

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 07-14
August 31, 2007

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ABBREVIATIONS

APHIS	Animal and Plant Health Inspection Service
ARI	Agricultural Research Initiative
AWA	Animal Welfare Act
CATI	California Agriculture and Technology Institute
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CSU	California State University
EO	Executive Order
Foundation	California State University, Fresno Foundation
FSR	Faculty and Staff Relations
FY	Fiscal Year
HR	Human Resources
IACUC	Institutional Animal Care and Use Committee
IO	Institutional Official
NIH	National Institutes of Health
NSF	National Science Foundation
OMB	Office of Management and Budget
ORSP	Office of Research and Sponsored Programs
PHS	Public Health Service
USDA	United States Department of Agriculture

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, Fresno campus from March 26, 2007, through April 27, 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. Campus and California State University, Fresno Foundation (Foundation) management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over delegations of authority, employee training records, conflict of interest disclosures, certain reporting and certifications, transfer of intellectual property rights, fiscal administration, and equipment needed improvement. Further, certain sponsored projects/grants were decentrally administered, which increases the risk of non-compliance with programmatic requirements.

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 [6]

There was no written delegation of authority from the vice president of administration and chief financial officer authorizing the associate vice president of financial services to sign/approve proposals for sponsored programs. In addition, the administration of certain sponsored programs/programmatic grants was not always appropriate. 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.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE [9]

The campus did not exercise sufficient control over the conflict of interest disclosure process for principal investigators. Conflict of interest disclosure forms/statements were not always on file, and the campus lacked a policy requiring completion of some financial disclosure statements. In addition, the online submission of the annual report for the United States Department of Agriculture Animal Welfare Act was improperly certified.

GRANTS MANAGEMENT [11]

Intellectual property rights were transferred to Pacific Gas and Electric Company without any consultation with the Office of General Counsel. In addition, documentation to evidence that interim status and/or final technical reports were submitted to the sponsors was not always contained in project files. Specifically, 14 of 25 project files reviewed did not contain documentation.

FISCAL ADMINISTRATION [13]

The campus lacked a current cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the Foundation, and reimbursements were not timely. The cost allocation plan for fiscal year (FY) 2006/07 was not completed. In addition, the campus had last invoiced the Foundation on October 31, 2005, for reimbursement of university facilities and services used by the Foundation in FY 2004/05. Further, cost matching was not always adequately documented and effort reporting was not always timely. Specifically, a review of eight sponsored project contracts that required cost matching disclosed that documentation to evidence cost matching for one sponsored project contract managed by the campus on behalf of itself and seven other CSU campuses was not completed, and effort certification reports for one sponsored project submitted on September 1, 2006, for FY 2004/05 and FY 2005/06 were not submitted timely.

PROCUREMENT AND PROPERTY MANAGEMENT [15]

Equipment purchases were not always tagged and added to inventory records. A review of 30 miscellaneous expenditures between February 2005 and February 2007 disclosed that the following equipment purchases had not been tagged or added to the inventory records: a solar power system for \$275,000 completed in December 2006, a laptop for \$1,900 purchased in August 2006, and a server for \$8,400 purchased in April 2006.

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, Fresno, the office of research and sponsored programs has overall responsibility for sponsored programs' pre-award activities. The California State University, Fresno Foundation 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 CSU; 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

DELEGATION OF AUTHORITY

There was no written delegation of authority from the vice president of administration and chief financial officer (CFO) authorizing the associate vice president of financial services to sign/approve proposals for sponsored programs.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that proposals for sponsored programs shall not be submitted to sponsors without prior written approval of the president of the university or the president's university designee and of the CFO of the university or the CFO's university designee.

The associate vice president of financial services stated that the delegation of authority for the approval of proposals was not documented due to oversight.

Failure to maintain formal delegations of authority for the approval of proposals increases the risk of misunderstandings and unauthorized activities/actions.

Prior to the end of our fieldwork, the campus prepared a written delegation of authority.

DECENTRALIZED ADMINISTRATION

The administration of certain sponsored programs/programmatic grants was not always appropriate.

The Agricultural Research Initiative (ARI) operating under the California Agriculture and Technology Institute (CATI), administered sponsored programs in a semi-autonomous fashion (and mostly independent of the office of research and sponsored programs (ORSP)). While it should be noted that a large majority of the ARI/CATI budget was from General Fund appropriations, the ARI/CATI lacked policies and procedures for administration of sponsored programs with the same level of financial and administrative control that the ORSP/California State University, Fresno Foundation (Foundation) had in place. Additionally, an adequate segregation of duties was not maintained as the director of the ARI/CATI had also assumed the role of principal investigator for these sponsored programs.

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.

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.

The California State University Fresno *Academic Policy Manual 501* states that the president and provost have delegated responsibility for the administration of sponsored programs to the associate vice president of research and sponsored programs.

The associate vice president of research and sponsored programs stated that the decentralized administration of sponsored programs/programmatic grants had occurred due to miscommunication between the ORSP and ARI/CATI.

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, while inadequate separation of duties increases the risk that errors and irregularities will not be detected.

Recommendation 1

We recommend that the campus ensure that all sponsored programs/programmatic grants are reviewed and approved by the ORSP and administered by the appropriate post-award recipient. Further, appropriate mitigating controls should be implemented when administration is performed by other than the Foundation.

Campus Response

We concur. We will increase our ongoing efforts to ensure that all programmatic grants are reviewed and approved by the ORSP and administered by the appropriate post-award recipient. We will review current grants not administered by the Foundation to monitor them more closely and implement mitigating controls. We will show our corrective actions by December 31, 2007.

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 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.

The Code of Federal Regulations (CFR), Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which Public Health Service (PHS) 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.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. This includes providing and documenting initial and ongoing training for project directors and those responsible for the administration of contracts and grants.

The associate vice president 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, and the campus had neglected to formalize documentation of this continuous training.

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 and Foundation 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 that we need to better document our ongoing training. By October 31, 2007, we will establish improved 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.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

CONFLICTS OF INTEREST

The campus did not exercise sufficient control over the conflict of interest disclosure process for principal investigators.

Our review of 20 sponsored project files and the conflict of interest disclosure process disclosed that:

- ▶ Three non-governmental awards did not have the required conflict of interest forms (700-U forms) on file.
- ▶ Three federally-funded PHS, National Institutes of Health (NIH), and National Science Foundation (NSF) awards lacked the required financial conflict of interest disclosure statements.
- ▶ The campus lacked a policy requiring the completion of financial disclosure statements for federally-funded PHS, NIH, and NSF grants.

42 CFR, Part 50.604, *Institutional Responsibility Regarding Conflicting Interests of Investigators*, states, in part, that each institution must (a) maintain an appropriate written, enforced policy on conflict of interest and inform each investigator of that policy, the investigator's reporting responsibilities, and of these regulations; (b) designate an institutional official(s) to solicit and review financial disclosure statements from each investigator who is planning to participate in PHS funded research; (c)(1) require that by the time an application is submitted to PHS each investigator who is planning to participate in the PHS-funded research has submitted to the designated official(s) a listing of his/her known significant financial interests (and those of his/her spouse and dependent children) (i) that would reasonably appear to be affected by the research for which PHS funding is sought and (ii) in entities whose financial interests would reasonably appear to be affected by the research.

The NIH *Grants Policy Statement*, Part II, *Financial Conflict of Interest*, states, in part, that NIH requires grantees and investigators to comply with the requirements of 42 CFR, Part 50, Subpart F, "Responsibility of Applicants for Promoting Objectivity in Research for which NIH Funding is Sought," pertaining to investigators' actual or potential conflicts of interest.

The NSF *Grant Policy Manual*, §510, states, in part, that an institutional conflict of interest policy should require that each investigator disclose to a responsible representative of the institution all significant financial interests of the investigator (including those of the investigator's spouse and dependent children) (i) that would reasonably appear to be affected by the research or educational activities funded or proposed for funding by NSF or (ii) in entities whose financial interests would reasonably appear to be affected by such activities.

California State University (CSU) directive, Faculty and Staff Relations – Office of the Chancellor (FSR) 86-05, *Conflict of Interest Policy for: Principal Investigator*, dated February 14, 1986, states that unlike business position financial disclosures which occur when the incumbent enters or leaves

the positions as well as the annual April 1 filing, financial disclosure by principal investigators must take place whenever the faculty member applies for a non-governmental contract or grant. The first safeguard concerning principal investigator conflict of interest disclosure is that no non-governmental contract or grant may proceed without the principal investigator filing a financial statement (Fair Political Practices Commission Form 700-U).

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that each campus shall maintain a policy that complies with conflict of interest requirements of the law and the CSU, sponsored program administrator, and sponsor policies and shall alert principal investigators to these requirements.

The associate vice president of research and sponsored programs stated that failure to both obtain conflict of interest forms and implement a conflict of interest disclosure policy for federal grants was due to oversight.

Failure to implement and enforce conflict of interest policies and procedures for principal investigators and project directors increases liability for acts contrary to the institution, possible regulatory scrutiny, disallowances, and suspension or termination of current awards.

Recommendation 3

We recommend that the campus fully implement and enforce policies and procedures for financial conflicts of interest.

Campus Response

We concur. By November 30, 2007, we will show improved implementation and enforcement of procedures for managing the reporting of conflicts of interest.

USDA ANNUAL REPORTING

The online submission of the annual report for the United States Department of Agriculture (USDA) Animal Welfare Act (AWA) was improperly certified by the chair of the institutional animal care and use committee (IACUC) who electronically signed the name of the provost as the institutional officer responsible for this certification.

The *Animal Welfare Act*, §2143 (a)(7)(A), (and further explained in 9 CFR, Part 2, Section 2.36), states that each reporting research facility shall submit an annual report (Animal and Plant Health Inspection Service (APHIS) Forms 7023 and 7023-A) to the animal care regional office responsible for the state in which the facility is located. This report is due in the regional office on or before December 1 of each year. These forms shall be signed and certified as correct by the chief executive officer (CEO) or legally responsible institutional official (IO), and must include all species covered by the AWA used in research, tests, experiments, or for teaching and being held for use at the end of the USDA's fiscal year (FY) (October 1 through September 30). By signing the report, the CEO or

IO is also certifying that the institution has adhered to the assurance statements at the bottom of the APHIS Form 7023.

The chair of the IACUC stated that when he submitted the report online, the process allowed him to type in the provost's name and he believed this constituted signing off. He further stated that the provost knew that he had signed for her and he informed her when he did so.

Failure to submit properly certified reports to governing federal agencies increases the risk of non-compliance with federal regulations.

Recommendation 4

We recommend that the campus permit only authorized personnel to submit annual reports and contact the USDA to determine if this responsibility can be delegated to the chair of the IACUC.

Campus Response

We concur. The campus will permit only authorized personnel to submit annual reports. By October 31, 2007, we will contact the USDA to request their determination if this responsibility can be delegated to the chair of the IACUC.

GRANTS MANAGEMENT

INTELLECTUAL PROPERTY RIGHTS TRANSFER

Intellectual property rights were transferred to Pacific Gas and Electric Company without any consultation with the Office of General Counsel.

EO 644, *Intellectual Property – Campus Policies*, dated September 7, 1995, states that contracts, which are proposed to be executed for the transfer of intellectual property rights, should also be reviewed by the Office of General Counsel prior to execution.

The grant accounting supervisor stated that the Foundation was unaware of the requirement to consult with the Office of General Counsel, but added that the contract was reviewed by Foundation staff counsel.

Failure to consult with the Office of General Counsel for the transfer of intellectual property rights increases the risk of loss due to inappropriate contractual terms.

Recommendation 5

We recommend that the campus consult with the Office of General Counsel regarding the transfer of intellectual property rights.

Campus Response

We concur. By October 31, 2007, we will consult with the Office of General Counsel regarding the transfer of intellectual property rights.

PROGRAMMATIC TECHNICAL REPORTING

Documentation to evidence that interim status and/or final technical reports were submitted to the sponsors was not always contained in project files.

We noted that 14 of 25 project files reviewed did not contain documentation to evidence that interim status and/or final technical reports were submitted to the sponsor in accordance with their respective contractual terms.

Office of Management and Budget (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.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

The grant accounting supervisor stated that the completion of technical reports was the responsibility of the principal investigators/project directors and that evidence of these reports was not always submitted to the Foundation for retention or for verification of completion.

The absence of documentation to evidence submission of interim status and/or final technical reports increases the risk of penalties and disallowances for non-compliance with grant and contract terms.

Recommendation 6

We recommend that the campus and Foundation strengthen controls to include documented evidence that technical reports and other technical deliverables are submitted to sponsoring agencies.

Campus Response

We concur. Most of the reports not found by the auditor in Foundation's files were in fact completed by the principal investigators. We agree that final reports and other deliverables should have copies kept in the Foundation's master files. We will improve communicating this to principal investigators, and finish a review of Foundation files for completeness by October 31, 2007.

FISCAL ADMINISTRATION

COST ALLOCATION PLAN

The campus lacked a current cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the Foundation, and reimbursements were not timely.

The cost allocation plan for FY 2006/07 was not completed. In addition, the campus had not invoiced the Foundation for FY 2005/06 cost allocations, and had last invoiced the Foundation on October 31, 2005, for reimbursement of university facilities and services used by the Foundation in FY 2004/05.

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 General Fund.

The associate vice president of financial services stated that the cost allocation plan had not been completed and the Foundation had not been billed as a result of oversight.

The absence of an approved cost allocation plan increases the risk that the campus operating fund is not fully compensated for support provided to auxiliary enterprises.

Recommendation 7

We recommend that the campus annually update its cost allocation plan in advance of each fiscal year and ensure prompt billing to auxiliary enterprises for reimbursement of facilities, goods, and services provided.

Campus Response

We concur. In a more timely manner, the campus will annually update its cost allocation plan to begin each fiscal year and ensure prompt billing to auxiliary enterprises for reimbursement of facilities, goods, and services provided, beginning with becoming current by October 31, 2007, with any pending reimbursements.

COST SHARE/MATCH

Cost matching was not always adequately documented and effort reporting was not always timely.

Our review of eight sponsored project contracts that required cost matching disclosed that:

- ▶ Documentation to evidence cost matching for one sponsored project contract managed by the campus on behalf of itself and seven other CSU campuses was not completed. This cost

matching for \$832,640 was to be contributed from January 2005 to December 2006 by California State University, Fresno and the other CSU campuses subcontracted in the contract.

- ▶ Effort certification reports for one sponsored project submitted on September 1, 2006, for FY 2004/05 and FY 2005/06 were not submitted in a timely manner.

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

The California State University, Fresno *Academic Policy Manual 501* states that all sponsor-required cost sharing must be accounted for and documented in the same detailed manner as sponsor-funded costs. When there is cost sharing or matching in connection with a sponsored program, the sponsored program administration, in conjunction with the principal investigator, shall document actual costs shared or matching contributions in a manner consistent with the campus cost allocation plans, sponsor requirements, and in the case of federal grants or contracts requirements as stated in OMB Circular A-110.

The California State University, Fresno *Academic Policy Manual 504* states all recipient faculty or staff who have been paid and/or cost shared their time on a sponsored program are responsible for certifying their own effort. Faculty and staff are also responsible for monitoring their effort commitments. Faculty and staff are required to certify that the distribution of effort indicated is a reasonable estimate of all work performed during the period covered by the report. The certification requires the signature of the employee or of a person having direct knowledge of the work (i.e. project director). The certification must take place no less frequently than every six months. However, the recipient can employ systems that certify effort on a more frequent basis. Completed effort reporting forms are to be submitted to the recipient of the sponsored program.

The grant accounting supervisor stated that the cost matching was volunteered by the campus, and although it was required by the terms of the contract, the sponsor had not requested any documentation to evidence that the volunteered cost matching had been completed. She added that the effort certification reports were delayed as a result of late submission by the project director.

Failure to complete and/or adequately document cost matching and effort certification requirements increases the risk of reduced reimbursements and increased regulatory scrutiny.

Recommendation 8

We recommend that the campus strengthen procedures for the submission and accurate reporting of cost matching and effort certification.

Campus Response

We concur. By January 31, 2008, the campus will strengthen its procedures for the submission and accurate reporting of cost matching and effort certification.

PROCUREMENT AND PROPERTY MANAGEMENT

Equipment purchases were not always tagged and added to inventory records.

Our review of 30 miscellaneous expenditures between February 2005 and February 2007 disclosed that the following equipment purchases had not been tagged or added to inventory records:

- ▶ A solar power system for \$275,000 completed in December 2006.
- ▶ A laptop for \$1,900 purchased in August 2006.
- ▶ A server for \$8,400 purchased in April 2006.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.34(f), states that the recipient's property management standards for equipment acquired with federal funds and federally-owned equipment shall include all of the following: (1) Equipment records shall be maintained accurately and shall include the following information: (i) A description of the equipment. (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number. (iii) Source of the equipment, including the award number. (iv) Whether title vests in the recipient or the federal government. (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost. (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government). (vii) Location and condition of the equipment and the date the information was reported. (viii) Unit acquisition cost.

The Foundation *Equipment Inventory Procedure* states that capital equipment over \$5,000 is tagged by the Foundation and copies of the invoices accompany the inventory tagging records.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that property that poses a special risk of loss due to its marketability and portability be adequately safeguarded. Such high-risk property includes laptop computers.

The grant accounting supervisor stated that the equipment purchases greater than \$5,000 were not tagged or added to the inventory records due to oversight, but the campus was unaware of a requirement to tag and inventory sensitive equipment less than \$5,000.

Failure to properly account for and record equipment acquisitions increases the risk of misstated inventory records and theft or loss of property.

Recommendation 9

We recommend that the campus strengthen procedures to ensure that all equipment purchases over \$5,000 and purchases of sensitive equipment are tagged and added to the inventory records.

Campus Response

We concur that equipment of \$5,000 or higher needs to be tagged and added to inventory. The two items observed by the auditor being over \$5,000 have already been tagged and added to inventory. The Foundation's existing policy does not require that sensitive equipment under \$5,000 such as laptop computers be tagged or inventoried. However, the Foundation agrees to review this matter with its audit committee and board of governors by January 31, 2008.

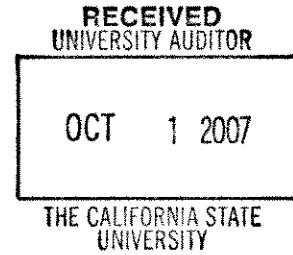
APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
John D. Welty	President
Deborah Adishian-Astone	Executive Director, Auxiliary Services
Matt Babick	Internal Auditor
Doug Carey	Administrative Assistant, Research and Sponsored Programs
Linda Christian	Grant Accounting Supervisor, Foundation Financial Services
Maral Cingoz	Secretary, Research and Sponsored Programs
Paul Crosbie	Chair, Institutional Animal Care and Use Committee
Daniel Griffin	Associate Director, Research and Sponsored Programs
William Hunt	Grants Administrator, Research and Sponsored Programs
Steve Katz	Associate Vice President, Financial Services
Keith Kompsi	Director, Foundation Financial Services
Thomas McClanahan	Associate Vice President, Research and Sponsored Programs
John Melikian	Staff Counsel, Auxiliary Services
Shelby Mirzaie	Grant Accountant, Foundation Financial Services
Nancy Myers-Sims	Grants Administrator, Research and Sponsored Programs
Chris Robinson	Controller, Accounting Services
Wilma Satterberg	Grant Accountant, Foundation Financial Services
Michelle Serrano	Trust Accountant, Foundation Financial Services
Elizabeth Sinor	Financial Accounting Supervisor, Foundation Financial Services
Jane Stewart	Grant Analyst, Foundation Financial Services
Penny Sweazy	Accounts Payable Clerk, Foundation Financial Services
Cynthia Teniente-Matson	Vice President for Administration and Chief Financial Officer
Nathan Zanoni	Grant Accountant, Foundation Financial Services



CALIFORNIA
STATE
UNIVERSITY,
FRESNO

MEMORANDUM



September 27, 2007

TO: Larry Mandel
University Auditor
The California State University

FROM: Ms. Cynthia Teniente-Matson
Vice President for Administration
and Chief Financial Officer

A handwritten signature in cursive script that reads "Cynthia Teniente-Matson".

SUBJECT: Responses to the Audit of Contracts and Grants, Report #07-14

Please find attached our set of campus responses to your audit report on contracts and grants.

Attachments

c: Dr. John D. Welty
Mr. Matt Babick

Office of the
Vice President
for Administration and
Chief Financial Officer

5241 N. Maple Ave. M/S TA52
Fresno, CA 93740-8027

559.278.2083

Fax 559.278.2928

CONTRACTS AND GRANTS

**CALIFORNIA STATE UNIVERSITY,
FRESNO**

**Audit Report 07-14
August 31, 2007**

PROGRAM ADMINISTRATION

DECENTRALIZED ADMINISTRATION

Recommendation 1

We recommend that the campus ensure that all sponsored programs/programmatic grants are reviewed and approved by the ORSP and administered by the appropriate post-award recipient. Further, appropriate mitigating controls should be implemented when administration is performed by other than the Foundation.

Campus Response

We concur. We will increase our on-going efforts to ensure that all programmatic grants are reviewed and approved by the ORSP and administered by the appropriate post award recipient. We will review current grants not administered by the Foundation to monitor them more closely and implement mitigating controls. We will show our corrective actions by December 31, 2007.

EMPLOYEE TRAINING

Recommendation 2

We recommend that the campus and Foundation 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 that we need to better document our on-going training. By October 31, 2007, we will establish improved 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.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

CONFLICTS OF INTEREST

Recommendation 3

We recommend that the campus fully implement and enforce policies and procedures for financial conflicts of interest.

Campus Response

We concur. By November 30, 2007, we will show improved implementation and enforcement of procedures for managing the reporting of conflicts of interest.

USDA ANNUAL REPORTING

Recommendation 4

We recommend that the campus permit only authorized personnel to submit annual reports and contact the USDA to determine if this responsibility can be delegated to the chair of the IACUC.

Campus Response

We concur. The campus will permit only authorized personnel to submit annual reports. By October 31, 2007 we will contact the USDA to request their determination if this responsibility can be delegated to the chair of the IACUC.

GRANTS MANAGEMENT

INTELLECTUAL PROPERTY RIGHTS TRANSFER

Recommendation 5

We recommend that the campus consult with the Office of General Counsel regarding the transfer of intellectual property rights.

Campus Response

We concur. By October 31, 2007, we will consult with the Office of General Counsel regarding the transfer of intellectual property rights.

PROGRAMMATIC TECHNICAL REPORTING

Recommendation 6

We recommend that the campus and Foundation strengthen controls to include documented evidence that technical reports and other technical deliverables are submitted to sponsoring agencies.

Campus Response

We concur. Most of the reports not found by the auditor in Foundation's files were in fact completed by the Principal Investigators. We agree that final reports and other deliverables should have copies kept in the Foundation's master files. We will improve communicating this to principal investigators, and finish a review of Foundation files for completeness, by October 31, 2007.

FISCAL ADMINISTRATION

COST ALLOCATION PLAN

Recommendation 7

We recommend that the campus annually update its cost allocation plan in advance of each fiscal year and ensure prompt billing to auxiliary enterprises for reimbursement of facilities, goods, and services provided.

Campus Response

We concur. In a more timely manner, the campus will annually update its cost allocation plan to begin each fiscal year and ensure prompt billing to auxiliary enterprises for reimbursement of facilities, goods, and services provided, beginning by with becoming current by October 31, 2007 with any pending reimbursements.

COST SHARE/MATCH

Recommendation 8

We recommend that the campus strengthen procedures for the submission and accurate reporting of cost matching and effort certification.

Campus Response

We concur. By January 31, 2008, the campus will strengthen its procedures for the submission and accurate reporting of cost matching and effort certification.

PROCUREMENT AND PROPERTY MANAGEMENT

Recommendation 9

We recommend that the campus strengthen procedures to ensure that all equipment purchases over \$5,000 and purchases of sensitive equipment are tagged and added to the inventory records.

Campus Response

We concur that equipment of \$5,000 or higher needs to be tagged and added to inventory. The two items observed by the auditor being over \$5,000 have already been tagged and added to inventory. The Foundation's existing policy does not require that sensitive equipment under \$5,000 such as laptop computers be tagged or inventoried. However, the Foundation agrees to review this matter with its Audit Committee and Board of Governors by January 31, 2008.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 19, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

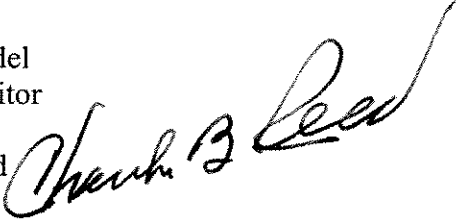
EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-14 on *Contracts and Grants*,
California State University, Fresno

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 19, 2007, I accept the response as submitted with the draft final report on *Contracts and Grants*, California State University, Fresno.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Matt Babick, Internal Auditor
Dr. John D. Welty, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS