of delinquent technical report submissions and data input of the requirements being monitored.

As part of the correction action plan for this recommendation, the Sponsored Programs staff will be reviewing the Late Report List and will update this report on a monthly basis to ensure its accuracy. In addition, as part of the formal Sponsored Programs closeout process, submission of technical reports will be confirmed prior to closeout and archival of project records.

Anticipated Date of Completion: March 31, 2002

INDIRECT COSTS

The campus did not establish a cost allocation plan to ensure sufficient return of reimbursed costs incurred by the university for sponsored programs.

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 for facilities, goods, and services provided by the campus and funded by the General Fund.

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

The associate vice president for finance stated that a cost allocation plan for the campus has been developed and is currently in the final stages of review.

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

Recommendation 4

We recommend that the campus develop a cost allocation plan to ensure full reimbursement of General Fund monies used for sponsored programs.

Campus Response

We concur that a cost allocation plan should be developed in accordance with Executive Order No. 753. A final draft of the campus cost allocation plan has been completed and will be finalized by February 1, 2002.

Anticipated Date of Completion: February 1, 2002

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Susan Crouch	Grant Analyst
Michael Fish	Director of Grants Development
Diana Kinunen	Administrative Projects Manager, Foundation Business Office
Frank Lebens	Vice President, Administration and Finance
Joyce McAlexander	Grant Analyst
Frank Mumford	Executive Director, Foundation Administration
Gayle Nakano	Grant Analyst
Susan Opava	Dean of Research and Graduate Studies
Aedra Reynolds	Grant Analyst
Diana Schmielt	Grant Analyst
Vicki Stover	Associate Vice President, Administration

CAL POLY

California Polytechnic State University
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Administration & Finance Division
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January 7, 2002

RECEIVED
University Auditor

JAN 09 2002

**The California State
University**

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Subject: Audit Report Number 01-36, *Contracts and Grants* at California Polytechnic State University, San Luis Obispo

Dear Mr. Mandel:

As requested in your letter of December 5, attached is the campus response to recommendations of Audit Report Number 01-36, *Contracts and Grants*. If you have questions regarding this document, please contact Vicki Stover, Associate Vice President for administration, at 805-756-2171 or VStover@calpoly.edu.

Sincerely,



Frank Lebens
Vice President for Administration & Finance

cc: w/o attachments
W. Baker
V. Stover
R. Ramirez
F. Mumford
D. Kinunen
S. Opava
M. Fish
J. Keezer

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

**CONTRACTS AND GRANTS
AUDIT REPORT NO. 01-36**

SPONSORED PROGRAM ADMINISTRATION

Recommendation 1

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Campus Response

We concur. The Independent Review Committee called for in the Foundations' Interim Conflict of Interest Policy for Investigators was formed in November 2001. The committee met for the first time on November 9, 2001. The second meeting of the Committee was held on December 11, 2001.

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Anticipated Date of Completion: June 30, 2002

PRE-AWARD CONTROLS

Recommendation 2

We recommend that the campus:

- a. Establish controls that ensure appropriate approvals are received for all sponsored program proposals.

- b. Immediately address the control and use of facsimile signature stamps by nonauthorized personnel.

Campus Response

Recommendation 2a

Although our internal procedures called for ALL signatures noted on the Proposal Approval Form (PAF) to be obtained prior to submission, Executive Order 168 requires that only two signatures be obtained: that of the President or his designee and that of the Chief Fiscal Officer. We have therefore modified our internal procedures to comply with Executive Order 168.

Recommendation 2b

The single facsimile signature stamp that had been utilized by authorized personnel has been destroyed. Personnel now sign on behalf of the chief financial officer in accordance with written delegations of signature authority from the Campus Financial Officer.

Anticipated Date of Completion: January 11, 2002

POST-AWARD CONTROLS

Recommendation 3

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Campus Response

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Anticipated Date of Completion: March 31, 2002

INDIRECT COSTS

Recommendation 4

We recommend that the campus develop a cost allocation plan to ensure full reimbursement of General Fund monies used for sponsored programs.

Campus Response

We concur that a cost allocation plan should be developed in accordance with Executive Order No. 753. A final draft of the campus cost allocation plan has been completed and will be finalized by February 1, 2002.

Anticipated Date of Completion: February 1, 2002

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 16, 2002

CHANNEL ISLANDS

MEMORANDUM

CHICO

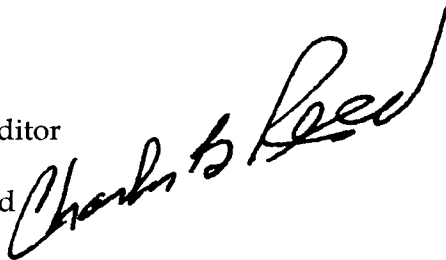
DOMINGUEZ HILLS

TO: Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

SUBJECT: Draft Final Report Number 01-36 on *Contracts and Grants* at
California Polytechnic State University, San Luis Obispo

HUMBOLDT

LONG BEACH

LOS ANGELES

In response to your memorandum of January 16, 2002, I accept the
response as submitted with the draft final report on *Contracts and Grants*
at California Polytechnic State University, San Luis Obispo.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Warren J. Baker, President
Frank T. Lebens, Vice President for Administration and Finance

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS