

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

Audit Report 07-20
December 18, 2007

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ABBREVIATIONS

CSULB	California State University, Long Beach
EO	Executive Order
Foundation	California State University, Long Beach Foundation
GCT	Grants and Contracts Technician
OMB	Office of Management and Budget

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, Long Beach (CSULB) campus from September 24, 2007, through October 19, 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. CSULB contracts and grants management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over employee training records and subrecipient monitoring needed improvement.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

PROGRAM ADMINISTRATION [5]

Documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement. 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 or that existing employees received adequate ongoing training.

GRANTS MANAGEMENT [6]

Subrecipient monitoring was not always managed in accordance with California State University, Long Beach Foundation (Foundation) or Office of Management and Budget (OMB) requirements. The Foundation did not generate monthly reports or maintain a log of subrecipients requiring OMB Circular A-133 single audit reports. In addition, documentation was not available to evidence A-133 single audit report requests from two subcontractors.

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, Long Beach (CSULB), the office of university research has overall responsibility for sponsored programs' pre-award activities. The CSULB 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 California State University; conflicts of interest by principal investigators; inadequate/excessive recovery of costs or contribution of matching requirements; misuse of funds; non-compliance with pertinent grantor/sponsor regulations; audit disallowances, regulatory finds, and sanctions; misconduct in research such as fabrication, falsification, plagiarism, or abuse of human subjects; and failure to provide deliverables.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures currently in effect. In instances wherein it was necessary to review annualized data, calendar year 2006 or fiscal year 2006/07 was the primary period reviewed except when it was beneficial to see trends for multiple years.

We focused primarily upon the internal administrative, compliance, and operational controls over the management of contracts and grants. Specifically, we reviewed and tested:

- ▶ Contract and grant policies, rules, regulations, and delegations of authority.
- ▶ Approval of sponsored program proposals and acceptance of contracts.
- ▶ Federal single audits and resolution of prior audit issues.
- ▶ Initial and ongoing training for principal investigators and other staff.
- ▶ Conflict of interest disclosures.
- ▶ Allegations of misconduct.
- ▶ Certification for debarment or suspension of key personnel.
- ▶ Expenditure controls and the disbursement of award funds.
- ▶ Programmatic reporting; both technical and financial in nature.
- ▶ Human subject testing and animal research.
- ▶ Effort reporting, cost sharing, and matching commitments.
- ▶ Subrecipient activity monitoring.
- ▶ Adherence to sponsor-approved budgets and contractual terms.
- ▶ Contract and grant billings.
- ▶ Equipment acquisition, inventorying, and safeguarding.
- ▶ Management of intellectual property.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PROGRAM ADMINISTRATION

Documentation to support initial and ongoing training for project directors and those responsible for the administration of contracts and grants needed improvement.

We found that initial training included providing newly hired employees with applicable reference materials and new project directors and principal investigators meeting with a grant administrator, while ongoing training included various symposia and other training. However, the training was not documented by a formalized training schedule and sign-in sheet to verify that newly hired employees received a comprehensive overview of important topics (i.e., sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, intellectual property policies, etc.), and existing employees received adequate ongoing training.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the campus policy shall incorporate provisions for adequate training of research personnel and for multi-institutional sponsored programs.

The Code of Federal Regulations, Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which Public Health Service Funding is Sought*, states that each institution must maintain an appropriate written, enforced policy on conflict of interest...inform each investigator of that policy, and the investigator's reporting responsibilities.

Public Law 99-158, *Animals in Research* §495(c) (1) (B), requires scientists, animal technicians, and other personnel involved with animal care, treatment, and use by the applicant have available to them instruction or training in the humane practice of animal maintenance and experimentation and the concept, availability, and use of research or testing methods that limit the use of animals or limit animal distress.

The director of grants, contracts and foundation programs stated that the office of university research and the California State University, Long Beach Foundation (Foundation) sponsored semi-annual grants management institutes, which were designed to explain the processes required in order to apply and receive grants, as well as other grant-related information. She added that the Foundation, grants and contracts team felt this information was adequate to comply with EO 890.

Failure to document training efforts by project personnel increases the risk of non-compliance with federal and state regulations.

Recommendation 1

We recommend that the campus establish procedures to document initial and ongoing employee training by means of a formalized training schedule/topic checklist and sign-in sheet to certify that employees received a comprehensive overview of important topics including, but not limited to,

sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

We concur. In addition to the grants management institutes sponsored by the office of university research, the Foundation will implement a new training checklist that will be certified by all project directors upon received notice of award. This training will cover the sponsored project administration procedures and conflict of interest policies, human subject and animal testing, and intellectual property policies. Estimated date of completion is February 18, 2008.

GRANTS MANAGEMENT

Subrecipient monitoring was not always managed in accordance with Foundation or Office of Management and Budget (OMB) requirements.

We found that:

- ▶ The Foundation did not generate monthly reports or maintain a log of subrecipients requiring OMB Circular A-133 single audit reports.
- ▶ Documentation was not available to evidence A-133 single audit report requests from two subcontractors.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §320 states that auditees that are also subrecipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to federal awards that the pass-through entity provided.

The Foundation *Internal Process GC-4151- Subrecipient Monitoring*, dated April 5, 2005, states that the Foundation is responsible for ensuring both itself (when a subrecipient) and its subrecipients comply with the OMB Circular A-133. *Internal Process GC-4151* requires that during the first five business days of each month, the grants and contracts technician (GCT) will generate a monthly Integrated Financial and Administrative Solution report showing subrecipients required to file A-133 audits that month. The GCT will also maintain an electronic log of subrecipients with A-133 audits. Any findings will be forwarded to the grants and contracts administrator, who will set up a corrective action plan with the subrecipient.

The director of grants, contracts and foundation programs stated that the *Internal Process GC-4151* was written by an independent consulting firm for the Foundation and while the Foundation did request, receive, and review A-133 audits, it was not documented each time as required. She added that the technician that was responsible for that process left the Foundation last year. She further

stated that the associate director did send out notices to all subrecipients and requested the A-133 audits for 2006; however, since the audits came in piece meal, not all were documented.

Failure to document monitoring efforts by project personnel increases the risk of non-compliance with federal and state regulations.

Recommendation 2

We recommend that the Foundation adhere to established policies in order to maintain adequate documentation in compliance with A-133 requirements.

Campus Response

We concur. The Foundation will strengthen the current subrecipient monitoring policy. Since we have hired a compliance coordinator, this process will be monitored semi-annually and our policy will be updated to reflect this change. Estimated date of completion is February 18, 2008.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
F. King Alexander	President
Robert Behm	Executive Director, California State University, Long Beach Foundation (Foundation)
Denise Bell	Director of Grants, Contracts and Foundation Programs
William Griffith	Vice President, Administration and Finance (At time of review)
Joseph Latter	Associate Vice President, Administration and Finance
Robyn Mack	Associate Vice President, University Services and Chief of Staff
Brian Nowlin	Associate Executive Director, Foundation
Alan Ray	Chief Financial Officer, Foundation
Arlene Reyes	Director of Finance and Accounting, Foundation
Sandra Shereman	Senior Director, Sponsored Programs/Business Development
Aysu Spruill	Director, Internal Auditing Services
Mary Stephens	Vice President, Administration and Finance
Sharon Taylor	Associate Vice President, Financial Management
James Till	Interim Associate Vice President, Research and External Support

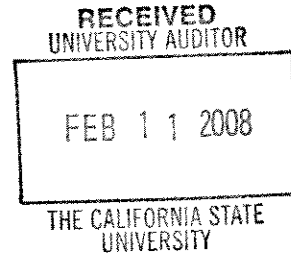


CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

February 8, 2008

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



Re: Response to Contracts and Grants Audit # 07-20

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Stephens".

Mary Stephens
Vice President for Administration and Finance

Enclosure

IA-0169

- c: F. King Alexander, President
Ted Kadowaki, Associate Vice President, Budget and University Services
Alan Ray, Chief Financial Officer, Foundation
Sandra Shereman, Senior Director, Sponsored Programs/Business Development
Aysu Spruill, Director, Internal Auditing Services
James Till, Interim Associate Vice President, Research and External Support

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LONG BEACH

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PROGRAM ADMINISTRATION

Recommendation 1

We recommend that the campus establish procedures to document initial and ongoing employee training by means of a formalized training schedule/topic checklist and sign-in sheet to certify that employees received a comprehensive overview of important topics including, but not limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

We concur. In addition to the Grants Management Institutes sponsored by Office of University Research, the Foundation will implement a new training checklist that will be certified by all Project Directors upon received notice of award. This training will cover the sponsored project administration procedures and conflict of interest policies, human subject and animal testing, and intellectual property policies. Estimated date of completion is February 18, 2008.

GRANTS MANAGEMENT

Recommendation 2

We recommend that the Foundation adhere to established policies in order to maintain adequate documentation in compliance with A-133 requirements.

Campus Response

We concur. The Foundation will strengthen the current sub-recipient monitoring policy. Since we have hired a compliance coordinator this process will be monitored semi-annually and our policy will be updated to reflect this change. Estimated date of completion is February 18, 2008.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 15, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

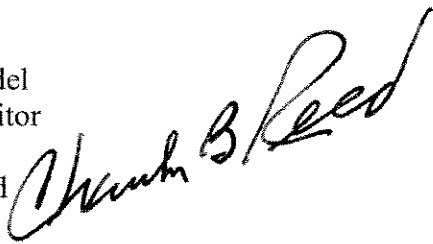
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor 

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-20 on *Contracts and Grants*,
California State University, Long Beach

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 15, 2008, I accept the response as submitted with the draft final report on *Contracts and Grants*, California State University, Long Beach.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. F. King Alexander, President
Ms. Mary Stephens, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS