SPONSORED PROGRAMS – POST AWARD

CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Audit Report 13-56
January 28, 2014

Members, Committee on Audit

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APPENDICES

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ABBREVIATIONS

Co-PI  Co-Principal Investigator
Corporation  University Corporation at Monterey Bay
CSU  California State University
EO  Executive Order
ICSUAM  Integrated California State University Administrative Manual
NIH  National Institutes of Health
NSF  National Science Foundation
OMB  Office of Management and Budget
OAAS  Office of Audit and Advisory Services
PA  Sponsored Programs – Post Award
PI  Principal Investigator
SPO  Sponsored Programs Office
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, Monterey Bay campus from October 14, 2013, through November 22, 2013, and audited the procedures in effect at that time.

In our opinion, the fiscal, operational, and administrative controls for PA activities in effect as of November 22, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

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 [6]

The University Corporation at Monterey Bay sponsored programs policies and procedures needed improvement. For example, the effort-reporting policy did not reflect current roles and responsibilities. Further, administration of conflict-of-interest statements needed improvement. For example, conflict-of-interest statements for National Science Foundation projects were not always updated annually.

SUB-RECIPIENT MONITORING [8]

Sub-recipient monitoring needed improvement. For example, risk assessments were not always completed prior to sub-award issuance, and sub-recipient awards were not always executed in a timely manner.
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 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

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.
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 November 22, 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

POLICIES AND PROCEDURES

The University Corporation at Monterey Bay (Corporation) sponsored programs policies and procedures needed improvement.

We found that:

- The effort-reporting policy was outdated and did not reflect current roles and responsibilities. Specifically, responsibilities assigned to the sponsored programs office (SPO) in the policy were currently being performed by the grants accounting office.

- The conflict-of-interest policy did not indicate who was responsible for ensuring that initial and updated conflict-of-interest disclosures were obtained in a timely manner.

Executive Order 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, states that each campus shall establish a written policy on the management of sponsored programs that incorporates the components outlined in this executive order and that is consistent with policies relating to risk management, environmental health and safety, conflicts of interest, research misconduct and other applicable CSU and campus policies. It further states that prior to acceptance, the recipient shall designate either the university or an auxiliary to administer the contract or grant, and this entity will be known as the sponsored program administrator.

Integrated California State University Administrative Manual (ICSUAM) §11000.003.006 states that the campus president or designee must ensure that the campus has an effort-reporting policy that defines roles and responsibilities of various offices and individuals at the campus.

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

The grants manager stated that the SPO delegated responsibility for effort reporting to the grants accounting office in spring 2010, but the effort-reporting policy was not updated due to oversight. The SPO director stated that SPO assisted human resources in following up on past-due conflict-of-interest disclosures; however, this was not formally documented in the conflict-of-interest policy.

Incomplete or outdated policies increase the risk of noncompliance with California State University (CSU) and governmental requirements.
Recommendation 1

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

a. Update the effort-reporting policy to reflect current roles and responsibilities.

b. Update the conflict-of-interest policy to indicate who is responsible for ensuring that initial and updated conflict-of-interest disclosures are obtained in a timely manner.

Campus Response

We concur.

a. The Corporation’s effort reporting policy will be updated to reflect current roles and responsibilities.

b. The Corporation’s conflict of interest policy will be updated to indicate who is responsible for ensuring that initial and updated conflict-of-interest disclosures are obtained in a timely manner.

This will be completed by July 1, 2014.

CONFLICT OF INTEREST

Administration of conflict-of-interest statements needed improvement.

We reviewed ten contracts and grants and found that:

- For two of the three multiyear National Science Foundation (NSF) projects we reviewed, conflict-of-interest statements were not updated annually.

- For one of the four non-governmental projects we reviewed, the campus did not maintain documentation showing that a reported conflict of interest was reviewed and resolved. Further, the conflict-of-interest disclosure form was completed after the award start date.

NSF Award and Administration Guide states that each grantee institution must ensure that investigators have provided all required financial disclosures at the time the proposal is submitted to NSF, and that those financial disclosures are updated during the period of the award, either on an annual basis, or as new reportable significant financial interests are obtained.

Corporation Conflict of Interest Policy for External Funding states that investigators shall disclose 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.

Coded memorandum Human Resources 2005-38, Conflict of Interest Update – Principal Investigators, dated August 30, 2005, states that an individual is required to report financial interests on a Form 700-U if he or she has principal responsibility for a research project funded or supported,
in whole or in part, by a contract or grant from a nongovernmental entity (unless on FPPC’s approved list). The initial statement must be submitted to the conflict-of-interest filing officer before final acceptance of a contract, grant, or gift. It also states that when disclosure indicates that a financial interest exists, an independent substantive review of the disclosure statement and research project shall take place with appropriate documentation before a contract, grant, or gift is accepted.

The SPO director stated that the InfoEd notification system sent PIs reminders when deliverables, including annual updated conflict-of-interest disclosures, were due. She further stated that SPO also met with the department chairs and deans to address past due deliverables; however, follow-up did not always occur on a timely basis. The associate director of academic personnel and director of staff and faculty recruitment stated that the 700-U form was not completed in a timely manner and the disclosed conflict-of-interest issue was not reviewed and resolved due to oversight.

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

**Recommendation 2**

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

a. Obtain annual updated conflict-of-interest forms for all multiyear NSF projects.

b. Document review and resolution of reported conflicts of interest, and complete conflict-of-interest forms prior to acceptance of non-governmental contracts and grants.

**Campus Response**

We concur.

a. Annual updated conflict-of-interest forms for all multiyear NSF projects will be obtained. This will be completed by July 15, 2014, and annually thereafter, as needed.

b. The Corporation’s conflict-of-interest policy will be updated to indicate that the review and resolution of reporting conflicts of interest must be documented and that conflict-of-interest forms must be completed prior to the acceptance of non-governmental contracts and grants. This will be completed by July 15, 2014.

**SUB-RECIPIENT MONITORING**

Sub-recipient monitoring needed improvement.

We reviewed seven sub-recipient awards and found that:

- One risk assessment was not completed prior to sub-award issuance.
Three sub-recipient awards were not executed in a timely manner.

Evaluation of findings noted in sub-recipients’ A-133 audit reports was not documented. Specifically, there was no evidence showing that significant deficiencies noted in two A-133 audit reports were evaluated, nor whether any follow-up or corrective actions were deemed 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 sponsors’ 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 Office of Management and Budget (OMB) Circular A-133, applicable standards of other sponsors, CSU regulations, and campus 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 also states that a sub-recipient’s compliance should be monitored using such techniques as issuing timely management decisions for audit and monitoring findings to inform the sub-recipient whether the corrective action planned is acceptable, and maintaining a system to track and follow up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken.

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 sub-recipients be monitored and sub-award agreements be executed in a timely manner.

The SPO director stated that the sub-recipients had a short window to complete their work, so they began before the sub-award agreements were executed, and, in one case, before the risk assessment was complete. She also stated that SPO communicated to sub-recipients that any work performed before execution of a sub-award agreement was at the sub-recipients’ own risk. Additionally, she stated that the Corporation did not send payments to these sub-recipients until after the agreements were executed. The controller stated that the applicability and potential impact of any A-133 findings were considered during her review but were not documented.

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 campus, Corporation, and CSU to potential liability.
Recommendation 3

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

a. Complete all sub-recipient risk assessments prior to sub-award issuance.
b. Execute all sub-recipient award agreements in a timely manner.
c. Document evaluation of findings noted in sub-recipients’ A-133 audit reports.

Campus Response

We concur.

a. The Corporation will review its existing policies and procedures and will communicate with all applicable parties the importance of following those policies and procedures to ensure that all sub-recipient risk assessments are completed prior to sub-award issuance.

b. The Corporation will review its existing policies and procedures and will communicate with all applicable parties the importance of following those policies and procedures to ensure that all sub-recipient award agreements are executed in a timely manner.

c. The Corporation will develop a written procedure to ensure that the evaluation of findings noted in sub-recipients’ A-133 audit reports is documented.

This will be completed by July 15, 2014.
APPENDIX A:  
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Eduardo M. Ochoa</td>
<td>President</td>
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<tr>
<td>Nancy Ayala</td>
<td>Governance and Compliance Manager</td>
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<tr>
<td>Sherry Baggett</td>
<td>Controller</td>
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<tr>
<td>John Fitzgibbon</td>
<td>Associate Vice President of Finance</td>
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<tr>
<td>Maria Garcia</td>
<td>Director of Operations</td>
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<tr>
<td>Gehane Kiama</td>
<td>Human Resources Manager, University Corporation at Monterey Bay</td>
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<tr>
<td>Cindy Lopez</td>
<td>Sponsored Programs Office Director</td>
</tr>
<tr>
<td>Judy Pohlman</td>
<td>Grants Manager</td>
</tr>
<tr>
<td>Kevin Saunders</td>
<td>Vice President of Administration and Finance</td>
</tr>
<tr>
<td>Kathleen Sherman</td>
<td>Associate Director of Academic Personnel and Director of Staff and Faculty Recruitment</td>
</tr>
</tbody>
</table>
28 February 2014

Larry Mandel, University Auditor
California State University
Office of the University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

RE: Response to Sponsored Programs – Post Award Audit Report
California State University, Monterey Bay – Report Number 13-56

In accordance with the policies and procedures for the Office of the University Auditor, enclosed please find the response to recommendations one through three of audit number 13-56, Sponsored Programs – Post Award at California State University, Monterey Bay.

Your audit has provided the campus and the University Corporation at Monterey Bay with valuable management information that we will use to institute changes and improvements in our campus operations. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. The campus and the University Corporation at Monterey Bay are committed to addressing and resolving the issues identified in the audit report.

Questions regarding the responses may be directed to Maria A.Y. Gracia at (831) 582-5027 or margarcia@csumb.edu.

Sincerely,

Kevin R. Saunders
Vice President for Administration and Finance

Enclosure

Cc (with encl.):
Eduardo M. Ochoa, Ph.D., CSUMB President
Kevin R. Saunders, University Corporation Executive Director
Maria A.Y. Garcia, Director of Operations for Auxiliary Corporations
Sherry L. Baggett, University Corporation Controller
Cindy Lopez, Sponsored Programs Director
GENERAL ENVIRONMENT

POLICIES AND PROCEDURES

Recommendation 1

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

a. Update the effort-reporting policy to reflect current roles and responsibilities.

b. Update the conflict-of-interest policy to indicate who is responsible for ensuring that initial and updated conflict-of-interest disclosures are obtained in a timely manner.

Campus Response

We concur.

a. The Corporation’s effort reporting policy will be updated to reflect current roles and responsibilities. This will be completed by July 1, 2014.

b. The Corporation’s conflict of interest policy will be updated to indicate who is responsible for insuring that initial and updated conflict-of-interest disclosures are obtained in a timely manner. This will be completed by July 1, 2014.

CONFLICT OF INTEREST

Recommendation 2

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

a. Obtain annual updated conflict-of-interest forms for all multiyear NSF projects.

b. Document review and resolution of reported conflicts of interest, and complete conflict-of-interest forms prior to acceptance of non-governmental contracts and grants.
Campus Response

We concur.

a. Annual updated conflict-of-interest forms for all multiyear NSF projects will be obtained. This will be completed by July 15, 2014 and annually thereafter, as needed.

b. The Corporation’s conflict of interest policy will be updated to indicate that the review and resolution of reporting conflicts of interest must be documented and that conflict of interest forms must be completed prior to the acceptance of non-governmental contracts and grants. This will be completed by July 15, 2014.

SUB-RECIPIENT MONITORING

Recommendation 3

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

a. Complete all sub-recipient risk assessment prior to sub-award issuance.
b. Execute all sub-recipient award agreements in a timely manner.
c. Document evaluation of findings noted in sub-recipients’ A-133 audit reports.

Campus Response

We concur.

a. The Corporation will review its existing policies and procedures and will communicate with all applicable parties the importance of following those policies and procedures to ensure that all sub-recipient risk assessments are completed prior to sub-award issuance. This will be completed by July 15, 2014.

b. The Corporation will review its existing policies and procedures and will communicate with all applicable parties the importance of following those policies and procedures to ensure that all sub-recipient award agreements are executed in a timely manner. This will be completed by July 15, 2014.

c. The Corporation will develop a written procedure to ensure that the evaluation of findings noted in sub-recipients’ A-133 audit reports is documented. This will be completed by July 15, 2014.
March 19, 2014

MEMORANDUM

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

FROM: Timothy P. White
Chancellor

SUBJECT: Draft Final Report 13-56 on Sponsored Programs – Post Award, California State University, Monterey Bay

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, Monterey Bay.

TPW/amd