

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Audit Report 07-18
November 15, 2007

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ABBREVIATIONS

ASC	Auxiliary Services Corporation
CFO	Chief Financial Officer
CSFPF	Cal State Fullerton Philanthropic Foundation
EO	Executive Order
OMB	Office of Management and Budget

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, Fullerton campus from July 30, 2007, through August 24, 2007, and audited the procedures in effect at that time.

In our opinion, the administration and management controls over sponsored programs were generally effective. Campus and Auxiliary Services Corporation (ASC) management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over the administration of sponsored programs, employee training, and indirect cost allocation 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]

The campus had not adequately organized and centralized the administration of sponsored projects. The Cal State Fullerton Philanthropic Foundation (CSFPF) submitted proposals and administered programmatic grants without direct involvement by the sponsored programs office or the office of grants and contracts. Additionally, the CSFPF had recorded a grant as a pledge payment and the ASC had recorded the same grant in the sponsored programs accounting system, which tracks all grant/contract transactions for the campus. Further, documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement. Initial and ongoing training was not documented by a formalized training schedule and sign-in sheet to verify that newly hired employees received a comprehensive overview of important topics and existing employees received adequate ongoing training.

FISCAL ADMINISTRATION [7]

Documentation was not adequate to evidence the timely approval by the campus chief financial officer (CFO) of annual cost allocation plans for the reimbursement of facilities, goods, and services provided by the campus to the ASC. The cost allocation plans for fiscal years 2005/06 and 2006/07 were signed by the CFO, but were not dated to evidence the date of review. It was also noted that there was no evidence that the CFO had approved the methodology used to distribute the applicable costs of the facilities, goods, and services.

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 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 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, Fullerton, the office of grants and contracts has primary responsibility for pre-award activities. The Auxiliary Services Corporation 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 contracts and grants 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

DECENTRALIZED ADMINISTRATION

The campus had not adequately organized and centralized the administration of sponsored projects.

The Cal State Fullerton Philanthropic Foundation (CSFPF) submitted proposals and administered programmatic grants without direct involvement by the sponsored programs office or the office of grants and contracts. Additionally, we noted that the CSFPF had recorded a grant as a pledge payment and the Auxiliary Services Corporation (ASC) had recorded the same grant in the sponsored programs accounting system, which tracks all grant/contract transactions for the campus.

State Administrative Manual §20050 states that a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states, in part, that sponsored project administrators should be capable of performing all administrative tasks required by sponsors such as budgeting, account management, fiscal reporting, cost recovery, cost sharing; work product and records policy; and record retention. Prior to acceptance, the recipient shall designate either the university or the auxiliary to administer the contract or grant. The sponsored program administrator is legally responsible and accountable to the sponsor for the use of the funds provided and the performance of the sponsored program.

The California State University, Fullerton *Policy for the Administration of Grants and Contracts in Support of Sponsored Programs* states that prior to acceptance of any sponsored program contract or grant, the university exclusively designates the auxiliary to administer the contract or grant. The sponsored program administrator, then, is legally responsible and accountable to the sponsor for the use of the funds provided and the performance of the sponsored program.

The director of finance and administration of ASC stated that, though a grants and contracts process was created as required by EO 890, the grants and contracts process had not been fully communicated to or adopted by the university advancement department due to a vacant position within the university advancement department.

Failure to maintain a centralized administration of sponsored programs increases the risk of non-compliance with programmatic requirements such as cost sharing and financial/technical reporting and decreases the organizational efficiencies gained by a centralized administration.

Recommendation 1

We recommend that the campus:

- a. Ensure that no other department or campus entity submits proposals and or administers programs/programmatic grants without direct involvement by the designated sponsored programs administration or other entity as designated by the president.
- b. Consider documenting a memorandum of understanding or agreement between the university, the CSFPF, and the ASC that addresses exceptions to the designation of funds as grants or gifts. In addition, strengthen campus guidance to add clarity to the distinction between programmatic and philanthropic grants with strong emphasis on ensuring close collaboration between the two entities.

Campus Response

We concur. The university will establish procedures to ensure all proposals and administered programmatic grants are reviewed by the designated sponsored programs administrator or other entity designated by the president; and develop a memorandum of understanding that addresses the designation of funds as grants or gifts, and clarifies the distinction between programmatic and philanthropic grants with a strong emphasis on collaboration by March 31, 2008.

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 included providing newly hired employees with applicable reference materials and new project directors and principal investigators meeting with a grant administrator, while ongoing training included various workshops and other training. However, the training was not documented by a formalized training schedule and sign-in sheet to verify that newly hired employees received a comprehensive overview of important topics (i.e., sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, intellectual property policies, etc.), and existing employees received adequate ongoing training.

For example, documentation was not available to evidence the completion of conflict of interest training for eight of ten principal investigators selected for review.

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, 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.

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 director of grants and contracts stated that the office of grants and contracts does offer workshops to the entire campus on conflicts of interest and other training and compliance topics as part of its training program. She further stated that these training workshops routinely required sign-in sheets for internal purposes, but this documentation was not always retained.

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

Recommendation 2

We recommend that the campus establish procedures to document initial and ongoing employee training by means of formalized training schedules, checklists, and sign-in sheets to certify that employees received a comprehensive overview of important topics including, but not limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

We concur. The campus will establish procedures to document initial and ongoing employee training by means of formalized training schedules, checklists, and sign-in sheets to certify that employees received a comprehensive overview of important topics including, but not limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Anticipated implementation date: March 31, 2008

FISCAL ADMINISTRATION

Documentation was not adequate to evidence the timely approval by the campus chief financial officer (CFO) of annual cost allocation plans for the reimbursement of facilities, goods, and services provided by the campus to the ASC.

The cost allocation plans for fiscal years 2005/06 and 2006/07 were signed by the CFO, but were not dated to evidence the date of review. It was also noted that there was no evidence that the CFO had approved the methodology used to distribute the applicable costs of the facilities, goods, and services.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, requires that an annual written cost allocation plan is prepared to ensure that auxiliary enterprises are charged for allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the operating fund. Costs allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus CFO.

The associate vice president of finance stated his belief that the cost allocation plans were adequate and was unaware the campus was not meeting requirements timely.

Untimely approval of the cost allocation plan increases the risk that the campus-operating fund is not fully compensated for support provided to auxiliary enterprises.

Recommendation 3

We recommend that the campus document the annual review and approval of the cost allocation plan and methodology by the campus CFO, including the dates of approval.

Campus Response

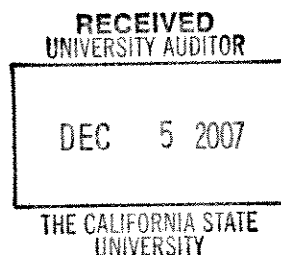
We concur. The campus will develop a written plan for documenting the annual review and approval of the cost allocation plan and methodology by the campus CFO, including the dates of approval by March 31, 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Milton A. Gordon	President
Bill Barrett	Associate Vice President, Administration
Pearl Cheng	Director, Finance and Administration, Auxiliary Services Corporation
Julie Chung	Gift Administrator/Accounting Manager
Bill Dickerson	Executive Director, Auxiliary Services Corporation
Naomi Goodwin	Assistant Vice President, Administration and Finance
Willie Hagan	Vice President, Administration and Finance
Bahram Hatefi	Director, Internal Audit
Pamela Hillman	Vice President, University Advancement
Brian Jenkins	Associate Vice President, Finance
Chi Nguyen	Accountant, Sponsored Programs
Linda Patton	Director, Grants and Contracts
Smruti Shah	Accounts Receivable Specialist
Ephraim Smith	Vice President, Academic Affairs
Paulina Tagle	Assistant Director, Grants and Contracts
Tanya Thompson	Director, Sponsored Programs
Regina Webster	Associate Vice President, Central Development
Jerry Yu	Director, Corporate and Foundation Relations



Office of the President
(714) 278-3456 / Fax (714) 278-2649



DATE: December 03, 2007

TO: Larry Mandel
University Auditor

FROM: Milton A. Gordon
President *MAG*

SUBJECT: Response for Contracts and Grants Audit Report 07-18

I am pleased to forward California State University, Fullerton's official response to the recommendations in the Contracts and Grants Audit Report 07-18.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying meaningful ways to improve the administration of sponsored projects in compliance with state and CSU guidelines.

The Campus Auditor, Bahram Hatefi, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Bahram at 714-278-7299 or bhatefi@fullerton.edu

Attachments

cc: Willie Hagan, Vice President, Administration & Finance CFO
Pam Hillman, Vice President for University Advancement
Ephraim Smith, Vice President, Academic Affairs
Brian Jenkins, Associate Vice President, Finance
Naomi Goodwin, Assistant Vice President, Administration & Finance
Bahram Hatefi, Director of CSUF Internal Audit
Bill Dickerson, Director of Auxiliary Services Corporation
Linda Patton, Director of Grants and Contracts
Frank Mumford, Director, Finance & Administration, ASC
Jerry Yu, Director, Corporate and Foundation Relations

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Audit Report 07-18
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PROGRAM ADMINISTRATION

DECENTRALIZED ADMINISTRATION

Recommendation 1

We recommend that the campus:

- a. Ensure that no other department or campus entity submits proposals and or administers programs/programmatic grants without direct involvement by the designated sponsored programs administration or other entity as designated by the president.
- b. Consider documenting a memorandum of understanding or agreement between the university, the CSFPP, and the ASC that addresses exceptions to the designation of funds as grants or gifts. In addition, strengthen campus guidance to add clarity to the distinction between programmatic and philanthropic grants with strong emphasis on ensuring close collaboration between the two entities.

Campus Response

We concur. The University will establish procedures to ensure all proposals and administered programmatic grants are reviewed by the designated sponsored programs administrator or other entity designated by the president; and develop a memorandum of understanding that addresses the designation of funds as grants or gifts, and clarifies the distinction between programmatic and philanthropic grants with a strong emphasis on collaboration by March 31, 2008.

EMPLOYEE TRAINING

Recommendation 2

We recommend that the campus establish procedures to document initial and ongoing employee training by means of formalized training schedules, checklists, and sign-in sheets to certify that employees received a comprehensive overview of important topics including, but not limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

We concur. The campus will establish procedures to document initial and ongoing employee training by means of formalized training schedules, checklists, and sign-in sheets to certify that employees received a comprehensive overview of important topics including, but not limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies. Anticipated implementation date – **March 31, 2008**.

FISCAL ADMINISTRATION

Recommendation 3

We recommend that the campus document the annual review and approval of the cost allocation plan and methodology by the campus CFO, including the dates of approval.

Campus Response

We concur. The campus will develop a written plan for documenting the annual review and approval of the cost allocation plan and methodology by the campus CFO, including the dates of approval by **March 31, 2008**.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 7, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

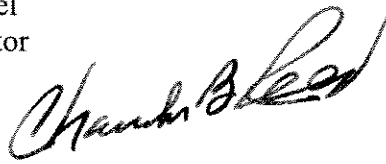
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-18 on *Contracts and Grants*,
California State University, Fullerton

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of December 7, 2007, I accept the response as submitted with the draft final report on *Contracts and Grants*, California State University, Fullerton.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Milton A. Gordon, President
Dr. Bahram Hatefi, Director of Internal Audit

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS