

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
CHICO

Audit Report 07-16
November 15, 2007

Members, Committee on Audit

Raymond W. Holdsworth, Chair
Kenneth Fong, Vice Chair
Herbert L. Carter George G. Gowgani
Melinda Guzman William Hauck
Ricardo Icaza Glen O. Toney

Staff

University Auditor: Larry Mandel
Audit Manager: Gary Miller
Internal Auditor: Ann Casey

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	2
Background	2
Purpose.....	3
Scope and Methodology	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Program Administration.....	5
Delegations of Authority.....	5
Employee Training.....	5
Project Integrity and Regulatory Compliance.....	6
Procurement and Property Management.....	7

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

CSU	California State University
EO	Executive Order
HR	Human Resources
NIH	National Institutes of Health
NSF	National Science Foundation
OMB	Office of Management and Budget
Research Foundation	The CSU, Chico Research Foundation
RESP	Office of Research and Sponsored Programs
SAM	State Administrative Manual

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2006, the Board of Trustees, at its January 2007 meeting, directed that *Contracts and Grants* be reviewed. Contracts and Grants was last audited in 2001.

We visited the California State University, Chico campus from June 2, 2007, through July 13, 2007, and audited the procedures in effect at that time.

In our opinion, the administration and management controls over sponsored programs were, for the most part, effective. Campus and The CSU, Chico Research Foundation (Research Foundation) management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over delegations of authority, employee training records, conflict of interest disclosures, and property management needed improvement.

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

PROGRAM ADMINISTRATION [5]

Delegations of authority were not always complete and current. The *Office of Research and Sponsored Programs/The Research Foundation, Signature Policy* authorizing specific individuals to sign and approve expenditures and contracts was not certified by an approving authority. In addition, documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement. In 11 of 13 instances reviewed, there was no supporting documentation to evidence the project director's attendance of initial or ongoing training.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE [6]

The Research Foundation's financial conflict of interest policy was inadequate. The existing financial conflict of interest policy did not specify the requirement of the completion of CA Form 700-U for all non-governmental research projects. Additionally, the existing policy did not require the completion of conflict of interest disclosure forms by all principal investigators, but instead only required each investigator with a significant financial interest to complete a disclosure form.

PROCUREMENT AND PROPERTY MANAGEMENT [7]

Property reconciliations were not always properly completed for the Research Foundation. Property reconciliation was not completed for fiscal year 2005/06. In addition, the property reconciliations for fiscal year 2002/03 to fiscal year 2004/05 were not signed and dated by the preparer and reviewer.

INTRODUCTION

BACKGROUND

The Office of Management and Budget (OMB) has 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 governments bear 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 non-profit 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 non-profit organizations expending federal awards.

The National Institutes of Health *Grants Policy Statement* (last revised December 2003) and the National Science Foundation *Grant Policy Manual* (last revised July 2005) have also delineated policy requirements to serve as terms and conditions of awards granted.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, superseded a prior EO issued in 1973 which promulgated systemwide policies in the sponsored programs area and 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. EO 890 sets policy to be followed by each campus and any auxiliary administering sponsored programs to ensure that the university or auxiliary maximizes the benefits of sponsored programs and supports faculty, students, and administrators in effectively securing and carrying out sponsored programs. EO 890 requires that each campus establish a written policy on the management of sponsored programs that incorporates the components of: proposal submission, review, and approval; performance of grants and contracts; human resources policies; academic policies; fiscal administration; and work product and records.

At California State University, Chico, the office of research and sponsored programs has overall responsibility for sponsored programs' pre-award activities. The CSU, Chico Research Foundation performs post-award activities and is the fiscal manager of campus-sponsored programs.

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, specific goals included determining whether:

- ▶ Certain essential administrative and managerial internal controls are in place, including delegations of authority and responsibility, formation of independent oversight committees, documented policies and procedures, and adequate cost accounting and recordkeeping.
- ▶ Sponsored program proposals are reviewed and approved by authorized personnel prior to submission to awarding agencies and organizations, while awards are subsequently reviewed and accepted by authorized campus and auxiliary personnel.
- ▶ Federal single audits are timely performed and audit findings are timely and sufficiently resolved.
- ▶ Individuals involved with contracts and grants are provided initial and ongoing training.
- ▶ Conflict of interest disclosures are timely received and adequately reviewed, allegations of misconduct are properly handled, and debarment or suspension of key personnel is verified.
- ▶ 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, timely completed, and correctly submitted to sponsoring agencies and organizations; and subrecipient activities are appropriately monitored.
- ▶ Human and animal research is adequately approved, and a system exists to protect the rights, well-being, and personal privacy of human subjects and ensure humane use of live vertebrate animals.
- ▶ Effort reporting systems ensure accurate and properly documented evidence of work performed on sponsored projects, and matching funds requirements are met and properly documented.
- ▶ Deviations from budget and program plans are properly approved and timely reported in accordance with federal regulations and agency guidelines, and billings are timely performed and monitored for payment.
- ▶ Procurement activities comply with federal and other sponsoring agency requirements, records are maintained for equipment acquired and such equipment is adequately safeguarded, and a viable intellectual property management system exists.

SCOPE AND METHODOLOGY

The proposed scope of the audit, as presented in Attachment B, Audit Agenda Item 2 of the January 23-24, 2007, 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). Potential impacts include commitments/proposals not in the best interest of the California State University; conflicts of interest by principal investigators; inadequate/excessive recovery of costs or contribution of matching requirements; misuse of funds; non-compliance with pertinent grantor/sponsor regulations; audit disallowances, regulatory finds and sanctions; misconduct in research such as fabrication, falsification, plagiarism, or abuse of human subjects; and failure to provide deliverables.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. 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. The audit review focused on procedures currently in effect. In instances wherein it was necessary to review annualized data, calendar year 2006 or fiscal year 2005/06 was the primary period reviewed except when it was beneficial to see trends for multiple years.

We focused primarily upon the internal administrative, compliance, and operational controls over the management of contracts and grants. Specifically, we reviewed and tested:

- ▶ Contract and grant policies, rules, regulations, and delegations of authority.
- ▶ Approval of sponsored program proposals and acceptance of contracts.
- ▶ Federal single audits and resolution of prior audit issues.
- ▶ Initial and ongoing training for principal investigators and other staff.
- ▶ Conflict of interest disclosures.
- ▶ Allegations of misconduct.
- ▶ Certification for debarment or suspension of key personnel.
- ▶ Expenditure controls and the disbursement of award funds.
- ▶ Programmatic reporting; both technical and financial in nature.
- ▶ Human subject testing and animal research.
- ▶ Effort reporting, cost sharing, and matching commitments.
- ▶ Subrecipient activity monitoring.
- ▶ Adherence to sponsor-approved budgets and contractual terms.
- ▶ Contract and grant billings.
- ▶ Equipment acquisition, inventorying and safeguarding.
- ▶ Management of intellectual property.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PROGRAM ADMINISTRATION

DELEGATIONS OF AUTHORITY

Delegations of authority were not always complete and current.

Our review of delegations of authority disclosed that the *Office of Research and Sponsored Programs/The Research Foundation, Signature Policy* authorizing specific individuals to sign and approve expenditures and contracts, was not certified by an approving authority.

State Administrative Manual (SAM) §20050 states that a satisfactory system of internal accounting and administrative control includes a plan of authorization and recordkeeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures.

The director of the office of research and sponsored programs (RESP) stated that the RESP maintained signature authorization forms, which identified individuals who were authorized to sign and approve expenditures and contracts, but was unaware of the requirement that these must also be certified by an approving authority.

Failure to maintain formal delegations of authority for the approval of proposals increases the risk of misunderstandings and unauthorized activities/actions.

Prior to the end of our fieldwork, the campus prepared a written delegations of authority certified by the vice provost of research.

EMPLOYEE TRAINING

Documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement.

We found that initial training was mandatory and included orientation meetings for new project directors, while ongoing training was voluntary and included various symposia, e-mail advisories, and other training covering various topics (i.e., sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, intellectual property policies, etc.). However, documentation to support both initial and ongoing training for project directors and those responsible for the administration of contracts and grants was not available in 11 of 13 instances reviewed.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the campus policy shall incorporate provisions for adequate training of research personnel and for multi-institutional sponsored programs.

The Code of Federal Regulations, Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which Public Health Service Funding is Sought*, states that each institution must maintain an appropriate written, enforced policy on conflict of interest...inform each investigator of that policy, and the investigator's reporting responsibilities.

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. This includes providing and documenting initial and ongoing training for project directors and those responsible for the administration of contracts and grants.

The director of the RESP stated that The CSU, Chico Research Foundation (Research Foundation) was unaware of any requirement to retain a permanent record of project directors' attendance at the mandatory orientation or voluntary ongoing trainings.

Failure to document training efforts by project personnel increases exposure to non-compliance with federal and state regulations.

Recommendation 1

We recommend that the campus and the Research Foundation maintain supporting documentation for initial and ongoing employee training.

Campus Response

We concur. The Research Foundation will maintain supporting documentation for initial and ongoing training. New principal investigator orientation checklists and sign-in sheets for ongoing employee training will be scanned and saved in a permanent location on the RESP's server.

Status: Completed

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

The Research Foundation's financial conflict of interest policy was inadequate.

The existing financial conflict of interest policy did not specify the requirement of the completion of CA Form 700-U for all non-governmental research projects. Additionally, the existing policy did not require the completion of conflict of interest disclosure forms by all principal investigators, but instead only required each investigator with a significant financial interest to complete a disclosure form.

CSU directive HR 2005-38, *Conflict of Interest Update – Principal Investigators*, dated April 30, 2005, states that principal investigators shall disclose whether or not they have a financial

interest in the sponsor of a proposed research project when funding in whole or in part is through a contract or grant from a non-governmental entity. Form 700-U (“Statement of Economic Interests for Principal Investigators”) should be used to meet the above filing requirements.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that each campus shall maintain a policy that complies with conflict of interest requirements of the law and the CSU, sponsored program administrator, and sponsor policies and shall alert principal investigators to these requirements.

The director of the RESP stated while the Research Foundation had been requiring investigators to use a non-governmental disclosure form that was developed internally, it had only recently learned of the requirement to use the CA Form 700-U. She further stated that the Research Foundation acknowledged that the wording in the current conflict of interest policy does not reflect its practices, which were to require all principal investigators to complete a disclosure form for research projects funded by non-governmental entities and for proposals submitted to the National Science Foundation (NSF) or the National Institutes of Health (NIH).

Inadequate conflict of interest policy increases liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

Recommendation 2

We recommend that the Research Foundation revise the financial conflict of interest policy to reflect the requirement of completion of the CA Form 700-U and to also require its completion by all principal investigators.

Campus Response

We concur. The Academic Senate of California State University, Chico approved modifications to EM 96-87 *Policy on Conflicts of Interest in Grants and Contracts* on December 6, 2007. The modifications include the requirement that all principal investigators with awards funded by NSF or NIH and all research awards funded, in whole or in party, by non-governmental sponsors file the appropriate financial disclosure form, including CA Form 700-U.

Status: Incomplete with an expected implementation date of March 31, 2008

PROCUREMENT AND PROPERTY MANAGEMENT

Property reconciliations were not always properly completed for the Research Foundation.

Property reconciliation was not completed for fiscal year 2005/06. In addition, the property reconciliations for fiscal year 2002/03 to fiscal year 2004/05 were not signed and dated by the preparer and reviewer.

California State University, Chico Research Foundation Property Policy, Section V, A, states that the university property management office will include foundation property in physical inventory cycles conducted on the campus, including funded projects located in the Chico area. The Research Foundation will review fixed assets on an annual basis and identify items not found within the past 24 months.

Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.34(f)(3), states that a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

SAM §7908 states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

SAM §7924 requires that agencies reconcile property at least quarterly or monthly, depending upon the volume of property transactions. Agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

The director of the RESP stated that the Research Foundation did not complete the property reconciliation for fiscal year 2005/2006 because it had not received the perpetual inventory from the university's property management office until July 2007. She further stated that the lack of dates and signatures on prior property reconciliations was an administrative oversight.

Failure to complete or timely prepare property reconciliations limits the Research Foundation's ability to detect errors and regularities and may delay proper revenue recognition.

Recommendation 3

We recommend that the Research Foundation strengthen procedures to ensure that reconciliations are properly completed in a timely manner.

Campus Response

We concur. The Research Foundation will work with the university's property management office to establish an annual deadline for transmission of the university's physical inventory to the foundation. The foundation's property policy will be updated to include this annual deadline and to specify that annual inventory reconciliations will be signed and dated by the preparer and reviewer.

Status: Incomplete with an expected implementation date of March 31, 2008

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Paul J. Zingg	President
Marsail Ford	Business Systems Analyst, The CSU, Chico Research Foundation (Research Foundation)
Beverly Gentry	Director of Strategic Planning, Business and Finance
Dennis Graham	Vice President, Business and Finance
Gail Hildebrand	Manager, Office of Research and Sponsored Programs
Richard Jackson	Executive Director, Research Foundation
Bill Jones	Associate Vice President, Business and Finance
John Mahoney	Director, Honors Program
Katie Milo	Vice Provost, Research
Carol Sager	Director, Office of Research and Sponsored Programs
Fred Woodmansee	Financial Director, Research Foundation

California State University, Chico
Chico, California 95929-0025
Vice President for Business and Finance
Office: 530-898-6231 Fax: 530-898-4513
E-mail: dcgraham@csuchico.edu



December 11, 2007

RECEIVED
UNIVERSITY AUDITOR

DEC 12 2007

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210



Subject: Campus Response to Contracts and Grants Audit Report 07-16

Dear Mr. Mandel:

Enclosed is California State University, Chico's response to the CSU Audit Report 07-16, Contracts and Grants. We appreciate the time and effort your office has invested in the review of our procedures and internal controls. We welcome the report's recommendations and will take the action necessary to address them.

If you have any questions or require additional information, please contact Beverly Delker Gentry, Director of Strategic Planning for Business and Finance, at bgentry@csuchico.edu or (530) 898-6231.

Sincerely,

Dennis C. Graham
Vice President for Business and Finance

Enclosure

cc: Dr. Paul J. Zingg, President (w/o Enclosure)
Sean B. Farrell, Associate Vice President for Business & Finance
Richard Jackson, Executive Director for the CSU, Chico Research
Foundation
Carol Sager, Director, Office of Research and Sponsored Programs
Joyce Friedman, Financial Director, Associated Students Business
Office
Beverly Delker Gentry, Director of Strategic Planning

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
CHICO

Audit Report 07-16
November 15, 2007

PROGRAM ADMINISTRATION

EMPLOYEE TRAINING

Recommendation 1

We recommend that the campus and the Research Foundation maintain supporting documentation for initial and ongoing employee training.

Campus Response

We concur. The Research Foundation will maintain supporting documentation for initial and ongoing training. New Principal Investigator (PI) Orientation Checklists and sign-in sheets for ongoing employee training will be scanned and saved in a permanent location on the Office of Research and Sponsored Programs' server.

Status: Complete.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

Recommendation 2

We recommend that the Research Foundation revise the financial conflict of interest policy to reflect the requirement of completion of the CA Form 700-U and to also require its completion by all principal investigators.

Campus Response

We concur. The Academic Senate of California State University, Chico approved modifications to EM 96-87 Policy on Conflicts of Interest in Grants and Contracts on December 6, 2007. The modifications include the requirement that all principal investigators with awards funded by NSF or NIH and all research awards funded, in whole or in part, by non-governmental sponsors file the appropriate financial disclosure form, including CA Form 700-U.

Status: Incomplete with an expected implementation date of March 31, 2008.

PROCUREMENT AND PROPERTY MANAGEMENT

Recommendation 3

We recommend that the Research Foundation strengthen procedures to ensure that reconciliations are properly completed in a timely manner.

Campus Response

We concur. The Research Foundation will work with the University's Property Management Office to establish an annual deadline for transmission of the University's physical inventory to the Foundation. The Foundation's property policy will be updated to include this annual deadline and to specify that annual inventory reconciliations will be signed and dated by the preparer and reviewer.

Status: Incomplete with an expected implementation date of March 31, 2008.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 19, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

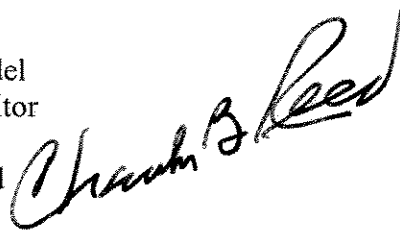
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-16 on *Contracts and Grants*,
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of December 19, 2007, I accept the response as submitted with the draft final report on *Contracts and Grants*, California State University, Chico.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Dennis C. Graham, Vice President, Business and Finance
Dr. Paul J. Zingg, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS