

CONTRACTS AND GRANTS
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 07-21
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ABBREVIATIONS

CFR	Code of Federal Regulations
CSU	California State University
CSUEB	California State University, East Bay
DHHS	Department of Health and Human Services
EO	Executive Order
Foundation	California State University, East Bay Foundation, Inc.
FWA	Federalwide Assurance
FY	Fiscal Year
HR	Human Resources
IACUC	Institutional Animal Care and Use Committee
NIH	National Institutes of Health
OMB	Office of Management and Budget
ORSP	Office of Research and Sponsored Programs

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, East Bay campus from October 1, 2007, through November 2, 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, East Bay Foundation, Inc. (Foundation) management had developed comprehensive policies and procedures for principal investigator and project director, financial accounting, and regulatory compliance activities. However, controls over program administration, project integrity and regulatory compliance, grants management, fiscal administration, and procurement and property management 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 [6]

Roles and responsibilities of project directors and other contracts and grants personnel were not adequately defined or documented, and employee training documentation needed improvement. Additionally, the effort certification reporting was not in compliance with federal regulations.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE [8]

Policies for conflict of interest disclosure and debarment and suspension certification needed improvement. The existing financial conflict of interest policy did not specify the requirement of the completion of CA Form 700-U for all non-governmental research projects. Further, there was no policy on debarment and suspension and therefore, individuals involved in sponsored programs were not required to certify that they were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency. The campus had not maintained a current Federalwide Assurance with the Department of Health and Human Services. Additionally, the membership of the Institutional Animal Care and Use Committee did not include a student.

GRANTS MANAGEMENT [11]

Interim and/or final technical reports were not always timely prepared and submitted to funding agencies, and evidence of submission was not always on file. A review of 25 contracts and grants disclosed that five interim and/or final technical reports were not timely submitted to the sponsor in accordance with their respective contractual terms, and one file did not contain documentation to evidence that interim and final technical reports were submitted to the sponsor. Foundation policies for grant closeouts and

monitoring of subrecipient activities were inadequate. The Foundation lacked policies for the disposition of unexpended funds at grant closeout and for the monitoring of subrecipient activities.

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. Additionally, the administration and approval of general expenditures was inadequate. A review of 30 general expenditures disclosed that 14 expenditures with competitive bidding requirements did not have price quotes or other evidence of competitive bidding, 11 expenditures were not properly approved via the required purchase order process, and six expenditures were not supported by independent receiving documentation, which evidenced receipt by the campus. Further, administration of the Foundation program required improvement. A review of 11 travel expense claims disclosed that nine travel expenditures did not contain prior authorization/approval of travel and five travel expenditures were reimbursed for incidentals or meals claimed in violation of the campus and Foundation policy.

PROCUREMENT AND PROPERTY MANAGEMENT [17]

Reconciliations were not always completed for Foundation equipment inventories. Reconciliations were not completed for fiscal years 2005/06 and 2006/07.

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, East Bay, the office of research and sponsored programs has overall responsibility for sponsored programs' pre-award activities. The California State University, East Bay Foundation, Inc. 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

EMPLOYEE ROLES, RESPONSIBILITIES, AND TRAINING

Roles and responsibilities of project directors and other contracts and grants personnel were not adequately defined or documented, and employee training documentation needed improvement.

We found that:

- ▶ The campus lacked documentation that clearly and thoroughly defined the roles and responsibilities of project directors and other personnel involved in contracts and grants activities.
- ▶ Initial training included both the provision of applicable reference materials to newly hired employees and meetings of new project directors and principal investigators with a grant administrator, while ongoing training included various symposia. However, none of the training was required by policy or 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 that 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 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 clearly defining employee roles and responsibilities as well as providing and documenting initial and ongoing training for project directors and those responsible for the administration of contracts and grants.

The interim director of the office of research and sponsored programs (ORSP) and the California State University, East Bay Foundation, Inc. (Foundation) executive director stated that there was

neither official policy regarding training nor easily obtainable, comprehensive job descriptions due to administrative oversight.

Failure to inform project personnel clearly of all of their responsibilities and require and document orientation and ongoing training efforts increases exposure to non-compliance with federal and state regulations.

Recommendation 1

We recommend that the campus and the Foundation:

- a. Create a comprehensive manual that defines the roles of those employees responsible for grants and contracts activities.
- b. Establish a policy requiring initial and ongoing employee training and procedures to document that 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. Topics covered should include, but not be limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

- a. The campus concurs with this recommendation. The campus will develop a comprehensive training manual and job descriptions that properly define the roles and responsibilities of employees responsible for grants. This manual will be complete by June 2008.
- b. The campus concurs with this recommendation. The campus will develop a policy requiring ongoing employee training, a formal schedule of when this training will occur, and procedures to document that this training has occurred and who attended. Topics covered will be, at a minimum, those stated in the recommendation. The policy and schedule will be developed by June 2008, with ongoing training efforts occurring after this point.

EFFORT CERTIFICATION REPORTING

Effort certification reporting was not in compliance with federal regulations.

Our review of seven employees requiring time and effort certification in fiscal years (FY) 2005/06 and 2006/07 disclosed that six had not submitted any time and effort certification reports, and one employee had only submitted certification for one academic term.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, Section J.8 §c(1)(e), requires that for professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

The Foundation *Time and Effort Policy and Procedure* states that on a quarterly basis the faculty will be provided a time and effort certification form to be completed and turned into the office of academic affairs.

The Foundation executive director stated that the grants and contracts manager was out of the office for much of the audit review period, and as a result, the effort reporting was not completed.

Failure to follow effort reporting requirements increases the risk of regulatory scrutiny and resultant penalties.

Recommendation 2

We recommend that the Foundation strengthen procedures to ensure compliance with federal effort certification requirements.

Campus Response

The campus concurs with this recommendation. The campus will develop procedures by June 2008 to ensure compliance with federal effort certification requirements occurs in a timely manner.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

CONFLICT OF INTEREST AND DEBARMENT AND SUSPENSION POLICY

Policies for conflict of interest disclosure and debarment and suspension certification needed improvement.

We found that:

- ▶ The existing financial conflict of interest policy did not specify the requirement of the completion of CA Form 700-U for all non-governmental research projects.
- ▶ There was no policy on debarment and suspension and therefore, individuals involved in sponsored programs were not required to certify that they were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency.

California State University (CSU) directive HR 2005-38, *Conflict of Interest Update – Principal Investigators*, dated April 30, 2005, states that principal investigators shall disclose whether or not they have a financial interest in the sponsor of a proposed research project when funding in whole or in part is through a contract or grant from a non-governmental entity. Form 700-U, Statement of Economic Interests for Principal Investigators, should be used to meet the above filing requirements.

Executive Order (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.

Federal Acquisition Regulation, Subpart 9.409 — *Solicitation Provision and Contract Clause*, states that the contracting officer shall insert the provision *Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters*, in solicitations where the contract value is expected to exceed the simplified acquisition threshold.

The National Institutes of Health (NIH) *Grants Policy Statement* 11-14 states that applicants for NIH grants (“primary covered transactions”) are required to certify that, to the best of their knowledge and belief, they and their principals (including principal investigators and other key personnel): Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency.

The interim director of the ORSP stated that the conflict of interest policy was not updated due to administrative oversight. She further stated that it was also due to oversight that the university did not have a debarment and suspension policy.

Inadequate conflict of interest policy and a lack of policy on debarment and suspension 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:

- a. Revise the financial conflict of interest policy to reflect the requirement of completion of the CA Form 700-U and require its completion by all principal investigators and personnel involved with non-governmental research grants.
- b. Establish a policy on debarment and suspension and require all individuals involved in sponsored programs to certify that they were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency.

Campus Response

- a. The campus concurs with this recommendation. The campus has revised its policy to include the requirement cited above.
- b. The campus concurs with this recommendation. The campus has developed and implemented a new policy on debarment and suspension.

FEDERALWIDE ASSURANCE

The campus had not maintained a current Federalwide Assurance (FWA) with the Department of Health and Human Services (DHHS).

The FWA is an assurance of compliance required of any institution engaged in research, which is conducted or supported by a federal department or agency. The FWA must be completed by a responsible officer of the campus and submitted to the DHHS for approval to certify that the entity complies with all federal regulations for the use of human subjects in research. To remain current, the FWA must be updated and approved by the DHHS every three years.

The campus allowed its FWA to expire on May 25, 2007, and it was not renewed until November 1, 2007.

CFR, Title 45, Part 46, *Protection of Human Subjects*, §46.103, effective June 23, 2005, states that an institution engaged in research which is conducted or supported by a federal department or agency shall provide written assurance of compliance with 45 CFR, Part 46 and keep it on file with the Office for Human Research Protections, DHHS, or successor office and have it approved for federalwide use.

The interim director of the ORSP stated that the campus was unaware that the FWA needed to be updated every three years.

Failure to renew the FWA with the DHHS increases the risk of penalties and disallowances for non-compliance with federal requirements.

Prior to the end of our fieldwork, the campus had renewed their FWA.

INSTITUTIONAL ANIMAL CARE AND USE COMMITTEE MEMBERSHIP

The membership of the Institutional Animal Care and Use Committee (IACUC) did not include a student.

The California State University, East Bay (CSUEB) Institutional Care and Use Handbook, Section II, *Organization*, states that of the membership of the IACUC, at least one shall be a science student.

The interim director of the ORSP stated that the IACUC had not been able to recruit successfully a science student to be on the board.

Failure to comply with campus policies for IACUC membership increases the risk of having an IACUC that does not include student views.

Recommendation 4

We recommend that the campus ensure compliance with IACUC policies or reconsider the requirement of including a science student on the IACUC since the federal guidelines do not require such inclusion.

Campus Response

The campus concurs with this recommendation. The campus will be removing the requirement to have a student on the IACUC in the future to ensure compliance. This will be finalized at the June 2008 IACUC meeting.

GRANTS MANAGEMENT

PROGRAMMATIC TECHNICAL REPORTING

Interim and/or final technical reports were not always timely prepared and submitted to funding agencies, and evidence of submission was not always on file.

Our review of 25 contracts and grants files disclosed that:

- ▶ Five interim and/or final technical reports were not timely submitted to the sponsor in accordance with their respective contractual terms.
- ▶ One file did not contain documentation to evidence that interim and final technical reports were submitted to the sponsor in accordance with their respective contractual terms.

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.

CSUEB *Policy on the Administration of Grants and Contracts in Support of Sponsored Programs*, dated August 2, 2004, states that the grants and contracts manager shall ensure that all fiscal reports (including final reports) and billings are prepared and submitted, on a timely basis, to sponsors in accordance with the terms and conditions of the contract or grant. Additionally, the policy states that the grants and contracts manager is responsible for the accurate and timely financial reporting for each contract or grant. The principal investigator is primarily responsible for the timely submission of technical and project progress reports. The grants and contracts manager will monitor the submission of sponsoring agency required technical and project progress reports.

The Foundation executive director stated that the grants and contracts manager was out of the office for much of the audit review period and was not successful in getting all grants submitted on time.

Untimely submission and 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 5

We recommend that the campus and Foundation strengthen controls to ensure that technical reports and other technical deliverables are submitted to sponsoring agencies in a timely manner and that adequate documentation is retained in project files.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop proper internal controls to track all necessary deliverables to ensure proper accountability to granting agencies and to ensure adequate documentation is retained in project files.

GRANT CLOSEOUTS AND MONITORING OF SUBRECIPIENTS

Foundation policies for grant closeouts and monitoring of subrecipient activities were inadequate.

We found that:

- ▶ The Foundation lacked a policy for the disposition of unexpended funds. Excess funds were kept in the custody the Foundation. As noted in one instance, \$5,000 was received from a grantor organization and no work was subsequently completed on the grant. These unexpended funds were still in the custody of the Foundation two years after the end of the grant period.
- ▶ The Foundation lacked a policy for the monitoring of subrecipient audit reports and therefore, had not requested an A-133 single audit report for one covered entity for the calendar year 2006.

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

CFR, Title 45, Part 74, *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations*, §74.71-73, and CFR, Title 45, Part 92, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments*, §92.50 both effective October 1, 2005, mirror the language in OMB Circular A-110.

The NIH *Grants Policy Statement*, Part II 2 Subpart A, *Administrative Requirements, Closeout* states that any unobligated funds must be returned to the NIH.

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, subaward, function, or activity supported by the award. It also states that, "Recipients shall monitor subawards to ensure subrecipients have met the audit requirements," defined in OMB Circular A-133.

The Foundation executive director stated that there were no provisions regarding unspent funds in their closeout process and that the lack of a policy for the monitoring of the subrecipient reports was due to an oversight.

Failure to document grant closeout policies and monitor subrecipient activities increases the risk of non-compliance with federal regulations and subsequent penalties.

Recommendation 6

We recommend that the Foundation document and implement policies to ensure the proper handling of excess funds at the end of the grant period and the review of A-133 reports for subrecipients.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop and implement policies to ensure proper handling of excess funds at the end of a grant period and ensure a proper review of A-133 reports for subrecipients.

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 2005/06 and 2006/07 was not completed. As a result, the campus had not invoiced the Foundation for FY 2005/06 and 2006/07 costs for the reimbursement of university facilities and all other services used by the Foundation during this time.

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 business and financial services stated that with the Revenue Management Program implementation, a cost allocation plan and a formal agreement with the Foundation were put on hold.

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:

- a. Create and 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.
- b. Promptly invoice and collect from the Foundation costs incurred during FY 2005/06 and 2006/07.

Campus Response

- a. The campus concurs with this recommendation. The campus is currently working on a cost allocation plan and intends to have it complete by June 2008.
- b. The campus concurs with this recommendation. The campus will invoice and collect from the Foundation the appropriate costs incurred during FY 2005/06 and 2006/07.

GENERAL EXPENDITURES

Administration and approval of general expenditures was inadequate.

Our review of 30 general expenditures disclosed that:

- ▶ Fourteen expenditures with competitive bidding requirements did not have price quotes or other evidence of competitive bidding.
- ▶ Eleven expenditures were not properly approved via the required purchase order process.
- ▶ Six expenditures were not supported by independent receiving documentation, which evidenced receipt by the campus.
- ▶ Foundation policies and procedures for processing accounts payable invoices did not require receiving documentation prior to the payment of an invoice.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.46, states that recipients must keep procurement records and files for purchases in excess of the small purchase threshold (\$25,000). The records shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

The Foundation Project Administration Guide, Section IV, *Purchasing and Accounts Payable*, §D, states that for purchases over \$2,500 up to \$5,000, project personnel must telephone three alternate vendors for firm prices, terms, and product availability. This information and other relevant information regarding the vendor, call, and item information must be written on the purchase order. Additionally, it states that three written quotations must be attached to the completed purchase order for expenditures over \$5,000.

The Foundation Project Administration Guide, Section IV, *Purchasing and Accounts Payable*, §B, states that all purchases over \$500 in total must be approved by the Foundation before making a commitment to a vendor by using a purchase order request.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, 3.5, *Fiscal Administration* states that each campus shall establish necessary controls to ensure sound fiscal management of sponsored programs, regardless of whether the university or auxiliary is responsible for sponsored projects administration.

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. Those practices would include verifying the receipt of goods and services before paying a vendor.

The Foundation executive director stated that the Foundation staff did not follow appropriate policies, procedures, and accounting principals due to oversight.

The absence of appropriate administration and approval for purchases and accounts payable transactions increases the risk of loss from theft and other inappropriate acts as well as non-compliance with federal regulations.

Recommendation 8

We recommend that the Foundation strengthen procedures to ensure that competitive bids are obtained, purchase orders are utilized, and receiving documentation is required prior to the processing of accounts payable transactions.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop appropriate policies and procedures to ensure this happens.

TRAVEL

The administration of the Foundation travel program required improvement.

Our review of 11 travel expense claims from FY 2005/06 and 2006/07 disclosed that:

- ▶ Nine did not contain prior authorization/approval of travel by staff members. Furthermore, the campus and Foundation lacked a policy requiring supervisory approval of anticipated travel plans and costs prior to travel.
- ▶ Five travel expense claims were reimbursed for incidentals or meals claimed in violation of campus and Foundation policy.

EO 392, *Rules and Procedures Governing the Operation of the Special Projects Fund*, dated July 1, 1982, states that the president shall establish procedures to ensure that travel of the project director or staff members, in connection with project activities, shall be previously authorized by the campus administration.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that each campus shall establish necessary controls to ensure sound fiscal management of sponsored programs, regardless of whether the university or auxiliary is responsible for sponsored projects administration.

CSUEB *Policy on the Administration of Grants and Contracts in Support of Sponsored Programs*, dated August 2, 2004, states that all expenditures will be according to Foundation, university, CSU, and sponsoring agency guidelines, policies, and procedures.

The Foundation *Travel Policy and Procedures* state in all cases when, which, and the maximum allowable amount of reimbursements/per diems may be claimed from a Foundation account, including when it is appropriate to claim incidentals and the methodology for calculating what is owed to the traveler.

The Foundation executive director stated that neither Foundation nor CSUEB policy required prior authorization for travel and therefore, no prior approval was deemed necessary at the time. In addition, he stated that travel expense claim forms did not follow policy due to a lack of enforcement by Foundation staff.

The absence of appropriate administration of travel increases the risk of loss from errors and inappropriate acts.

Recommendation 9

We recommend that the Foundation:

- a. Require the completion of a travel request form to document pre-travel approval for all trips with the appropriate administrator's signature and date approved.
- b. Strengthen procedures to enforce the Foundation policy on travel expense claims to ensure the correct amounts are being reimbursed on a per meal and per day (for incidentals) basis.

Campus Response

- a. The campus concurs with this recommendation. The campus will develop a process by June 2008 to ensure all travel is preapproved. However, for grants that specifically iterate the travel intended, it is felt that this will meet this requirement.
- b. The campus concurs with this recommendation. The campus will tighten up its procedures and processes by June 2008 to ensure that only appropriate reimbursements are approved.

PROCUREMENT AND PROPERTY MANAGEMENT

Reconciliations were not always completed for Foundation equipment inventories.

The Foundation conducted biannual inventory counts of equipment; however, reconciliations were not completed by the Foundation for FY 2005/06 and 2006/07.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.34(f)(3), states that a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

The Foundation *Purchasing and Property Accounting Policies and Procedures* requires inventory counts be reconciled to accounting records at least once every three years.

The Foundation executive director stated that procedures were in place to reconcile the inventory; however, it was not done as the grants and contracts manager was out of the office during much of the audit period.

Failure to complete or timely prepare property reconciliations limits the Foundation's ability to detect errors and irregularities, which may also delay proper revenue recognition.

Recommendation 10

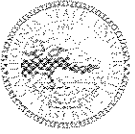
We recommend that the Foundation ensure that property reconciliations are properly and timely completed for Foundation equipment inventories.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will have developed policies and procedures to ensure this activity occurs consistently and in a timely and accurate manner.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Mohammad Qayoumi	President
John Abbey	Assistant Controller
Donna Arredondo	Accountant II
Shawn Bibb	Vice President of Administration and Finance/Chief Financial Officer
Christopher Brown	Executive Director, California State University, East Bay Foundation, Inc. (Foundation)
Jennifer Cabrejas	Information Coordinator, Office of Research and Sponsored Programs (ORSP)
Yashmeen Imroz	Grant Analyst I, Foundation
Victoria Jensen	Interim Director, ORSP
Dorothy Lee	Accounting Technician, Foundation
Nyassa Love	Associate Vice President of Business and Financial Services
Cynthia Vinson	Grants and Contracts Manager, Foundation

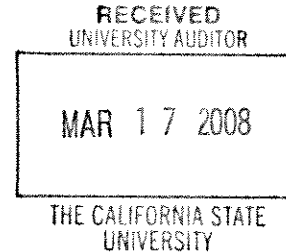


CALIFORNIA STATE UNIVERSITY EAST BAY

Office of the Vice President, Administration and Finance & Chief Financial Officer

CALIFORNIA STATE UNIVERSITY, EAST BAY 25800 Carlos Bee Boulevard, Hayward, CA 94542-3002 510.885.3803 • 510.885.4745 (fax) • www.csueastbay.edu

March 14, 2008



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

RE: Campus Responses to Recommendations: Audit Report Number 07-21 Contracts & Grants at California State University, East Bay

Dear Mr. Mandel,

Enclosed is our response to the recommendations in Audit Report Number 07-21, Contracts and Grants, at California State University, East Bay. Upon acceptance of our response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Please let us know if you have any questions or need additional information.

Sincerely,

Handwritten signature of Shawn Bibb

Shawn Bibb Vice President for Administration & Finance, CFO

SB/krb

Enclosure

- c: Dr. Mohammad H. Qayoumi, President Mr. Christopher Brown, AVP, Enterprise Activities and Exec Director, CSUEB Foundation, Inc. Ms. Victoria Jensen, Interim Director, Research & Sponsored Programs

CONTRACTS AND GRANTS

CALIFORNIA STATE UNIVERSITY, EAST BAY

Audit Report 07-21
February 20, 2008

PROGRAM ADMINISTRATION

EMPLOYEE ROLES, RESPONSIBILITIES, AND TRAINING

Recommendation 1

We recommend that the campus and the Foundation:

- a. Create a comprehensive manual that defines the roles of those employees responsible for grants and contracts activities.
- b. Establish a policy requiring initial and ongoing employee training and procedures to document that 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. Topics covered should include, but not be limited to, sponsored programs administration procedures, conflict of interest policies, human subject and animal testing, and intellectual property policies.

Campus Response

- a. The campus concurs with this recommendation. The campus will develop a comprehensive training manual and job descriptions that properly define the role and responsibilities of employees responsible for grants. This manual will be complete by June 2008.
- b. The campus concurs with this recommendation. The campus will develop a policy requiring on-going employee training, a formal schedule of when this training will occur, and procedures to document that this training has occurred and who attended. Topics covered will be at a minimum, those stated in the recommendation. The policy and schedule will be developed by June 2008, with on-going training efforts occurring after this point.

EFFORT CERTIFICATION REPORTING

Recommendation 2

We recommend that the Foundation strengthen procedures to ensure compliance with federal effort certification requirements.

Campus Response

The campus concurs with this recommendation. The campus will develop procedures by June 2008 to ensure compliance with federal effort certification requirements occurs in a timely manner.

PROJECT INTEGRITY AND REGULATORY COMPLIANCE

CONFLICT OF INTEREST AND DEBARMENT AND SUSPENSION POLICY

Recommendation 3

We recommend that the campus:

- a. Revise the financial conflict of interest policy to reflect the requirement of completion of the CA Form 700-U and require its completion by all principal investigators and personnel involved with non-governmental research grants.
- b. Establish a policy on debarment and suspension and require all individuals involved in sponsored programs to certify that they were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency.

Campus Response

- a. The campus concurs with this recommendation. The campus has revised its policy to include the requirement cited above.
- b. The campus concurs with this recommendation. The campus has developed and implemented a new policy on debarment.

INSTITUTIONAL ANIMAL CARE AND USE COMMITTEE MEMBERSHIP

Recommendation 4

We recommend that the campus ensure compliance with IACUC policies or reconsider the requirement of including a science student on the IACUC since the federal guidelines do not require such inclusion.

Campus Response

The campus concurs with this recommendation. The campus will be removing the requirement to have a student on the IACUC committee in the future to ensure compliance. This will be finalized at the June, 2008 IACUC meeting.

GRANTS MANAGEMENT

PROGRAMMATIC TECHNICAL REPORTING

Recommendation 5

We recommend that the campus and Foundation strengthen controls to ensure that technical reports and other technical deliverables are submitted to sponsoring agencies in a timely manner and that adequate documentation is retained in project files.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop proper internal controls to track all necessary deliverables to ensure proper accountability to granting agencies and to ensure adequate documentation is retained in project files.

GRANT CLOSEOUTS AND MONITORING OF SUBRECIPIENTS

Recommendation 6

We recommend that the Foundation document and implement policies to ensure the proper handling of excess funds at the end of the grant period and the review of A-133 reports for subrecipients.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop and implement policies to ensure proper handling of excess funds at the end of a grant period and ensure a proper review of A-133 reports for sub-recipients.

FISCAL ADMINISTRATION

COST ALLOCATION PLAN

Recommendation 7

We recommend that the campus:

- a. Create and 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.
- b. Promptly invoice and collect from the Foundation costs incurred during FY 2005/06 and 2006/07.

Campus Response

- a. The campus concurs with this recommendation. The campus is currently working on a cost allocation plan and intends to have it complete by June 2008.
- b. The campus concurs with this recommendation. The campus will invoice and collect from the Foundation the appropriate costs incurred during FY 2005/06 and 2006/07.

GENERAL EXPENDITURES

Recommendation 8

We recommend that the Foundation strengthen procedures to ensure that competitive bids are obtained, purchase orders are utilized, and receiving documentation is required prior to the processing of accounts payable transactions.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will develop appropriate policies and procedures to ensure this happens.

TRAVEL

Recommendation 9

We recommend that the Foundation:

- a. Require the completion of a travel request form to document pre-travel approval for all trips with the appropriate administrator's signature and date approved.
- b. Strengthen procedures to enforce the Foundation policy on travel expense claims to ensure the correct amounts are being reimbursed on a per meal and per day (for incidentals) basis.

Campus Response

- a. The campus concurs with this recommendation. The campus will develop a process by June 2008 to ensure all travel is pre-approved. However, for grants that specifically iterate the travel intended, it is felt that this will meet this requirement.
- b. The campus concurs with this recommendation. The campus will tighten up its procedures and processes by June 2008 to ensure that only appropriate reimbursements are approved.

PROCUREMENT AND PROPERTY MANAGEMENT

Recommendation 10

We recommend that the Foundation ensure that property reconciliations are properly and timely completed for Foundation equipment inventories.

Campus Response

The campus concurs with this recommendation. By June 2008, the campus will have developed policies and procedures to ensure this activity occurs consistently and in a timely and accurate manner.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 27, 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 07-21 on *Contracts and Grants*,
California State University, East Bay

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 27, 2008, I accept the response as submitted with the draft final report on *Contracts and Grants*, California State University, East Bay.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Shawn Bibb, Vice President, Administration and Finance and
Chief Financial Officer

SAN DIEGO

Dr. Mohammad Qayoumi, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS