POST AWARD

CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 10-28
August 24, 2010

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ABBREVIATIONS

ARRA  American Recovery and Reinvestment Act
CFS   Common Financial System
CO    Office of the Chancellor
CSU   California State University
FY    Fiscal Year
OMB   Office of Management and Budget
PI    Principal Investigator
SPA   Sponsored Program Administration
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last two quarters of 2009, the Board of Trustees, at its January 2010 meeting, directed that Post Award be reviewed. The Office of the University Auditor had previously reviewed post-award activities as part of the 2007 audits of Contracts and Grants and, for the majority of campuses, in triennial audits of Auxiliary Organizations.

We visited the Office of the Chancellor from March 15, 2010, through April 23, 2010, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on post-award activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls for post-award activities in effect as of April 23, 2010, taken as a whole, were sufficient to meet the objectives stated below.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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.

ADMINISTRATION [5]

A training program for sponsored program administration had not been established nor had current policies and procedures been properly distributed. In addition, contracts were not always accepted in a timely manner and a policy had not been developed to address pre-award spending.

TECHNICAL REPORTING [7]

Administration of closeout procedures required improvement.
INTRODUCTION

BACKGROUND

Post award is a subset of sponsored projects/research activities generally encompassing what occurs in the period following award acceptance through the final closeout process. Six California State University (CSU) campuses and the chancellor’s office administer the post-award aspects of sponsored projects/research on the state side. These six campuses are Bakersfield, Channel Islands, Maritime Academy, San Francisco, Sonoma and Stanislaus. The other 17 CSU campuses manage post award through auxiliary organizations.

The federal government is the largest provider of sponsored project/research funding in the CSU. In 2007/08, 20 different federal agencies provided approximately $150 million. The largest amounts of federal funding were received from the Department of Health and Human Services, Department of Defense, National Science Foundation, and National Aeronautics and Space Administration. The American Recovery and Reinvestment Act (ARRA) also became a source of federal funding for sponsored projects/research after Congress passed it on February 13, 2009.

Post award is subject to various types of audits including internal audits by the Office of the University Auditor and external audits required by granting agency regulations. Ongoing external audits include the federal Office of Management and Budget Circular A-133 audits that are required annually for recipients who expend more than $500,000 of federal funds. The same external auditors who opine on the entities’ financial statements also perform the A-133 audits.

Based upon a fiscal year (FY) 2009/10 systemwide risk assessment, the overall post-award function was identified as having greater risk than other sponsored program activities.

In the Office of the Chancellor (CO), post award is administered by the office of sponsored program administration, which reports through the assistant vice chancellor/controller, financial services, to the executive vice chancellor/chief financial officer.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to post-award administration and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, CO directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Internal controls in high-risk areas of post-award administration operate as intended.
- Post-award cost sharing/matching complies with applicable sponsor requirements and contract terms and conditions.
- Integrated systems for post-award effort reporting exist and support compliance with CSU and funding agency requirements.
- Adequate after-the-fact verification of employee activity provides accurate, complete, and defensible documentation of payroll distribution and post-award effort expended.
- Subrecipient relationships are appropriately established and monitored.
- The CSU has administered ARRA-funded research projects in accordance with federal guidance on accountability and transparency.
- Post-award reporting procedures are adequate to demonstrate acceptable performance in sponsored projects.
- Post-award closeout procedures are performed in a timely manner and comply with sponsoring agency requirements.
The proposed scope of the audit as presented in Attachment B, Agenda Item 2 of the January 26-27, 2010, meeting of the Committee on Audit stated that post award would include a review of contract/grant budgeting and financial planning, cost accounting and allocation, cost matching and transfer processes, effort reporting, fiscal reporting, subrecipient monitoring, and management and security of information systems.

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 whether 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 focused on procedures in effect from FY 2008/09 through FY 2009/10. In instances wherein it was necessary to review annualized data, calendar years 2008 and 2009 were the periods reviewed.

A preliminary risk-assessment of post award was used to select those areas or activities with highest risk for our audit testing. This assessment was based upon a systematic process using prior audits, management’s feedback, and professional judgments on probable adverse conditions and other pertinent information including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- Cost sharing/matching.
- Payroll distribution/effort reporting.
- Subrecipient monitoring.
- ARRA funding.
- Progress/technical reporting.
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

ADMINISTRATION

TRAINING AND POLICY DISTRIBUTION

A training program for sponsored program administration had not been established nor had current policies and procedures been properly distributed.

Principal investigators (PIs) and administrative managers are responsible for ensuring that sponsored programs are executed in accordance with Office of the Chancellor (CO) policies, legal requirements, and award terms and conditions. Although the office of sponsored programs administration (SPA) conducted one-on-one training sessions and an effort-reporting seminar in December 2009, we found that:

- Initial and ongoing training activities for PIs and those responsible for the administration of contracts and grants were not adequately documented by means of a formalized training schedule/topic checklist and sign-in sheet to certify that employees receive a comprehensive overview of important topics.

- Policies and procedures had been uploaded to the SPA SharePoint website and there was no documentation indicating that they were provided to appropriate personnel.

Office of Management and Budget (OMB) Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions, revised April 10, 2004, §A.2.d, requires that each institution, in the fulfillment of its obligations, should employ sound management practices.

Government Code §13400 et seq. requires state agencies to establish and maintain a system of internal accounting and administrative control as an integral part of management practices. This responsibility includes communicating system requirements to employees.

State Administrative Manual §20050 states that policy and procedural or operational manuals that are either not currently maintained or are non-existent could be indicative of a poorly maintained or vulnerable control system.

The SPA director stated that policies and procedures are still being refined and therefore training had been handled in one-on-one meetings with PIs and staff. In addition, she stated that SPA stopped using the SPA website (spa.calstate.edu) when they began using SharePoint; and since the website was no longer the primary source of communication, it was no longer updated.

Failure to document training efforts by project personnel increases exposure to non-compliance with federal and state regulations. Failure to update websites and disseminate current policies and procedures may cause confusion and non-compliance with current policies.
Recommendation 1

We recommend that the CO:

a. Establish a training program required for PIs and staff with sponsored program responsibilities, which includes documentation of trainee attendance.

b. Communicate current/updated CO sponsored program policies and procedures.

Management Response

We concur. Communication and necessary training on updated post-award SPA policies and procedures will begin in fall 2010 and will be completed by February 28, 2011.

CONTRACT ADMINISTRATION

Contracts were not always accepted in a timely manner and a policy had not been developed to address pre-award spending.

Our review of 24 programs disclosed that three awards were signed 140 to 300 days after the effective date of the award. One of the three awards was not signed until one month after the end of the period of performance.

Executive Order 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, states that disbursements shall not be processed on any account unless both parties have executed a contract or unless all approvals have been obtained and the grant has been accepted. In cases when the sponsor allows the institution to incur pre-award costs, and the sponsored program administrator has a policy in place to allow pre-award spending, then disbursements may be made prior to receipt of the award document, in accordance with the sponsor and sponsored program administrator guidelines.

The SPA director stated that the delayed acceptance was due to lack of knowledge about the clearance process in some departments. She further stated that these agreements are not representative of all CO agreements.

Failure to obtain a properly executed contract before contract work begins and establish a pre-award spending policy increases the risk of non-payment from the sponsor.

Recommendation 2

We recommend that the CO:

a. Ensure timely acceptance of contracts.

b. Develop a policy to address pre-award spending.
Management Response

We concur. To ensure timely acceptance of contracts, an updated workshop on the pre-award proposal/clearance process will occur by March 31, 2011, and annually thereafter. The delay in this update/training is due to the migration of sponsored programs information into the Common Financial System (CFS), as departmental resources will be devoted to manually entering data into the new system scheduled for January 2011 implementation. To address pre-award spending or spending in advance of receiving a fully executed award, an internal procedure for pre-award spending will be completed and shared with appropriate chancellor’s office staff by February 28, 2011.

TECHNICAL REPORTING

Administration of closeout procedures required improvement.

Our review of five awards with expiration dates in 2008 or 2009 disclosed that:

- Three of the five award files did not contain documentation showing that final closeout reports had been prepared or submitted to sponsoring agencies.
- One final invoice was submitted 56 days after the sponsor’s due date.
- In two instances, there was no closeout documentation indicating whether the project had unexpended funds and, if so, whether these funds were returned to the sponsor as required.

The CO procedure Sponsored Programs 3.010.0, Project Closeout, states that the SP analyst will use the Closeout Checklist to facilitate project closeout.

The CO Closeout Checklist requires the SP analyst to receive and file copies of the technical report including transmittal letters, final financial report, and any applicable invention disclosure, inventory report, or financial disclosure. It requires the analyst to return unspent balances to the sponsor if applicable and update the PeopleSoft status to read “closed.”

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, §.71(b), states that recipients shall liquidate, within 90 calendar days after the date of completion of the award, all obligations incurred under the award. It also states in §.71(d) that the recipient must “promptly” refund any unobligated federal funds that the awarding agency has advanced that were not authorized to be retained for use in other projects.

The SPA director stated that these projects were not closed correctly due to oversight. She also stated that SPA staff is working to clean up and close out old projects using the closeout checklist.

Failure to meet project requirements can lead to debarment of the PI from receiving subsequent awards from the sponsor.
**Recommendation 3**

We recommend that the CO:

a. Ensure that files contain documentation demonstrating preparation and submittal of final closeout reports to sponsoring agencies.

b. Submit final project invoices by the project sponsor’s due date.

c. Identify and ensure appropriate disposition and documentation of unexpended funds when projects conclude.

**Management Response**

We concur. Sponsored programs department training on the closeout process is underway. Due to vacations, holiday closures and the CFS implementation, staff training will be completed by February 28, 2011. The training will include use of the checklist, timely submission of final invoices, and the identification and disposition of unexpended funds. Subsequent training will be conducted for PIs and department administrative staff to ensure compliance with sponsor technical reporting requirements. This training will be incorporated into a grants management workshop by April 30, 2011, and will occur periodically to ensure PI compliance with post-award management responsibilities.
### APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benjamin F. Quillian</td>
<td>Executive Vice Chancellor and Chief Financial Officer</td>
</tr>
<tr>
<td>Ana Aguirre</td>
<td>Staff Associate for Research Initiatives and Partnerships</td>
</tr>
<tr>
<td>Eynolah Ahmadi-Bidhendi</td>
<td>Evaluation Data Manager</td>
</tr>
<tr>
<td>Elizabeth Ambos</td>
<td>Assistant Vice Chancellor, Research Initiatives and Partnerships</td>
</tr>
<tr>
<td>George Ashkar</td>
<td>Assistant Vice Chancellor/Controller, Financial Services</td>
</tr>
<tr>
<td>Deniece Berry</td>
<td>Manager, Sponsored Programs Administration</td>
</tr>
<tr>
<td>Joan Bissell</td>
<td>Director, Teacher Education and Public School Program</td>
</tr>
<tr>
<td>Jim Blackburn</td>
<td>Director, Enrollment Management Services</td>
</tr>
<tr>
<td>Nancy Brynelson</td>
<td>Co-Director, Center for the Advancement of Reading</td>
</tr>
<tr>
<td>Eddie Choy</td>
<td>Director, Information Technology Contracts</td>
</tr>
<tr>
<td>Zee Cline</td>
<td>Associate Director, Teacher Education and Public School Program</td>
</tr>
<tr>
<td>Sue DeRosa</td>
<td>Director, Sponsored Programs Administration</td>
</tr>
<tr>
<td>Lorraine Fergins</td>
<td>Sponsored Programs Analyst</td>
</tr>
<tr>
<td>Rachelle Fox</td>
<td>Evaluation Data Manager</td>
</tr>
<tr>
<td>Gerry Hanley</td>
<td>Senior Director, Academic Technology</td>
</tr>
<tr>
<td>Kristy Hawman</td>
<td>Associate Director, Human Resource Services</td>
</tr>
<tr>
<td>Allison Jones</td>
<td>Assistant Vice Chancellor, Student Academic Support</td>
</tr>
<tr>
<td>Deborah Kaplan</td>
<td>Director, Accessible Technology</td>
</tr>
<tr>
<td>Susan Kirby</td>
<td>Payroll Supervisor</td>
</tr>
<tr>
<td>Nohoon Kwak</td>
<td>Assistant Director, Center for Teacher Quality</td>
</tr>
<tr>
<td>Ray Murillo</td>
<td>Associate Director, Student Programs</td>
</tr>
<tr>
<td>Donielle Prince</td>
<td>Assistant Director, Center for Teacher Quality</td>
</tr>
<tr>
<td>Judith Spiegel</td>
<td>Operations Administrator, Academic Technology Services</td>
</tr>
<tr>
<td>Donald Strand</td>
<td>Assistant Web Master</td>
</tr>
<tr>
<td>Ying-Fang Wang</td>
<td>Evaluation Data Manager</td>
</tr>
<tr>
<td>David Wright</td>
<td>Director, Center for Teacher Quality</td>
</tr>
<tr>
<td>Louis Zweier</td>
<td>Director, Center for Innovations</td>
</tr>
</tbody>
</table>
Date: October 25, 2010

To: Larry Mandel
   University Auditor

From: Benjamin F. Quillian
      Executive Vice Chancellor & Chief Financial Officer

Subject: Management Response to Post Award Audit Report 10-28

Attached is the management response to Audit Report Number 10-28, Post Award, at the California State University, Chancellor’s Office. Upon acceptance of our response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Should you have any questions, please feel free to contact George V. Ashkar, Assistant Vice Chancellor, Financial Services.

BFQ:GVA:gs

Attachment

c: George V. Ashkar
   Sue DeRosa
ADMINISTRATION

TRAINING AND POLICY DISTRIBUTION

Recommendation 1

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CONTRACT ADMINISTRATION

Recommendation 2

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Management Response

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TECHNICAL REPORTING

Recommendation 3

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November 22, 2010

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 10-28 on Post Award,
         Office of the Chancellor

In response to your memorandum of November 22, 2010, I accept the response as submitted with the draft final report on Post Award, Office of the Chancellor.

CBR/amd