SPONSORED PROGRAMS – POST AWARD

CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 13-54
February 6, 2014

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### ABBREVIATIONS

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<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<td>CSU</td>
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EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of Audit and Advisory Services (OAAS) during the last quarter of 2012, the Board of Trustees, at its January 2013 meeting, directed that Sponsored Programs – Post Award (PA) be reviewed. The OAAS last reviewed Post Award in 2010 and, for the majority of campuses, in the triennial audits of Auxiliary Organizations.

We visited the California State University, Northridge campus from September 9, 2013, through October 23, 2013, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for PA activities as of October 23, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: conflicts of interest, effort reporting, and sub-recipient monitoring.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

GENERAL ENVIRONMENT [7]

The campus did not always obtain initial and renewal conflict-of-interest forms from principal investigators (PI) as required by federal regulations and California State University and campus policy. This is a repeat finding from the 2012 Auxiliary Organizations audit.

EFFORT REPORTING [8]

Reporting of faculty additional pay on effort reports needed improvement. For example, forms used to report faculty additional pay did not consistently show the percentage of effort or the hours to be worked and therefore did not show whether the rate paid for federal awards was the same as the CSU base rate of pay for the primary assignment, or whether the time paid was within CSU additional employment limitations. Also, cost-share effort was not always reported on effort certifications in a timely manner.

COST SHARING [11]

The campus did not always follow all cost-sharing documentation policies.
SUB-RECIPIENT MONITORING [12]

The Corporation’s sub-recipient policies and procedures were incomplete. For instance, policies and procedures did not address a sub-recipient risk assessment to identify key risks and determine the level of monitoring required. In addition, sub-recipient monitoring needed improvement. For example, risk assessments were not always signed or dated, and risk assessments were not always performed in a timely manner.

FISCAL ADMINISTRATION [16]

Cost transfers were not always identified and processed in a timely manner or documented properly. In addition, the Corporation’s administration of contracts and grants expenditures needed improvement. For example, two cash advances were not approved by anyone other than the requestor.
INTRODUCTION

BACKGROUND

Sponsored programs include all work performed under grants or contracts funded by non-California State University (CSU) sources, such as federal agencies, state agencies, and non-profit organizations. There are generally two main components of sponsored program administration: pre-award, which includes activities such as proposal development, review, and submission prior to acceptance of funds; and post award, which includes administration of a sponsored program after the grant or contract has been awarded through the final closeout process.

Sponsored programs – post award (PA) may be administered either on the campus, usually under an office of research or similar department, or by an auxiliary organization, such as a research foundation. Five CSU campuses – Channel Islands, Maritime Academy, San Francisco, Sonoma, and Stanislaus – and the chancellor’s office administer the post-award aspects of sponsored programs on the state side. The other 18 CSU campuses manage PA through auxiliary organizations.

PA is subject to various types of audits, including internal audits by the Office of Audit and Advisory Services (OAAS) and external audits required by granting agency regulations. For those campuses where an auxiliary organization manages PA, the OAAS conducts triennial auxiliary organization audits, which include audits of the PA function. In addition, the OAAS performs periodic campus audits of sponsored programs, the most recent of which was an audit of PA in 2010. The primary external audit performed is the annual A-133 audit, which is required for non-federal entities that expend $500,000 or more in federal awards in a year, and which is performed by external financial statement auditors. In addition, periodic audits may be performed by sponsors, including various federal inspector general general offices.

The Office of Management and Budget (OMB) has issued 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 ensure 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. The circular was last revised in May 2004.

- 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 and agreements with institutions of higher education, hospitals, and other non-profit organizations. The circular was last revised in November 1993 and amended in September 1999.

- OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, sets forth consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. The circular was last revised in June 2007. The OMB Circular A-133 Compliance Supplement, which was last revised in June 2012, serves as a companion document.
Other federal guidance for sponsored programs has been disseminated by specific sponsoring agencies. Among the largest sponsors are the National Institutes of Health (NIH) and the National Science Foundation (NSF). The NIH Grants Policy Statement, last revised in October 2012, and the NSF Award and Administration Guide, last revised in January 2013, delineate policy requirements for the administration of projects funded by these agencies.

Compliance requirements for sponsored programs change as new regulations or policies are implemented. For example, new NIH requirements relating to financial conflict-of-interest identification and reporting became effective on August 24, 2012. In addition, the OMB recently proposed the creation of a unified Omni Circular, which would consolidate the three circulars mentioned above and others into one document that would supersede the separate circulars. The intent is to streamline federal requirements for all types of recipients of federal grants and contracts to increase the efficiency and effectiveness of the federal award process. The proposed text of the Omni Circular was published in the Federal Register on February 1, 2013.

Executive Order (EO) 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, sets policy to be followed by each campus and any auxiliary organization 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 components such as proposal submission, review, and approval; performance of grants and contracts; human resources policies; academic policies; fiscal administration; and work product and records.

Integrated California State University Administrative Manual (ICSUAM) §11000 sets forth systemwide policies related to specific aspects of sponsored programs. These policies were created in response to the 2010 PA audit conducted by the OAAS. Policies relevant to the current audit include:

- ICSUAM §11000.002.005, Subrecipient Monitoring, effective December 1, 2011
- ICSUAM §11000.003.005, Allowable Costs, effective December 1, 2011
- ICSUAM §11000.003.006, Effort Reporting, effective December 1, 2011
- ICSUAM §11000.003.007, Cost Sharing, effective December 1, 2011
- ICSUAM §11000.010.002, Financial Conflict of Interest, dated October 31, 2011

The CSU Conflict of Interest Code also requires principal investigators for projects sponsored by nongovernmental entities to disclose financial interests. Coded memorandum Human Resources 2005-38, Conflict of Interest Update – Principal Investigators, dated August 30, 2005, outlines reporting requirements, as well as management of potential conflicts of interest.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to sponsored programs – post-award administration and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus and auxiliary organization procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration of post award is well defined and includes clear lines of organizational authority and responsibility.
- Policies and procedures exist for key areas of post-award administration, such as effort reporting, cost sharing, sub-recipient monitoring, and fiscal administration, and are current, comprehensive, and effectively distributed.
- Individuals involved in post-award administration are provided with sufficient initial and ongoing training.
- Financial interests in sponsored programs are disclosed in a timely manner and reviewed for conflicts of interest.
- An integrated system that encompasses both sponsored and all other activities, and that ensures accurate and properly documented evidence of work performed on sponsored programs, is in place for effort reporting.
- Administration and management of cost sharing on sponsored programs is adequate and performed in accordance with CSU, federal, and sponsor requirements.
- Sub-recipient relationships are appropriately established and monitored in accordance with CSU, federal, and sponsor requirements.
- Financial systems and controls are adequate to ensure that costs charged to sponsored programs are allowable, allocable, and reasonable.
- Financial systems are adequate to ensure that cost transfers are made with adequate justification, with proper approvals, and within a reasonable period of time.
- Indirect costs charged to sponsored programs are appropriate, and approved indirect cost rates are utilized.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 22 and 23, 2013, meeting of the Committee on Audit stated that Sponsored Programs – Post Award (PA) includes a review of the post-award administration and management of sponsored programs funded by non-CSU funding sources. Proposed audit scope could include, but was not limited to, review of contract and grant budgeting and financial planning; indirect cost administration, including cost allocation; cost sharing/matching and transfer processes; effort reporting, fiscal reporting, and progress reporting; approval of project expenditures; sub-recipient monitoring; and management and security of information systems.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with federal and state regulations and guidance, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2011, through October 23, 2013.

We focused primarily on the internal administrative, compliance, and operational controls over PA activities. Specifically, we reviewed and tested:

- Administration of PA activities, including defined responsibilities, current policies and procedures, and training.
- Conflict-of-interest policies and required conflict-of-interest filings.
- Effort reporting systems.
- Cost-sharing administration and management.
- Sub-recipient monitoring processes.
- Fiscal administration, including cost transfers, indirect costs, and allowable costs.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

CONFLICTS OF INTEREST

The campus did not always obtain initial and renewal conflict-of-interest forms from principal investigators (PI) as required by federal regulations and California State University (CSU) and campus policy. This is a repeat finding from the 2012 Auxiliary Organizations audit.

We reviewed 11 contracts and grants and found that:

- Two PIs on non-governmental grants did not complete conflict-of-interest forms in a timely manner. In one instance, the PI did not complete the form prior to the award start date, and in the other instance, the PI did not complete the form within 30 days of funding renewal.

- Two PIs on National Institutes of Health (NIH) grants did not complete supplemental conflict-of-interest disclosure forms for projects funded by the Public Health Service (PHS) prior to the award start date.

- One PI did not complete the campus conflict-of-interest form prior to the award date, and one PI did not complete an annual renewal form for two separate grants as required by campus policy.

Coded memorandum Human Resources (HR) 2005-38, Conflict of Interest Update – Principal Investigators, dated August 30, 2005, states that the CSU PIs are required to report financial interests if they have principal responsibility for a research project funded or supported, in whole or in part, by a contract or grant from a nongovernmental entity. PIs are required to file an initial statement prior to acceptance of a contract, grant, or gift, an interim statement within 30 days after funding is renewed, and a project completion statement within 90 days after gift funds are exhausted, or the research project is completed, pursuant to CSU policy.

Code of Federal Regulations (CFR) Title 42, Part 50, Subpart F, Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding Is Sought, effective September 26, 2011, states that each investigator must disclose to the institution’s designated official(s) the investigator’s significant financial interests no later than the time of application or proposal for research.

The California State University, Northridge Conflict of Interest Policy for Grants and Contracts states that PIs must disclose significant financial interests at the time of proposal submission and update this information annually, or more frequently as new financial interests are obtained during the life of the award.

The campus director of research and sponsored projects stated that staffing shortages resulted in conflict-of-interest forms not being obtained in a timely manner.

Inadequate administration of conflict-of-interest statements increases the risk of non-compliance with federal, state, and CSU requirements and could lead to possible regulatory scrutiny.
Recommendation 1

We recommend that the campus obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and CSU and campus policy.

Campus Response

We concur. The campus will implement procedures to ensure that initial and renewal conflict-of-interest forms will be obtained from PIs as required by federal regulations and CSU and campus policy.

Implementation date: July 31, 2014

EFFORT REPORTING

ADDITIONAL PAY

Reporting of faculty additional pay on effort reports needed improvement.

We found that:

- Faculty additional pay documented on Faculty Payment Request forms did not consistently show the percentage of effort or the hours to be worked, and therefore did not show whether the rate paid for federal awards was the same as the CSU base rate of pay for the primary assignment, or whether the time paid was within CSU additional employment limitations.

- When the date range documented on Faculty Payment Request forms spanned more than one effort-reporting period, there was no indication of how the requested payment should be distributed between the two periods.

- Of ten effort reports we reviewed:
  - The combined amount paid on three Faculty Payment Request forms resulted in additional pay between 140 percent and 240 percent of the employees’ base salary for the time period paid.
  - The amount requested and paid to the employee in two instances was greater than the percentage of effort and corresponding dollar amount calculated on the Faculty Payment Request form.
  - Effort shown on two Faculty Payment Request forms was reported in an incorrect effort reporting period.
  - One effort report reflected the wrong award number for two Faculty Payment Request forms.
Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, Section J.10, states that the payroll distribution system will be incorporated into the official records of the institution, reasonably reflect the activity for which the employee is compensated by the institution, and encompass both sponsored and all other activities on an integrated basis. The method of distribution of charges for personal services must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs.

Coded memorandum HR 2002-05, *Additional Employment Policy*, dated February 19, 2002, refers to any CSU employment that is in addition to the employee’s primary appointment. Additional employment limitations are based on time-base, not salary. A maximum of 125 percent time-base is allowed under certain circumstances. When determining the 125 percent additional employment under the CSU Additional Employment Policy, all CSU employment and all outside CSU foundation and other CSU auxiliary employment are considered together. The salary rate for additional employment may be the same as the rate for the primary appointment; however, a different salary rate is permitted if appropriate for the work performed and if allowed by the funding source (e.g., private corporation contract). In the case of a federal grant or contract, the rate of pay for the additional employment must be the same as the CSU base rate of pay for the primary assignment.

Integrated California State University Administrative Manual (ICSUAM) §11000.003.006, *Effort Reporting*, effective December 1, 2011, states that compensated effort consists of campus assignment, reimbursed time, additional employment, direct pay, and cost share for faculty and staff who work on sponsored projects. It further states that sponsored project personnel compensated on federally sponsored awards (direct cost or cost share) will certify a report that indicates that the distribution of their total effort is a reasonable estimate of work performed during the period covered by the report.

The Corporation director of sponsored programs and real estate stated that the current effort-reporting process was in place upon his arrival at the Corporation and had therefore been deemed sufficient. He further stated that difficulty obtaining complete information from PIs in the Faculty Payment Request form combined with oversight errors during the effort-report preparation process occasionally resulted in mistakes in the effort report.

Source documentation that does not support effort-reporting certifications decreases assurance of the reliability of effort-reporting systems and increases exposure to non-compliance with federal regulations and CSU requirements.

**Recommendation 2**

We recommend that the campus, in conjunction with the Corporation, review the process of documenting faculty additional pay on Faculty Payment Request forms to ensure that:

a. Percentage of effort or hours to be worked are clearly stated on the forms.

b. Forms covering multiple effort-reporting periods indicate how effort should be distributed across the periods.
c. Additional pay does not exceed CSU additional employment limitations.

d. The amount requested and paid to the employee is equal to the percentage of effort and corresponding dollar amount calculated on the forms.

e. Information is accurately reflected on Faculty Payment Request forms and effort reports.

Campus Response

We concur. The Corporation will develop and implement a procedure that:

a. Requires all requests for faculty payment to clearly state the percentage of effort.

b. Requires requests for faculty payments to clearly state the effort-reporting period represented and does not allow request forms to cover multiple effort-reporting periods.

c. Ensures that additional pay does not exceed CSU additional employment limits.

d. Ensures that the amount requested and paid to the employee is equal to the percentage of effort and corresponding dollar amount calculated on the forms.

e. Ensures that the information is accurately reflected on Faculty Payment Request forms and effort reports.

Implementation date: October 30, 2014

COST-SHARE EFFORT

Cost-share effort was not always reported on effort certifications in a timely manner.

We reviewed two effort reports that included cost-share effort for the fall 2012 semester, and we noted that requested information on cost-share effort was not provided to the preparer until more than six months after the effort-reporting period ended. As a result, revised effort-certification reports were required, and they had not been signed at the time of our review.

OMB Circular A-21, *Cost Principles for Educational Institutions*, §J.10, states that the method used to report effort on sponsored contracts and grants must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. It further states 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.

ICSUAM §11000.003.006, *Effort Reporting*, effective December 1, 2011, states that compensated effort consists of campus assignment, reimbursed time, additional employment, direct pay, and cost
share for faculty and staff who work on sponsored projects. It further states that effort certifications are completed each academic term, but no less frequently than twice annually.

The Corporation sponsored programs analyst stated that she sent a request for cost-share information for the reporting period to the department, but the department did not respond in a timely manner, despite repeated follow-up efforts.

Untimely submission of effort-reporting information decreases assurance of the reliability of the effort-reporting systems and increases exposure to non-compliance with federal regulations.

**Recommendation 3**

We recommend that the campus, in conjunction with the Corporation, report cost-share effort on effort certifications in a timely manner.

**Campus Response**

We concur. The Corporation, in conjunction with the campus, will develop and implement a procedure that ensures that cost-share effort on effort certifications is reported in a timely manner.

Implementation date: October 30, 2014

**COST SHARING**

The campus did not always follow all cost-sharing documentation policies.

We reviewed eight awards that included cost-sharing requirements and found that:

- For all eight awards, the internal Corporation cost-share budget form was not completed prior to the award date as required on the form, and Corporation budgets were either not signed or did not include all required signatures.

- For two awards reviewed, no interim cost-share certifications were on file.

- Of the six awards with interim cost-share certifications on file, four certifications did not contain all required signatures, three were submitted late, and two were either incomplete or did not include sufficient supporting documentation.

- Of three final cost-share certification forms reviewed, two were completed late and did not contain all required information and signatures. In addition, all three files lacked sufficient supporting documentation for the amounts claimed.

The Corporation *Cost Sharing Policy* states that at the beginning of each project that includes cost sharing, the PI will submit to the Corporation a cost-sharing budget indicating method, amount, and sources. During the course of the project, the PI will submit semi-annual financial status reports on
cost sharing. The PI will forward a copy of the final cost-sharing report to the Corporation within 90 days of the end of the project. The Corporation cost-sharing budget form and cost-sharing certification form templates include additional information, including required signatures.

Executive Order (EO) 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, states that when there is cost sharing or matching in connection with a sponsored program, the sponsored program administrator, in conjunction with the PI, must 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 contracts or grants, requirements as stated in OMB A-110.

The Corporation director of sponsored programs and real estate stated that the Corporation cost-share budget form was not intended to be a required document, because cost-share amounts were budgeted, with all required approvals, as part of the pre-award proposal process. He also stated that the cost-share certification form should have indicated that only one signature was required even though there were two signature lines; the interim and final cost-share certifications were not being submitted by the PIs in a timely manner with all required approvals despite repeated follow-up efforts by the Corporation; and it was the responsibility of the colleges to maintain documentation supporting cost-share amounts claimed, and therefore the Corporation relied on certifications and approvals on the interim and final reports to substantiate the amounts claimed.

Incomplete and untimely documentation to substantiate cost-share amounts increases the risk of non-compliance with CSU and OMB requirements and possible regulatory scrutiny.

**Recommendation 4**

We recommend that the campus, in conjunction with the Corporation, follow all cost-sharing documentation policies.

**Campus Response**

We concur. The campus, in conjunction with the Corporation, will ensure that all cost-sharing documentation policies are followed.

Implementation date: October 30, 2014

**SUB-RECIPIENT MONITORING**

**POLICIES AND PROCEDURES**

The Corporation’s sub-recipient policies and procedures were incomplete.
Specifically, we found that the policies and procedures did not:

- Address a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

- Fully address procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control and the requirements for processing sub-recipient audits, including appropriate adjustment of a pass-through entity’s accounts when necessary.

ICSUAM §11000.002.005, Sub-recipient Monitoring, effective December 1, 2011, states that it is the policy of the CSU that each campus shall have financial controls and procedures in place that ensure compliance with the sponsor’s requirements for sub-recipient monitoring. The campus president or designee must ensure that procedures established for sub-recipient risk assessment and monitoring are in compliance with the federal OMB Circular A-133, applicable standards of other sponsors, CSU regulations, and campus policies. Campus procedures should provide consideration for documentation of compliance with minimum requirements of OMB Circular A-133 as it relates to sub-recipient monitoring, giving consideration to high-risk sub-recipients as necessary.

OMB Circular A-133, Compliance Supplement Part 6-M, Sub-recipient Monitoring, last revised March 2013, states that in order to provide reasonable assurance of compliance with federal requirements related to sub-recipients, official policies and procedures should exist establishing communication of federal award requirements to sub-recipients; responsibilities for monitoring sub-recipients; processes and procedures for monitoring; methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control; and requirements for and processing of sub-recipient audits, including appropriate adjustment of the pass-through entity’s accounts.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section D.400(d) states that for federal awards it makes, a pass-through entity shall issue a management decision on audit findings within six months after receipt of the sub-recipient’s audit report and ensure that the sub-recipient takes appropriate and timely corrective action, and consider whether sub-recipient audits necessitate adjustment of the pass-through entity’s own records.

The Corporation director of sponsored programs and real estate stated that the process for completing sub-recipient risk assessments and monitoring sub-recipient internal controls and audit reports was in place; however, the requirement to document these activities in existing policies and procedures was overlooked.

Incomplete sub-recipient policies and procedures increase the risk of noncompliance with CSU and governmental requirements, as well as the risk that sub-recipients will not be adequately assessed and monitored.

**Recommendation 5**

We recommend that the campus, in conjunction with the Corporation, update the sub-recipient policies and procedures to:
a. Address a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

b. Fully address the procedures for monitoring sub-recipients.

Campus Response

We concur. The Corporation will update the sub-recipient monitoring policies and procedures to:

a. Address the sub-recipient risk assessment.

b. Fully address the procedures for monitoring sub-recipients.

Implementation date: July 30, 2014

MONITORING

Sub-recipient monitoring needed improvement.

We reviewed 11 sub-recipient awards and found that:

- One sub-recipient award agreement was signed six months after the project start date.

- The campus did not obtain in a timely manner fiscal year 2011/12 A-133 reports or certification forms for three of the nine federal sub-recipients.

- The risk assessment for four of the nine federal sub-recipients was not dated to document that it was performed prior to sub-award issuance. In addition, four risk assessments were not signed, and the date of these assessments was approximately nine to 11 months after the date of the sub-award issuance.

- For one sub-recipient of a National Science Foundation (NSF) award and two sub-recipients of NIH awards, the campus did not obtain explicit assurance that the sub-recipients had appropriate conflict-of-interest policies.

OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, Section D.400(d) states that a pass-through entity shall perform, in part, the following for the federal awards it makes: advise sub-recipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements and ensure that sub-recipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the sub-recipient’s fiscal year have met the audit requirements of this part for that fiscal year.

OMB A-133 Compliance Supplement, Part 6.M states that to provide reasonable assurance of compliance with federal requirements related to sub-recipients, key managers should understand the sub-recipient’s environment, systems, and controls sufficient to identify the level and methods of monitoring required. In addition, mechanisms should exist to identify risks arising from external sources affecting sub-recipients, and to identify and react to changes in sub-recipients.
ICSUAM §110000.002.005, *Sub-recipient Monitoring*, dated December 1, 2011, states that it is the policy of the CSU that each campus shall have financial controls and procedures in place that ensure compliance with the sponsor’s requirements for sub-recipient monitoring. The campus president or designee must ensure that procedures established for sub-recipient risk assessment and monitoring are in compliance with the federal OMB Circular A-133, applicable standards of other sponsors, CSU regulations, and campus policies. Campus procedures should provide consideration for documentation of compliance with minimum requirements of OMB Circular A-133 as it relates to sub-recipient monitoring, giving consideration to high-risk sub-recipients as necessary.

42 CFR Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding Is Sought*, effective September 26, 2011, states that if the institution carries out funded research through a sub-recipient, the institution must take reasonable steps to ensure that any sub-recipient investigator complies with this subpart by incorporating as part of a written agreement with the sub-recipient terms that establish whether the financial conflict-of-interest policy of the awardee institution or that of the sub-recipient will apply to the sub-recipient’s investigators.

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

The campus director of research and sponsored projects stated that the sub-award agreement was not signed in a timely manner because it was mistakenly overlooked when processing the prime award paperwork. In addition, he stated that incomplete documentation and untimely completion of sub-recipient risk assessments was due to oversight. He also stated that the NIH awards were initiated prior to the implementation of the Sub-recipient Commitment Form, which is used, in part, to obtain assurance from the sub-recipient regarding its conflict-of-interest policies, and that documentation for the NSF award could not be located. The Corporation sponsored programs analyst stated that although she sent follow-up requests to sub-recipients for A-133 certifications, it was not always done at regular intervals depending on workload, and it was the sub-recipient’s responsibility to provide the certifications in a timely manner.

Insufficient monitoring and execution of sub-recipient awards increases the risk of reduced reimbursements, non-compliance with OMB requirements, conflicts of interest, and possible regulatory scrutiny and subjects the Corporation and CSU to potential liability.

**Recommendation 6**

We recommend that the campus, in conjunction with the Corporation:

a. Execute sub-recipient award agreements in a timely manner.

b. Obtain A-133 certification forms in a timely manner.
c. Sign and date each sub-recipient’s risk assessment prior to sub-award issuance.

d. Obtain explicit assurance that sub-recipients have appropriate conflict-of-interest policies for NSF and NIH awards.

Campus Response

We concur.

a. The campus, in conjunction with the Corporation, will ensure that sub-recipient award agreements are executed in a timely manner.

b. The campus, in conjunction with the Corporation, will ensure that all A-133 certification forms are obtained in a timely manner.

c. The campus will sign and date sub-recipient risk assessments prior to sub-award issuance.

Implementation date: July 31, 2014

d. The campus has implemented a sub-recipient commitment form that requires sub-awardees to provide assurance that they either have appropriate conflict-of-interest policies for NSF and NIH awards, or will follow our policies.

FISCAL ADMINISTRATION

COST TRANSFERS

Cost transfers were not always identified and processed in a timely manner or documented properly.

We reviewed six cost transfers and found that:

- Four payroll-related transfers did not include sufficient documentation explaining the reason the expense was originally charged to the incorrect account.
- One payroll-related transfer occurred more than 90 days after the close of the accounting period, with no explanation for the delay.
- Two cost transfers did not have sufficient documentation to determine whether the expenditure was allowable, allocable, and reasonable, or to determine the timeliness of the transfer.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, §C.21, states that the recipient’s financial management systems shall provide for effective control over and accountability for all funds, property, and other assets, and accounting records that are supported by source documentation.
The Corporation *Cost Transfer Policy* states that transfer of costs to or from extramurally funded contracts, grants, or cooperative agreements should be made in accordance with applicable campus procedures and include an explanation for the transfer that includes why the expense was originally charged to the account from which it was now being transferred, why the charge should now be transferred to the receiving grant or contract, and what actions will be taken in the future to prevent the need for another transfer of this type. It further states that in the event the transfer is taking place more than 90 days after the close of the accounting period, an explanation should be required of the delay that includes a signed statement by the PI of the steps taken to ensure that such transfers will not occur again, along with any other supporting documentation attached.

The Corporation director of sponsored programs and real estate stated that the transfer of payroll-related expenses was generally due to a keying error or project number change, and therefore the need to document the reason for the error was considered unnecessarily burdensome. He further stated that supporting documentation for the other transfers could not be located.

Insufficient documentation and untimely identification and processing of cost transfers increases the risk of expense disallowances and non-compliance with campus policies and federal regulations, and increases the risk that unallowable purchases will be made and funds will be misused.

**Recommendation 7**

We recommend that the campus, in conjunction with the Corporation, identify and process cost transfers in a timely manner, and properly document them.

**Campus Response**

We concur. The Corporation has implemented a policy that ensures the timely identification and processing, as well as the proper documentation, of cost transfers.

**EXPENDITURES**

The Corporation’s administration of contracts and grants expenditures needed improvement.

We reviewed 18 general expenditures and found that:

- One hospitality expense lacked evidence of review and approval.
- Two cash advances were not approved by anyone other than the requestor.
- One expenditure for services did not have an executed purchase order or agreement in place until 11 months after the performance start date.

The Corporation *Approval of Expenditures* states that the general criteria for approval of expenditures includes verification of the authorization signature and ensuring that the signer is not, at the same time, the recipient of the payment.
The Corporation *Purchasing Policy* states that the Corporation must approve all purchase orders prior to commitment, and accordingly, a Purchase Order Request form must be submitted to the Corporation prior to making purchases.

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 business arrangements be supported by complete and properly executed written agreements.

The Corporation director of sponsored programs and real estate stated that there was a process in place to require approvals for all expenditures, including hospitality expenses and advances, and the lack of approval for these expenditures was due to error. The campus director of research and sponsored projects stated that the PI failed to request a purchase order in a timely manner, and the error was discovered when the vendor invoice was received, at which point the agreement and purchase order were promptly prepared.

Inadequate authorizations for hospitality expenses and cash advances increases the risk that unallowable purchases will be made and funds will be misused, and untimely execution of contracts increases university exposure to unauthorized financial and legal obligations.

**Recommendation 8**

We recommend that the campus, in conjunction with the Corporation:

a. Review and properly approve all hospitality expenses and cash advances.

b. Execute all purchase orders or agreements prior to the performance of services.

**Campus Response**

We concur. The Corporation re-trained its staff in approving expenditures to ensure that all requests for expenses and advances will be properly approved. The Corporation will notify all PIs that purchase orders and agreements must be executed prior to the performance of the services.

Implementation date: July 30, 2014
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>Dianne F. Harrison</td>
<td>President</td>
</tr>
<tr>
<td>Jeff Carr</td>
<td>Compliance Officer/Research Specialist, Research and Graduate Studies</td>
</tr>
<tr>
<td>Colin Donahue</td>
<td>Vice President for Administration and Finance and Chief Financial Officer</td>
</tr>
<tr>
<td>John Griffin</td>
<td>Chief Financial Officer, The University Corporation (Corporation)</td>
</tr>
<tr>
<td>Georg Jahn</td>
<td>Director, Sponsored Programs and Real Estate, Corporation</td>
</tr>
<tr>
<td>Crist Khachikian</td>
<td>Associate Vice President for Research and Graduate Studies</td>
</tr>
<tr>
<td>Krizel Leynes</td>
<td>Sponsored Programs Supervisor, Corporation</td>
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<tr>
<td>Stacey Lord</td>
<td>Sponsored Programs Analyst, Corporation</td>
</tr>
<tr>
<td>Teresa Loren</td>
<td>Associate Director, Accounting, Corporation</td>
</tr>
<tr>
<td>Howard Lutwak</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Michael Neubauer</td>
<td>Vice Provost</td>
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<tr>
<td>Scott Perez</td>
<td>Director, Research and Sponsored Projects</td>
</tr>
<tr>
<td>Mahyar Sadri</td>
<td>Sponsored Programs Analyst, Corporation</td>
</tr>
<tr>
<td>Joann Spruill</td>
<td>Payroll Coordinator, Corporation</td>
</tr>
<tr>
<td>Michele Yeater</td>
<td>Sponsored Programs Analyst</td>
</tr>
</tbody>
</table>
March 6, 2014

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report Number 13-54, Sponsored Programs – Post Award at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in the February 12, 2014 email from Anne Marie Douglas.

We have read the report including the observations and recommendations, and agree with them. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN’s systems of internal control.

Sincerely,

Colin Donahue
Vice President Administration and Finance and CFO

Enclosures

cc: Dr. Dianne F. Harrison, President
    Howard Lutwak, Director, Internal Audit

18111 Nordhoff St · Northridge · CA · 91330-8202 · phone (818) 677-2333 · fax (818) 677-5089 · e-mail colin.donahue@csun.edu
The California State University · Bakersfield · Chico · Dominguez Hills · Fresno · Fullerton · Hayward · Humboldt · Long Beach · Los Angeles · Maritime Academy
Monterey Bay · Northridge · Pomona · Sacramento · San Bernadino · San Diego · San Francisco · San Jose · San Luis Obispo · San Marcos · Sonoma · Stanislaus
SPONSORED PROGRAMS – POST AWARD

CALIFORNIA STATE UNIVERSITY, NORTH RIDGE

Audit Report 13-54

GENERAL ENVIRONMENT

CONFLICTS OF INTEREST

Recommendation 1

We recommend that the campus obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and CSU and campus policy.

Campus Response

We concur.

The campus will implement procedures to ensure that initial and renewal conflict of interest forms will be obtained from PIs as required by federal regulations and CSU and campus policy.

Implementation date: July 31, 2014

EFFORT REPORTING

ADDITIONAL PAY

Recommendation 2

We recommend that the campus, in conjunction with the Corporation, review the process of documenting faculty additional pay on Faculty Payment Request forms to ensure that:

a. Percentage of effort or hours to be worked are clearly stated on the forms.

b. Forms covering multiple effort-reporting periods indicate how effort should be distributed across the periods.

c. Additional pay does not exceed CSU additional employment limitations.

d. The amount requested and paid to the employee is equal to the percentage of effort and corresponding dollar amount calculated on the forms.

e. Information is accurately reflected on Faculty Payment Request forms and effort reports.
Campus Response

We concur.

The University Corporation will develop and implement a procedure that:

a. Requires all requests for faculty payment to clearly state the percentage of effort.

b. Requires requests for faculty payments to clearly state the effort reporting period represented and does not allow request forms to cover multiple effort reporting periods.

c. Ensures that additional pay does not exceed CSU additional employment limits.

d. Ensures that the amount requested and paid to the employee is equal to the percentage of effort and corresponding dollar amount calculated on the forms.

e. Ensures that the information is accurately reflected on Faculty Payment Request forms and effort reports.

Implementation date: October 30, 2014

COST-SHARE EFFORT

Recommendation 3

We recommend that the campus, in conjunction with the Corporation, report cost-share effort on effort certifications in a timely manner.

Campus Response

We concur.

The University Corporation in conjunction with the campus will develop and implement a procedure that ensures that cost-share effort on effort certifications is reported in a timely manner.

Implementation date: October 30, 2014

COST SHARING

Recommendation 4

We recommend that the campus, in conjunction with the Corporation, follow all cost-sharing documentation policies.
Campus Response

We concur.

The campus, in conjunction with The University Corporation, will ensure that all cost-sharing documentation policies are followed.

Implementation date: October 30, 2014

SUB-RECIPIENT MONITORING

POLICIES AND PROCEDURES

Recommendation 5

We recommend that the campus, in conjunction with the Corporation, update the sub-recipient policies and procedures to:

a. Address a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

b. Fully address the procedures for monitoring sub-recipients.

Campus Response

We concur.

The University Corporation will update the Sub-recipient monitoring policies and procedures to:

a. Address the sub-recipient risk assessment.

b. Fully address the procedures for monitoring sub-recipients.

Implementation date: July 30, 2014

MONITORING

Recommendation 6

We recommend that the campus, in conjunction with the Corporation:

a. Execute sub-recipient award agreements in a timely manner.

b. Obtain A-133 certification forms in a timely manner.

c. Sign and date each sub-recipient's risk assessment prior to sub-award issuance.

d. Obtain explicit assurance that sub-recipients have appropriate conflict-of-interest policies for NSF and NIH awards.
Campus Response

We concur.

The campus, in conjunction with the University Corporation, will:

a. Ensure that sub-recipient award agreements are executed in a timely manner.
b. Ensure that all A-133 certification forms are obtained in a timely manner.
c. The campus will sign and date sub-recipient risk assessments prior to sub-award issuance.
d. The campus has implemented a sub-recipient commitment form that requires sub-awardees to provide assurance that they either have appropriate conflict-of-interest policies for NSF and NIH awards, or will follow our policies.

Implementation date: July 31, 2014

FISCAL ADMINISTRATION

COST TRANSFERS

Recommendation 7

We recommend that the campus, in conjunction with the Corporation, identify and process cost transfers in a timely manner, and properly document them.

Campus Response

We concur.

The University Corporation has implemented a policy that ensures the timely identification and processing, as well as the proper documentation, of cost transfers.

EXPENDITURES

Recommendation 8

We recommend that the campus, in conjunction with the Corporation:

a. Review and properly approve all hospitality expenses and cash advances.
b. Execute all purchase orders or agreements prior to the performance of services.

Campus Response

We concur.

The University Corporation re-trained its staff approving expenditures to ensure that all requests for expenses and advances will be properly approved. The University Corporation will notify all
Principal Investigators that purchase orders and agreements must be executed prior to the performance of the services.

Implementation date: July 30, 2014
March 19, 2014

MEMORANDUM

TO: Mr. Larry Mandel  
   Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White  
       Chancellor

SUBJECT: Draft Final Report 13-54 on Sponsored Programs — Post Award,  
         California State University, Northridge

In response to your memorandum of March 19, 2014, I accept the response as submitted with the draft final report on Sponsored Programs — Post Award, California State University, Northridge.

TPW/amd