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**CONTRACTS AND GRANTS**  
**SAN DIEGO STATE UNIVERSITY**

**Report Number 01-38**  
**December 17, 2001**

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**Members, Committee on Audit**

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## **ABBREVIATIONS**

|            |  |
|------------|--|
| Committee  | Conflict of Interest Review Committee                  |
| CSU        | California State University                            |
| EO         | Executive Order  |
| Foundation | San Diego State University Foundation                  |
| IACUC      | Institutional Animal Care and Use Committee            |
| KPBS       | San Diego State University Public Broadcasting Station |
| NSF        | National Science Foundation                            |
| OMB        | Office of Management and Budget                        |
| SAM        | State Administrative Manual                            |
| SDSU       | San Diego State University                             |

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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 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 San Diego State University, the San Diego State University Foundation has overall responsibility for sponsored programs' pre-award and 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 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.

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## **O P I N I O N**

We visited the San Diego State University (SDSU) campus from June 16, 2001, through July 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 SDSU was in compliance with applicable regulations, California State University (CSU) policies, and other directives. Campus and San Diego State University Foundation management have developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. Areas in need of improvement are referenced in the executive summary.

## **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]**

#### **CONFLICT-OF-INTEREST DISCLOSURES [5]**

Conflict-of-interest disclosure forms were not always received from principal investigators. Sufficient control over the conflict-of-interest disclosure process reduces the risk of liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

#### **CONFLICT OF INTEREST REVIEW COMMITTEE PRACTICES [6]**

Conflict of Interest Review Committee practices for privately funded projects did not ensure a complete and proper review of conflict-of-interest disclosures. Adequate reviews of conflict-of-interest disclosures decrease the risk of improper activities, regulatory scrutiny, and discontinuation of sponsored programs.

#### **ANIMAL SUBJECTS RESEARCH TRAINING [7]**

Current practices did not ensure complete documentation and enforcement of animal research training policies. Assuring that research training efforts are timely performed and sufficiently documented decreases the risk that the overall safety and protection of animals will be compromised.

#### **PRINCIPAL INVESTIGATOR ELIGIBILITY REQUIREMENTS [8]**

Campus and San Diego State University Foundation (Foundation) policies did not clearly define principal investigator eligibility requirements and internal approval authority for nonuniversity employees involved in sponsored programs. Adequate controls over the administration and approval of sponsored programs decrease the risk of providing oversight of sponsored projects by unqualified or inappropriate personnel.

### **PRE-AWARD CONTROLS [9]**

Controls over the pre-award function did not ensure proper documentation, review, and approval of sponsored program proposals and applications. Adequate controls over the pre-award approval process decrease the risk of accepting sponsored program awards that do not meet management's criteria.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### SPONSORED PROGRAM ADMINISTRATION

#### CONFLICT-OF-INTEREST DISCLOSURES

Conflict-of-interest disclosure forms were not always received from principal investigators.

During our review of 41 sponsored projects (31 open and 10 closed) and discussions with responsible campus management, we noted that:

- ▶ Campus management could not locate *Principal Investigator's Statement of Economic Interest* disclosures (Form 730-U) for 7 of 13 (53%) open projects and one of two (50%) closed projects that were privately funded.
- ▶ Principal investigators were not required to file disclosures within 90 days of expiration date or complete expenditure of funds.
- ▶ Current practice did not require an annual filing of *Research Investigator Financial Interest Disclosure Statements* by principal investigators for federal and other public agency-funded projects nor were principal investigators required to file disclosures as new reportable significant financial interests were obtained.

The campus' *Conflict of Interest Policy for Investigators Sponsored by Federal and Other Public Agencies with Specific Conflict of Interest Requirements*, dated April 19, 2001, states in part, that each San Diego State University (SDSU) investigator submitting, renewing, or participating in a proposal seeking funding from the National Science Foundation (NSF) or any other designated external sponsor must file a *Research Investigator Financial Interest Disclosure Statement* at the time of the submission of the proposal, grant, or contract. Such disclosure must be updated on an annual basis during the period of the award and as new reportable significant financial interests are obtained.

The campus' *Procedure for Review of Privately Funded Research Proposals for Potential Conflict of Interest*, dated April 17, 2001, states that principal investigators must file disclosures (Form 730U) within 30 days of submitting or renewing a proposal, grant, or contract; annually; and within 90 days of expiration date or complete expenditure of funds, when such funds are from a nongovernmental entity, including nonprofit organizations.

The director of the center for human resources stated that with the current division of responsibilities in the pre-award conflict-of-interest disclosure process, her department could not effectively track for the receipt of required conflict-of-interest disclosure statements. She further stated that the roles and responsibilities for ensuring subsequent filings by the principal investigators had not been clearly defined by the campus or San Diego State University Foundation (Foundation).

Insufficient control over the conflict-of-interest disclosure process increases the risk of 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:

- a. Strengthen controls to ensure compliance with campus financial conflict-of-interest disclosure requirements.
- b. Reevaluate the current division of responsibilities and workflow design in this area to ensure that required conflict-of-interest disclosure statements are obtained from applicable personnel and that processes exist to identify and timely report instances of noncompliance.

### **Campus Response**

We concur. The campus and the Foundation have agreed on administrative procedures to ensure compliance with disclosure requirements. Policies have been updated to reflect the current division of responsibilities and to identify instances of noncompliance.

## **CONFLICT OF INTEREST REVIEW COMMITTEE PRACTICES**

Conflict of Interest Review Committee practices for privately funded projects did not ensure a complete and proper review of conflict-of-interest disclosures.

We noted during our review of six Form 730U disclosures that:

- ▶ For one project, the privately funded Conflict of Interest Review Committee (Committee) did not meet to review a reported financial conflict of interest by the principal investigator.
- ▶ For one project, the Committee initiated but did not complete its review of a reported financial conflict of interest by the principal investigator.
- ▶ For one project, the Committee notified the Foundation that no financial interest was reported on Form 730U, when, in fact, the principal investigator disclosed a conflict of interest. We noted that the disclosure was routed to the Committee for review whereby one Committee member stated there was no conflict of interest and another needed more information to make an informed decision. There was no evidence in file that the two remaining Committee members reviewed the disclosure.

The campus' *Procedure for Review of Privately Funded Research Proposals for Potential Conflict of Interest*, dated April 17, 2001, states that the Conflict of Interest Review Committee shall review the faculty member's financial interest in the proposed sponsor/donor and shall make a recommendation to

the president within 15 days. The procedure also states that the Committee shall maintain records of its deliberations, which shall be made available to the public upon request.

The director of the center for human resources stated that the Committee reviews financial conflicts of interest and that the lack of documentation thereof was an oversight.

Inadequate reviews of conflict-of-interest disclosures increase the risk of improper activities, regulatory scrutiny, and discontinuation of sponsored programs.

### **Recommendation 2**

We recommend that the campus:

- a. Reevaluate the current process for receiving and reviewing conflict-of-interest disclosure statements from principal investigators.
- b. Implement controls that ensure reported financial conflicts of interest are completely and timely reviewed by responsible Committee members and that documentation thereof is maintained in campus files for subsequent review.

### **Campus Response**

We concur. The campus and the Foundation have agreed on administrative procedures to ensure compliance with disclosure requirements. Policies have been updated.

## **ANIMAL SUBJECTS RESEARCH TRAINING**

Current practices did not ensure complete documentation and enforcement of animal research training policies.

Existing campus policy included training requirements for principal investigators, animal technicians, and other personnel involved in animal care, but did not specifically state the frequency of the training requirement, which is mandated by the Institutional Animal Care and Use Committee (IACUC). Although we were told that training was required on a triennial basis, our review of four projects disclosed that training had not been provided to two principal investigators and the two remaining principal investigators were not included in training that was provided to their research assistants.

Public Law 99-158, *Animals in Research*, §495(c)(1)(B), requires scientists, animal technicians, and other personnel involved with animal care, treatment, and use by the applicant have available to them instruction or training in the humane practice of animal maintenance and experimentation and the concept, availability, and use of research or testing methods that limit the use of animals or limit animal distress.

The IACUC chairperson stated that the triennial frequency had been recently adopted and that resource constraints had prevented complete documentation of the campus animal research policy in a timely manner. She also stated that training has been offered in a variety of formats for the convenience of principal investigators and others not working on the main SDSU campus and that principal investigators are held responsible for compliance by all of the research personnel on their projects. The IACUC chairperson further stated that documentation of training efforts and strict enforcement of training policies for all SDSU and Foundation employees subject to the requirement may be the overriding issues rather than nonperformance of training.

Not assuring that training efforts are performed timely and sufficiently documented increases the risk that the overall safety and protection of animals used in research will be less than satisfactory.

### **Recommendation 3**

We recommend that the campus update animal research training policies to include the frequency of required training and implement controls to ensure training of all affected personnel.

### **Campus Response**

We concur. Policies have been updated to include the frequency of required training and ensure training of all affected personnel.

## **PRINCIPAL INVESTIGATOR ELIGIBILITY REQUIREMENTS**

Campus and San Diego State University Foundation (Foundation) policies did not clearly define principal investigator eligibility requirements and internal approval authority for nonuniversity employees involved in sponsored programs.

Our review of 10 recently submitted proposals and 31 active project files disclosed that nonuniversity employees (e.g., director of SDSU Associated Students, general manager of San Diego State University Public Broadcasting Station [KPBS]) served as principal investigators or project directors and/or provided internal approvals for six sponsored projects. Although the associate vice president for research and technology signed the respective proposal approval forms, existing campus guidelines did not provide clear authority or administrative responsibility for these individuals to serve as principal investigators or project directors and/or to provide additional internal approvals for the projects.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations 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. Sound business practice mandates fully documented policies and procedures.

State Administrative Manual (SAM) §20050 indicates that a symptom of control deficiencies is lines of organizational authority and responsibility that are not clearly articulated or are nonexistent and that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or nonexistent.

The associate vice president of research and technology stated that he approves all project proposal forms submitted by nonuniversity employees and that campus guidelines will be updated upon approval by the university research council.

Inadequate controls over the administration and approval of sponsored programs increase the risk of providing oversight of sponsored projects by unqualified or inappropriate personnel.

#### **Recommendation 4**

We recommend that the campus clearly define, document, and communicate sponsored program eligibility requirements and internal approval authority for nonuniversity employees serving as principal investigators or project directors.

#### **Campus Response**

We concur. Policies have been updated.

### **PRE-AWARD CONTROLS**

Controls over the pre-award function did not ensure proper documentation, review, and approval of sponsored program proposals and applications.

During a review of 10 recently submitted proposal files and 31 active project files, we noted that:

- ▶ Two applications to sponsoring agencies were not signed by authorized campus individuals.
- ▶ A proposal approval form with authorizing campus and Foundation signatures was not prepared for a \$1-million dollar project that was accepted by the Foundation. The responsible research and community services development staff had submitted a marked-up copy of another proposal approval form for the same sponsoring agency as support for the new project.
- ▶ The vice president of administration was not required to review and approve the fiscal aspects of each proposal. Although the associate vice president of business enterprises signs proposal approval forms, his signature represents a review of space and biohazard implications and not the fiscal aspects of each project.

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 that proposals or requests for funding of research or other special educational projects shall not be submitted to sponsoring federal or state agencies, public or private corporations, private foundations, or individuals without prior approval of the president of the campus or his or her designee. Further, the chief fiscal officer of the campus shall review and approve the fiscal aspects of each proposal for funding.

A memo from President Weber, dated August 24, 1998, states that the authority for institutional approval of all grants and contracts submitted on behalf of SDSU through the Foundation has been delegated to the dean of the graduate division and vice president for research who shall be designated the “authorized institutional official.” It is further understood that the dean, with the president’s concurrence, has specifically delegated this task to the associate vice president for research and technology, who may also sign grant and contract proposals.

The associate vice president for research and technology stated that as part of the proposal approval process, each sponsored program proposal is reviewed by responsible campus and Foundation constituents for financial viability.

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

### **Recommendation 5**

We recommend that the campus and/or the Foundation:

- a. Strengthen controls that ensure sponsored program applications are approved by authorized personnel.
- b. Strengthen internal monitoring controls to ensure that proposal approval forms are prepared and on file for all sponsored projects.
- c. Reevaluate current approval processes to ensure financial reviews of sponsored projects are performed by responsible campus personnel.

### **Campus Response**

We concur.

- a. Controls have been strengthened.
- b. Internal monitoring controls have been established.
- c. The campus will reevaluate the financial component of the sponsored program reviews to ensure that applications receive the appropriate level of review. This review will be completed by June 30, 2002.



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## APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u>            | <u>Title</u>   |
|------------------------|--|
| Stephen L. Weber       | President  |
| Sue Blair              | Director, The Center for Human Resources                               |
| Juanita Brents         | Director of Human Resources, Foundation                                |
| Valerie Carter         | Tax and Audit Coordinator  |
| Melinda Coil           | Director, Financial Management, Foundation                             |
| Ann De Peyster         | Professor, Graduate School of Public Health/IACUC Chairperson          |
| Lawrence Feinberg      | Associate Vice President for Research and Technology                   |
| Ellene Gibbs           | Director, Business Information Management                              |
| Christopher Glembotski | Professor and Chair of Biology   |
| Michele Goetz          | Director, Research and Community Services Administration, Foundation   |
| W. Timothy Hushen      | Associate General Manager, Research and Community Services, Foundation |
| Phillip Langlais       | Associate Dean for Research and Graduate Studies, College of Sciences  |
| Leslie Levinson        | Associate General Manager, Financial Management, Foundation            |
| Camille Nebeker        | Research Services Coordinator  |
| Edward Riley           | Professor, Psychology  |
| Sally Roush            | Vice President, Business and Financial Affairs                         |
| Eugene Stein           | Director, Research and Community Services Development, Foundation      |
| Joseph Vasquez         | Associate Vice President, Business Enterprises                         |



A Century Of Learning 1897•1997  
THE PRESIDENT

**APPENDIX B - Page 1 of 3**  
San Diego State University  
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San Diego CA 92182•8000  
619•594•5201  
FAX: 619•594•8894  
E-mail: [steve.weber@sdsu.edu](mailto:steve.weber@sdsu.edu)

January 31, 2002

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802

**RECEIVED**  
University Auditor

FEB 04 2002

**The California State  
University**

Dear Mr. Mandel:

The following is San Diego State University's response to Audit Report Number 01-38, *Contracts and Grants*. For ease of reference, the report's recommendations have been included with our responses.

**Recommendation 1:**

We recommend that the campus and Foundation:

- a. Strengthen controls to ensure compliance with campus financial conflict-of-interest disclosure requirements.
- b. Reevaluate the current division of responsibilities and workflow design in this area to ensure that required conflict-of-interest disclosure statements are obtained from applicable personnel and that processes exist to identify and timely report instances of noncompliance.

**Campus Response**

We concur. The campus and the Foundation have agreed on administrative procedures to ensure compliance with disclosure requirements. Policies have been updated to reflect the current division of responsibilities and to identify instances of noncompliance.

Mr. Larry Mandel  
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January 31, 2002

**Recommendation 2:**

We recommend that the campus:

- a. Reevaluate the current process for receiving and reviewing conflict-of-interest disclosure statements from principal investigators.
- b. Implement controls that ensure reported financial conflicts of interest are completely and timely reviewed by responsible committee members and that documentation thereof is maintained in campus files for subsequent review.

**Campus Response**

We concur. The campus and the Foundation have agreed on administrative procedures to ensure compliance with disclosure requirements. Policies have been updated.

**Recommendation 3:**

We recommend that the campus update animal research training policies to include the frequency of required training and implement controls to ensure training of all affected personnel.

**Campus Response**

We concur. Policies have been updated to include the frequency of required training and ensure training of all affected personnel.

**Recommendation 4:**

We recommend that the campus clearly define, document, and communicate sponsored program eligibility requirements and internal approval authority for non-university employees serving as principal investigators or project directors.

**Campus Response**

We concur. Policies have been updated.

Mr. Larry Mandel  
Page 3  
January 31, 2002

**Recommendation 5:**

We recommend that the campus and/or the Foundation:

- a. Strengthen controls that ensure sponsored program applications are approved by authorized personnel.
- b. Strengthen internal monitoring controls to ensure that proposal approval forms are prepared and on file for all sponsored projects.
- c. Reevaluate current approval processes to ensure financial reviews of sponsored projects are performed by responsible campus personnel.

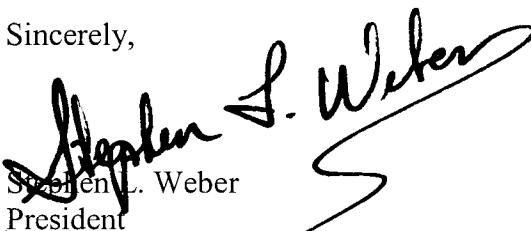
**Campus Response**

We concur.

- a. Controls have been strengthened.
- b. Internal monitoring controls have been established.
- c. The campus will reevaluate the financial component of the sponsored program reviews to ensure that applications receive the appropriate level of review. This review will be completed by June 30, 2002.

Documentation of policy and control changes will follow under separate cover.

Sincerely,

  
Stephen L. Weber  
President

SLW/jsh

- c: Nancy A. Marlin, Provost  
Sally F. Roush, Vice President, Business and Financial Affairs  
Frea E. Sladek, Chief Executive Officer, SDSU Foundation  
Ellene J. Gibbs, Director, Business Information Management

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 25, 2002

CHANNEL ISLANDS

**MEMORANDUM**

CHICO

DOMINGUEZ HILLS

TO: Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

FULLERTON

HAYWARD

SUBJECT: Draft Final Report Number 01-38 on *Contracts and Grants* at  
San Diego State University

HUMBOLDT

LONG BEACH

LOS ANGELES

In response to your memorandum of February 25, 2002, I accept the response as submitted with the draft final report on *Contracts and Grants* at San Diego State University.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Ms. Ellene J. Gibbs, Director, Business Information Management  
Dr. Stephen L. Weber, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS