

CONTRACTS AND GRANTS
SONOMA STATE UNIVERSITY

Audit Report 07-19
November 16, 2007

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CONTENTS

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

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Program Administration.....	5
Fiscal Administration.....	6
Travel Expenditures	6
General Expenditures	7

APPENDICES

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

ABBREVIATIONS

CIHS	California Institute on Human Services
EO	Executive Order
OMB	Office of Management and Budget
SSU	Sonoma State University

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 Sonoma State University (SSU) campus from July 23, 2007, through August 31, 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. SSU contracts and grants management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over employee training records and expenditures 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]

Documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement. There was no formalized training schedule or sign-in sheet to verify that newly hired employees received a comprehensive overview of important topics and that existing employees received adequate ongoing training.

FISCAL ADMINISTRATION [6]

Reimbursements of travel expenditures were not always in compliance with California State University and campus policies. Six of ten travel expenditures reviewed did not contain prior authorization/approval of travel by staff members. In addition, expenditures were not always supported by adequate documentation to demonstrate the purpose of the expenditure or the allowability and allocability to the sponsored project. Costs were not always supported by appropriate documentation such as timecards or service agreements, increases in budget expenses were not documented as required by the project terms, and expenses were not incurred during the project's period of performance.

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 Sonoma State University, the office of research and sponsored programs has overall responsibility for sponsored programs' pre-award activities. The university administration and finance division's sponsored projects administration unit 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 2006/07 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

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 symposia 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.

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.

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 research and sponsored programs stated that initial and ongoing training was provided for project directors and those responsible for the administration of contracts and grants, but the campus had not recognized the need to formally document this training.

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 establish procedures to document initial and ongoing employee training by means of a formalized training schedule/topic checklist and sign-in sheet 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 enhance its employee training efforts in the areas of sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies. This training will be documented with a formalized training schedule, a topic checklist, and a sign-in sheet. The campus estimates this effort will be completed by February 15, 2008.

FISCAL ADMINISTRATION

TRAVEL EXPENDITURES

Reimbursements of travel expenditures were not always in compliance with California State University and campus policies.

Six of ten travel expenditures reviewed did not contain prior authorization/approval of travel by staff members.

EO 392, *Rules and Procedures Governing the Operation of the Special Projects Fund*, dated July 1, 1982, states that the president shall establish procedures to ensure that travel of the project director or staff members, in connection with project activities, shall be previously authorized by the campus administration.

The Sonoma State University *Authorization for Absence from Campus Duties/Travel Request/Travel Advance Request Form* states that that prior authorization must be obtained by all employees for planned absence from scheduled duties and that all employees are required to submit a prior authorization form before their trip.

The assistant vice president of administration and finance and controller stated that these exceptions occurred because of oversights and added that the majority occurred under the California Institute on Human Services (CIHS) management. She added that administration and finance took over the CIHS administrative responsibilities in February 2007.

Inadequate documentation for the pre-approval of travel increases the risk of excessive and unnecessary costs.

Recommendation 2

We recommend that the campus enforce the completion of travel request forms to document prior approval for all travel.

Campus Response

We concur. The campus will send a notification to employees reminding them of the need to complete travel request forms prior to the travel taking place. This reminder will be sent before December 1, 2007, and will indicate that travel reimbursement will not be made if prior approval for travel is not obtained unless a special exemption is granted by the campus chief financial officer.

GENERAL EXPENDITURES

Expenditures were not always supported by adequate documentation to demonstrate the purpose of the expenditure or the allowability and allocability to the sponsored project.

Our review of 50 expenditures disclosed that:

- ▶ An \$13,675 expenditure for training services was not included within the detailed budget for the project as there was no mention of the type of services provided or the rate of pay agreed to in the service agreement between the campus and the contractor.
- ▶ An \$8,400 expenditure for consulting services invoiced on September 15, 2006, was an addendum to an invoice submitted two months earlier on July 7, 2006, and had charged an additional 14 days of service for the month of June. The dates of service were not specified on either the original invoice or the addendum.
 - The period of performance began in October 1, 2005, four months before the original consulting agreement was signed on February 12, 2006.
 - The budgeted amount for this particular consultant was nine days per month. A total of 19 days were charged. The standard agreement with the California Department of Social Services stated that changes to the budget could be made without a formal contract amendment provided the contractor adequately documented the need for the changes. However, there was no documentation to justify the additional days of service.
 - The consulting agreement was amended on September 15, 2006, to increase the total allowable dollar amount. This is the same date that the second invoice was submitted for additional days.
- ▶ An \$2,449 expenditure for a marketing assistant invoiced charges for 80 hours of work during the week ended September 29, 2006. This invoiced amount included 40 hours of regular time, 34 hours overtime, and 6 hours double overtime.
 - There was no timesheet for the marketing assistant, even though the invoice stated that the campus' signature on the timesheet indicated that they had read and agreed to the general conditions and terms of payment.

- There was no justification for the overtime and double overtime worked by the assistant.
 - There was no contract or service agreement showing the terms of employment, pay rate, or scope of work.
- ▶ An \$1,692 expenditure for the reclassification of labor between projects lacked adequate supporting documentation as only an invoicing calculation worksheet and an expense voucher request was provided.
- There was no invoice or contract with the staffing solutions vendor showing the terms and conditions of employment.
 - There were no timecards showing hours worked.
 - There was no justification for the reclassification.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the sponsored program administrator is responsible for the timely establishment of accounts in accordance with the terms and conditions of the contract or grant. Procedures shall be in place to define and document approval authority; maintain proper accounting and control of all cash receipts from contract or grant billings; review and approve all expenditures for compliance with the contract or grant; and ensure completion of accurate and timely reporting for each contract or grant.

Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, Section C, Part 2, states that costs must be (a) reasonable; (b) allocable to sponsored agreements under the principles and methods provided herein; (c) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

The assistant vice president of administration and finance and controller stated that these exceptions occurred because of oversights and added that the majority occurred under CIHS management. Administration and finance took over CIHS administrative responsibilities in February 2007.

Non-compliance with project budgets and the authorization of expenditures that do not contain sufficient support may result in expense disallowances and also increases the risk of non-compliance with sponsor terms while failure to properly document relationships with contractors increases the risk of misunderstandings and excessive expenditures.

Recommendation 3

We recommend that the campus:

- a. Ensure compliance with the agreed-upon project budgets and periods of performance.
- b. Ensure that service agreements are completed when utilizing the services of contractors.
- c. Ensure that all required documentation is provided to adequately support expenditures.

Campus Response

We concur. As part of an ongoing effort to enhance sponsored programs administration training, the campus will work with all employees involved in this area of campus operations to ensure that compliance with the agreed-upon project budgets and periods of performance is made, that service agreements are completed when utilizing the services of contractors, and that required documentation is provided to adequately support expenditures. The campus estimates that effort will be completed by February 15, 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Ruben Armiñana	President
Leticia Coate	Assistant Vice President, Administration and Finance and Controller
Barbara Crandell	Accounting Director, California Institute on Human Services
Laurence Furukawa-Schlereth	Vice President, Administration and Finance and Chief Financial Officer
Mark Harlin	Property Program Coordinator
Lori Heffernon	Assistant Controller, Grants and Contracts
Kurt Koehle	Director, Internal Operations Analysis and Review
Laurie Mattinson	Grants Manager
Ruth McDonnell	Purchasing Officer
Joshua Schultz	Director of Research and Sponsored Programs
Jeffery Wilson	Senior Accountant, Endowment and Foundation Accounting



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VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

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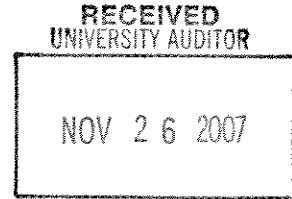
November 26, 2007

MEMORANDUM

TO: Larry Mandel
University Auditor

FROM: Larry Furukawa-Schlereth
Vice-President, Administration and Finance
Chief Financial Officer

SUBJECT: AUDIT REPORT 07-19 CONTRACTS AND GRANTS



THE CALIFORNIA STATE
UNIVERSITY

On behalf of President Armiñana, I am pleased to provide the campus response to Audit Report 07-19: Contracts and Grants, Sonoma State University (Attached). As you know, the campus is comfortable with waiving the formal exit conference associated with this audit.

I hope you will not hesitate to contact me if you have questions or need additional information. As always, I look forward to talking with you soon.

LS
Attachment

c: SSU President Ruben Armiñana
Associate Vice-President Letitia Coate
Senior Director Michelle Schlack
Director Kurt Koehle

CONTRACTS AND GRANTS
SONOMA STATE UNIVERSITY

Audit Report 07-19
November 16, 2007

PROGRAM ADMINISTRATION

Recommendation 1

We recommend that the campus establish procedures to document initial and ongoing employee training by means of a formalized training schedule/topic checklist and sign-in sheet 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 enhance its employee training efforts in the areas of sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies. This training will be documented with a formalized training schedule, a topic checklist, and a sign-in sheet. The campus estimates this effort will be complete by February 15, 2008.

FISCAL ADMINISTRATION

TRAVEL EXPENDITURES

Recommendation 2

We recommend that the campus enforce the completion of travel request forms to document prior approval for all travel.

Campus Response

We concur. The campus will send a notification to employees reminding them of the need to complete travel request forms prior to the travel taking place. This reminder will be sent before December 1, 2007 and will indicate that travel reimbursement will not be made if prior approval for travel is not obtained unless a special exemption is granted by the campus CFO.

GENERAL EXPENDITURES

Recommendation 3

We recommend that the campus:

- a. Ensure compliance with the agreed-upon project budgets and periods of performance.
- b. Ensure that service agreements are completed when utilizing the services of contractors.
- c. Ensure that all required documentation is provided to adequately support expenditures.

Campus Response

We concur. As part of an on-going effort to enhance sponsored program administration training, the campus will work with all employees involved in this area of campus operations to ensure that compliance with the agreed-upon project budgets and periods of performance is made, that service agreements are completed when utilizing the services of contractors, and that required documentation is provided to adequately support expenditures. The campus estimates that effort will be complete by February 15, 2008.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 29, 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 07-19 on *Contracts and Grants*,
Sonoma State University

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 29, 2007, I accept the response as submitted with the draft final report on *Contracts and Grants*, Sonoma State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Ruben Armifiñana, President
Mr. Laurence Furukawa-Schlereth, Vice President, Administration and
Finance and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS