POST AWARD

SAN FRANCISCO STATE UNIVERSITY

Audit Report 10-31
August 10, 2010

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ABBREVIATIONS

ARRA  American Recovery and Reinvestment Act
CFDA  Catalog of Federal Domestic Assistance
CFS   Common Financial System
CSU   California State University
DHHS  Department of Health and Human Services
HR    Human Resources
NSF   National Science Foundation
OMB   Office of Management and Budget
ORSP  Office of Research and Sponsored Programs
PI    Principal Investigator
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 San Francisco State University campus from May 3, 2010, through June 11, 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 June 11, 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.

PAYROLL DISTRIBUTION/EFFORT REPORTING [5]

Review of personnel documents and time sheets needed improvement.

SUBRECIPIENT MONITORING [6]

Certain subaward requirements and the risk assessment of subrecipients were not always adequately documented.

TECHNICAL REPORTING [8]

Progress reports were not always submitted in a timely manner.
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 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, post award is administered through the office of sponsored program administration, which reports through the assistant vice chancellor/controller, financial services, to the executive vice chancellor/Chief financial officer. At San Francisco State University, the post-award function is administered by the office of research and sponsored programs and by fiscal affairs.
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, Office of the Chancellor 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.
SCOPE AND METHODOLOGY

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 January 1, 2008, through May 31, 2010. 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 CAMPUS RESPONSES

PAYROLL DISTRIBUTION/EFFORT REPORTING

Review of personnel documents and time sheets needed improvement.

Our review of effort and time reports for 22 employees during the summer 2009 and fall 2009 effort-reporting periods disclosed that:

- One faculty employee was paid using an incorrect salary rate during summer 2009 because her job record for this time period was created using a salary rate that included her benefits costs.

- One hourly employee was paid twice for hours worked on December 1, 2009. December 1 was included as part of the November 2009 pay period, and the employee claimed these hours both in November and in December.

Office of Management and Budget Circular (OMB) A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §C, Parts 21 and 23, state, in part, that recipient’s financial management systems shall provide for effective control over and accountability for all funds, property and other assets, and accounting records that are supported by source documentation.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §105 and §300, state, in part, that that awardees must maintain internal controls over federal programs to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable federal reports and demonstrate compliance with laws, regulations, and other requirements.

The office of research and sponsored programs (ORSP) director stated that these two cases were unusual situations and that the errors were oversights on the part of the reviewers.

Failure to review personnel documents and time sheets decreases assurance on the reliability of effort reporting systems and increases exposure to non-compliance with federal regulations.

**Recommendation 1**

We recommend that the campus:

a. Ensure that job records are reviewed by human resources for accuracy of salary rates.

b. Ensure that time sheets are reviewed by management to ensure that duplicate payments are not made when months span more than one pay period.
Campus Response

We concur.

a. Management of both ORSP and Human Resources (HR) brought the error identified in the audit to the attention of the staff and reiterated to HR staff the importance of reviewing job records and salary rates for accuracy.

b. The ORSP director brought this issue to the attention of HR, the department responsible for time sheet tracking and entry. The importance of management review was discussed in the HR/ORSP August task force meeting. Further, ORSP has reiterated the importance of departmental time sheet review within ORSP. There is now a full-time HR manager on-site at Head Start providing for more thorough review of HR administrative tasks, including time sheet review.

SUBRECIPIENT MONITORING

Certain subaward requirements and the risk assessment of subrecipients were not always adequately documented.

Our review of nine active subrecipient awards with start dates between January 1, 2006, and December 15, 2009, disclosed the following:

- Federal subawards did not always identify required information to the subrecipient. Two subawards did not include the Category of Federal Domestic Assistance (CFDA) title and number, and three subawards did not include the federal award number. These fields were not included in the campus boilerplate subagreement.

- Subawards did not always pass down required terms and conditions. One subaward did not pass down National Science Foundation (NSF) American Recovery and Reinvestment Act (ARRA) general terms and conditions, and three subawards did not specifically pass down conflict of interest terms for NSF and/or the Department of Health and Human Services (DHHS). Campus boilerplate subagreements did include the required terms and conditions.

- One subrecipient was not included in the 2009/10 risk assessment. Although a stop-work order was placed on the contract in December 2008, it had been lifted in July 2009, and work for this subrecipient had commenced again in January 2010.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §400(d), states that pass-through entities shall inform each subrecipient of CFDA title and number, federal award name and number, award year, whether the award involves research and development, and name of federal agency. It further states that pass-through entities shall advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.
The DHHS Grants Policy Statement, §II-14, requires each institution to maintain an appropriate written, enforced policy on conflict of interest. Additionally, if the institution utilizes subgrantees, the institution must take reasonable steps to ensure that investigators working for such entities comply with this subpart, either by requiring those investigators to comply with the institution’s policy or by requiring the entities to provide assurances to the institution that will enable the institution to comply with this subpart.

NSF’s Award and Administration Guidelines state that the NSF requires each grantee institution employing more than 50 persons to maintain an appropriate written and enforced policy on conflict of interest and that all conflicts of interest for each award be managed, reduced, or eliminated prior to the expenditure of the award funds. If the institution carries out agency-funded research through subawardees, contractors, or collaborators, the institution must take reasonable steps to ensure that the entity has its own policies in place that meet the requirements of this policy or investigators working for such entities follow the policies of the primary institution.

The ORSP Subrecipient Monitoring Policy states that an annual risk assessment of all active subcontracts or subawards will be conducted to determine which subrecipients require closer scrutiny.

The ORSP director stated that there are multiple boilerplate agreements currently in use for subawards, and the department is consolidating the documents and is requiring the use of current boilerplates when preparing subawards. She further stated that only the first ARRA subaward processed did not pass down ARRA terms and conditions; all subsequent subawards included the proper terms and conditions. The subrecipient who was not included in the 2009/10 risk assessment should have been added back to the listing when the stop-work order was lifted; however, this was overlooked because the subrecipient had not restarted work at that time.

Failure to adequately document subrecipient activities increases the risk of non-compliance with federal regulations.

**Recommendation 2**

We recommend that the campus:

a. Update boilerplate subagreements to require the inclusion of the federal award number and CFDA number.

b. Standardize the use of boilerplate subagreements to ensure that the most recent and complete version of the boilerplate is always used in creating new subagreements.

c. Ensure that all subrecipients are included in the annual risk assessment.
Campus Response

We concur.

a. The subagreement templates have been updated to require inclusion of the federal award number and CFDA number.

b. The updated subagreement templates are on the ORSP department’s shared drive and are used in creating new subagreements.

c. ORSP is now running reports from the financial system and cross-referencing them to ORSP records to ensure that all subrecipients are included in the annual risk assessment.

TECHNICAL REPORTING

Progress reports were not always submitted in a timely manner.

Our review of the most recent progress report for five projects disclosed that for four of the projects tested, reports were submitted after the due date. The reports were submitted between 6 and 43 days late.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, §51(a), states that recipients are responsible for managing and monitoring each project, program, award, function, or activity supported by the award.

The ORSP director stated that the principal investigators (PI) of each project are responsible for the submission of technical progress reports, which could account for the submission after the due date. She further stated that ORSP receives notices of late reports and follows up with the PIs to ensure that they are submitted.

Failure to meet project requirements can lead to revocation of funds and/or debarment of the PI from receiving subsequent awards from the sponsor.

Recommendation 3

We recommend that the campus submit progress reports in a timely manner.

Campus Response

We concur. As part of the closeout process, ORSP is now reviewing submission dates of progress/technical reports to ensure timely submission by PIs. Our new Common Financial System (CFS) will track report submission dates, further supporting our proactive monitoring to ensure timely submission.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert A. Corrigan</td>
<td>President</td>
</tr>
<tr>
<td>April Alexander</td>
<td>Compliance Specialist</td>
</tr>
<tr>
<td>Javier Arsuega</td>
<td>Research Fellow</td>
</tr>
<tr>
<td>Sean Beougher</td>
<td>Research Director, Center for Research on Gender and Sexuality</td>
</tr>
<tr>
<td>Heather Boshears</td>
<td>Internal Auditor</td>
</tr>
<tr>
<td>Edward Carpenter</td>
<td>Professor, Biology</td>
</tr>
<tr>
<td>Richard Chen</td>
<td>Associate Controller, Fiscal Affairs</td>
</tr>
<tr>
<td>Emily Cheung</td>
<td>Support Staff</td>
</tr>
<tr>
<td>Patricia DeVeria</td>
<td>Support Staff</td>
</tr>
<tr>
<td>Charlotte Ferretti</td>
<td>Professor, School of Nursing</td>
</tr>
<tr>
<td>Debra Fischer</td>
<td>Associate Professor, Physics and Astronomy</td>
</tr>
<tr>
<td>Colleen Hoff</td>
<td>Professor, Department of Sexuality Studies</td>
</tr>
<tr>
<td>Maxwell Hubbard</td>
<td>Bridge Student Assistant</td>
</tr>
<tr>
<td>Tomoko Komada</td>
<td>Assistant Professor, Chemistry and Biochemistry</td>
</tr>
<tr>
<td>Heather Lee</td>
<td>Student Assistant</td>
</tr>
<tr>
<td>Chan Mei Lei</td>
<td>Casual Worker</td>
</tr>
<tr>
<td>Franz Lozano</td>
<td>University Budget Officer</td>
</tr>
<tr>
<td>Bruce Macher</td>
<td>Professor, Chemistry and Biochemistry</td>
</tr>
<tr>
<td>Sonia Melara</td>
<td>Lecturer, School of Social Work</td>
</tr>
<tr>
<td>Nathan Miller</td>
<td>Postdoctoral Fellow, Romberg Tiburon Center</td>
</tr>
<tr>
<td>Leroy M. Morishita</td>
<td>Executive Vice President and Chief Financial Officer, Administration and Finance</td>
</tr>
<tr>
<td>Dale Robinson</td>
<td>Senior Research Scientist, Romberg Tiburon Center</td>
</tr>
<tr>
<td>Barry Rothman</td>
<td>Professor, Biology</td>
</tr>
<tr>
<td>Alison Sanders</td>
<td>Director, Office of Research and Sponsored Programs</td>
</tr>
<tr>
<td>Juanita Santana</td>
<td>Executive Director, Head Start</td>
</tr>
<tr>
<td>Rajinder Singh</td>
<td>Special Consultant</td>
</tr>
<tr>
<td>Rita Takahashi</td>
<td>Professor, School of Social Work</td>
</tr>
<tr>
<td>Kimberly Tanner</td>
<td>Assistant Professor, Biology</td>
</tr>
<tr>
<td>Jaylan Turkkan</td>
<td>Associate Vice President, Office of Research and Sponsored Programs</td>
</tr>
<tr>
<td>Agnes Wong-Nickerson</td>
<td>Interim Associate Vice President, Fiscal Affairs</td>
</tr>
<tr>
<td>Emily Zimmerman</td>
<td>Research Technician I</td>
</tr>
</tbody>
</table>
September 17, 2010

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4275

Dear Mr. Mandel:

We have reviewed the Office of the University Auditor Report #10-31 on the Post Award Audit at San Francisco State University. Our responses to the recommendations are attached which will also be forwarded to your staff electronically. We are taking actions to implement the recommendations.

Documentation demonstrating implementation of recommendations already completed will be forwarded to you separately. Questions regarding the responses may be directed to Leroy M. Morishita, Executive Vice President and CFO for Administration & Finance, at 415/338-2521 or Heather Boshears, Internal Auditor, at 415/405-4343.

Sincerely,

Robert A. Corrigan
President

Attachments

cc: Leroy M. Morishita, Executive Vice President and CFO, Administration & Finance
    Agnes Wong-Nickerson, Associate Vice President, Fiscal Affairs
    Jaylan Turkkan, Associate Vice President, Research & Sponsored Programs
    Alison Sanders, Director, Research and Sponsored Programs
    Heather Boshears, Internal Auditor
PAYROLL DISTRIBUTION/EFFORT REPORTING

Recommendation 1

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SUBRECIPIENT MONITORING

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Campus Response

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TECHNICAL REPORTING

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Campus Response

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October 11, 2010

MEMORANDUM

TO: Mr. Larry Mandel  
   University Auditor

FROM: Charles B. Reed  
   Chancellor

SUBJECT: Draft Final Report 10-31 on Post Award,  
         San Francisco State University

In response to your memorandum of October 11, 2010, I accept the response as submitted with the draft final report on Post Award, San Francisco State University.

CBR/amd