POST AWARD
SYSTEMWIDE
Audit Report 10-70
January 20, 2011

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ABBREVIATIONS

ARRA American Recovery and Reinvestment Act
CSU California State University
EO Executive Order
ICSUAM Integrated California State University Administrative Manual
OSPA Office of Sponsored Program Administration
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter 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 six campuses from March 8, 2010, through July 14, 2010, and audited the procedures in effect at that time. Campus-specific findings and recommendations have been discussed and reported individually.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, we found that systemwide policies and procedures for the post-award function were incomplete. In some instances, campus policies and procedures did not provide for adequate documentation and monitoring in post-award functions such as certification of effort reports, evaluation of sub-recipients, and timely preparation of progress/technical reports.

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.

SYSTEMWIDE POLICIES AND PROCEDURES [5]

Systemwide policies for the post-award function were limited.
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 (OSPA), which reports through the assistant vice chancellor/controller of financial services to the executive vice chancellor/chief financial officer. The OSPA director also provides systemwide leadership for the post-award function.
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 and 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 fiscal year 2008/09 through fiscal year 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.

During the course of the audit, we visited the chancellor’s office and five campuses: Fresno, Humboldt, San Diego, San Francisco, and San José. We interviewed campus and management personnel and audited procedures in effect at the time of audit.
OBSERVATIONS, RECOMMENDATIONS, 
AND MANAGEMENT RESPONSES

SYSTEMWIDE POLICIES AND PROCEDURES

Systemwide policies for the post-award function were limited.

We found that campuses were using Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, as guidance for their post-award activities. However, EO 890 does not specifically address several important components and risks in post-award administration, such as effort reporting, subrecipient monitoring, and technical reporting. The chancellor’s office had an active project to develop systemwide policies in the Integrated California State University Administrative Manual (ICSUAM), including a section for sponsored projects, but policies for various areas were in draft form and had not been published yet.

Government Code §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

State Administrative Manual §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are non-existent.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, states that CSU programs and activities should be conducted in a manner that does not impose unreasonable risks.

The director of sponsored program administration stated that the ongoing ICSUAM project had suffered delays due to project changes and restructuring.

Failure to implement systemwide policies for the post-award function increases the risk of misunderstandings related to the performance of duties and functions; inconsistencies in complying with CSU, state, and federal requirements; and inconsistent treatment and handling of issues.

Recommendation 1

We recommend that the chancellor’s office finalize and publish comprehensive systemwide policies for the post-award function. At a minimum, the chancellor’s office should finalize the policies for sub-recipient monitoring, allowable costs, effort reporting, cost sharing, equipment and property management, audit monitoring and resolution, and financial conflict of interest that were in draft form.
Management Response

We concur. The chancellor’s office sponsored programs office will finalize the policies identified above by May 31, 2011, and will continue collaborating with post-award administrators across the CSU system on the development of additional relevant policies identified in the Council on Governmental Relations Managing Externally Funded Research Programs: A Guide to Effective Management Practices document (http://cogr.edu/Pubs_EffectiveManagement.cfm).
## APPENDIX A:
### PERSONNEL CONTACTED

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<thead>
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<th>Name</th>
<th>Title</th>
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APPENDIX A: PERSONNEL CONTACTED

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- Agnes Wong-Nickerson, Interim Associate Vice President, Fiscal Affairs
- Emily Zimmerman, Research Technician I

**San Jose State University**
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- Cheryl Allmen-Vinnedge, Director, Career Center
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- Kam Lam, Controller, Research Foundation
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Date: February 28, 2011

To: Larry Mandel
University Auditor

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

Subject: Management Response to Post Award Systemwide Audit Report 10-70

Enclosed is the management response to the audit recommendation pertaining to Audit Report 10-70. We believe our corrective action described will be sufficient to restore appropriate controls and comply with the recommendation of the audit.

Should you have any questions, please feel free to contact George V. Ashkar.

BFQ:GV:gs

Attachment

c: George V. Ashkar
   Sue DeRosa
SYSTEMWIDE POLICIES AND PROCEDURES

Recommendation 1

We recommend that the chancellor’s office finalize and publish comprehensive systemwide policies for the post-award function. At a minimum, the chancellor’s office should finalize the policies for sub-recipient monitoring, allowable costs, effort reporting, cost sharing, equipment and property management, audit monitoring and resolution, and financial conflict of interest that were in draft form.

Management Response

We concur. The chancellor’s office sponsored programs office will finalize the policies identified above by May 31, 2011, and will continue collaborating with post-award administrators across the CSU system on the development additional relevant policies identified in the Council on Governmental Relations (COGR) Managing Externally Funded Research Programs: A Guide to Effective Management Practices document (http://cogr.edu/Pubs_EffectiveManagement.cfm).
March 18, 2011

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report 10-70 on Post Award, Systemwide

In response to your memorandum of March 18, 2011, I accept the response as submitted with the draft final report on Post Award, Systemwide.

CBR/amd