SPONSORED PROGRAMS – POST AWARD
CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA

Audit Report 14-44
September 17, 2014

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ABBREVIATIONS

CSU California State University
EO Executive Order
Foundation Cal Poly Pomona Foundation, Inc.
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
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 (BOT), at its January 2013 meeting, directed that Sponsored Programs – Post Award (PA) be reviewed. Based on the results of the first cycle of these reviews and the systemwide risk assessment conducted by the OAAS in the last quarter of 2013, the BOT directed at its January 2014 meeting that the OAAS continue these reviews. The OAAS had also previously reviewed Post Award in the triennial audits of Auxiliary Organizations.

We visited the California State Polytechnic University, Pomona campus from June 23, 2014, through July 17, 2014, 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 July 17, 2014, 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 conflict-of-interest policy and procedures did not address monitoring for completion of conflict-of-interest forms and ethics training.

EFFORT REPORTING [7]

The Cal Poly Pomona Foundation, Inc. (Foundation) timekeeping system used to certify effort for employees working on contracts and grants permitted employees to be paid without management or supervisor approval. Also, the effort-certification process needed improvement. For example, one effort report was not completed for effort compensated, and one Foundation employee charged time to a grant outside of the period authorized by the grant.
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 2013. 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 2013, and the NSF Award and Administration Guide, last revised in February 2014, 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, on December 26, 2013, the OMB published a unified Omni Circular, which consolidates the three circulars mentioned above and five others into one document that supersedes the separate circulars with the intent of streamlining federal requirements for all types of recipients of federal grants and contracts, and of increasing the efficiency and effectiveness of the federal award process. Federal agencies have six months to provide their implementation plans to OMB, and colleges and universities will have until December 26, 2014, to comply with the new rules.

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.
INTRODUCTION

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 Audit Agenda Item 4 of the January 28 and 29, 2014, 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, 2012, through July 17, 2014.

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

The conflict-of-interest policy and procedures did not address monitoring for completion of conflict-of-interest forms and ethics training.

We reviewed the campus tracking log and 14 contracts and grants, and we found that:

- Several principal investigators (PI) on non-governmental contracts and grants had not completed a conflict-of-interest form and ethics training as required.

- The campus did not always obtain conflict-of-interest forms from PIs as required by California State University (CSU) policy. Specifically, one PI on a non-governmental grant did not complete an initial conflict-of-interest form, and one PI on a non-governmental grant did not complete a project completion conflict-of-interest form after the expiration of the award.

Coded memorandum Human Resources 2005-38, Conflict of Interest Update – Principal Investigators, dated August 20, 2005, states that roles and responsibilities related to conflict of interest include developing policies and guidelines regarding financial disclosure and conflicts of interest, including the Political Reform Act, and developing procedural guidelines to be followed in the management of conflict of interest for nongovernmental contracts or grants. The coded memorandum also 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. The initial statement must be submitted to the conflict-of-interest filing officer before final acceptance of a contract, grant, or gift. PIs must also complete ethics training within six months of receiving the grant. Additionally, PIs are required to file a project completion statement within 90 days after project completion.

The director of research and sponsored programs stated that there was a change of PI on a project and the new PI did not complete an initial conflict-of-interest form due to oversight. In addition, the associate vice president of finance and administrative services stated that several PIs had not completed a conflict-of-interest form and ethics training because procedures were not well-defined when responsibility for monitoring them was delegated.

Inadequate administration of conflict-of-interest forms and training of PIs increases the risk of non-compliance with federal, state, and CSU requirements and could lead to regulatory scrutiny, and also increases the risk that errors, inconsistencies, or misunderstandings may occur.

Recommendation 1

We recommend that the campus update the conflict-of-interest policy and procedures to address monitoring for completion of conflict-of-interest forms and ethics training.
Campus Response

We concur. The campus will update the conflict-of-interest policy and procedures to address monitoring for completion of conflict-of-interest forms and ethics training.

Timeline: March 31, 2015

EFFORT REPORTING

TIMECARDS

The Cal Poly Pomona Foundation, Inc. (Foundation) timekeeping system used to certify effort for employees working on contracts and grants permitted employees to be paid without management or supervisor approval.

We reviewed three Foundation employees who worked on contracts and grants, and we found that 21 of 22 biweekly timecards were not approved by a supervisor.

Executive Order 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 program administration. Sound fiscal management includes requiring employee timecards to be approved by the employee’s supervisor.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, Payroll, states that the auxiliary should establish a written system that ensures accurate and timely collection of payroll information such as timecards, effort reporting, attendance records, and funding sources.

Office of Management and Budget Circular (OMB) A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, §C, Parts 21 and 23, state, in part, 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 chief employment officer at the Foundation stated that employee timecards were not always approved because follow-up was not performed with employee managers or direct supervisors due to competing priorities in the department.

Inadequate review of timecards increases the risk that errors or fraud may occur and that effort expended will be inaccurately reported.
Recommendation 2

We recommend that the campus, in conjunction with the Foundation, revise the Foundation timekeeping system used to certify effort for employees working on contracts and grants to require management or supervisor approval prior to payment.

Campus Response

We concur. The campus will have the Foundation revise the Foundation timekeeping system used to certify effort for employees working on contracts and grants to require appropriate approval prior to payment.

Timeline: March 31, 2015

DOCUMENTATION

The effort-certification process needed improvement.

We reviewed effort report and supporting documents for nine PIs and found that:

- One effort report was not completed for effort compensated.
- One timecard used to certify effort for a Foundation employee who worked on a grant was not completed in a timely manner.
- One Foundation employee charged time to a grant outside of the period authorized by the grant and by the Foundation appointment form.

Integrated California State University Administrative Manual §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.

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.

Foundation Grants & Contracts: Cal State University Executive Order 890 Procedures Manual, dated June 2014, states that if a university faculty/staff member has been granted assigned time, the appointment authorization and effort certification form is completed within 60 days after the quarter.
ends. This form includes the amount of release time that is absorbed or the cost shared by the college. Regarding Foundation employees who certify effort through a biweekly timecard, the manual states that all Foundation employee hours (faculty/staff/student) must be logged into the Kronos Time Keeping System in a timely manner during the periods in which the hours were worked.

The Foundation manager of grants and contracts stated her belief that the extra quarter appointment form had all the information to document the effort and as a result, an effort form was not completed for a PI’s summer cost-share effort. The Foundation chief employment officer stated that a timecard was not completed in a timely manner and a Foundation employee was allowed to charge time to a grant outside the authorized period due to oversight.

Effort-reporting certifications that are not completed in a timely manner and time charged outside of the authorized period decrease assurance of the reliability of the effort-reporting systems and increase exposure to non-compliance with federal and agency requirements.

**Recommendation 3**

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

a. Complete effort reports for effort compensated.

b. Complete timecards used to certify effort in a timely manner.

c. Reiterate to Foundation employees that time can only be charged to contracts and grants within the period authorized by the grant and the employee appointment forms.

**Campus Response**

We concur. The campus will work with the Foundation:

a. To complete effort reports for effort compensated.

b. To complete timecards used to certify effort in a timely manner.

c. To reiterate to their employees that time can only be charged to contracts and grants within the period authorized by the grant and the employee appointment forms.

Timeline: December 31, 2014
### APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>J. Michael Ortiz</td>
<td>President</td>
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<tr>
<td>Leanne Branconier</td>
<td>Administrative Assistant, Budget Services</td>
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<tr>
<td>Brenda Burns</td>
<td>Associate Budget Analyst, Budget Services</td>
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<tr>
<td>Marten denBoer</td>
<td>Provost and Vice President for Academic Affairs</td>
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<tr>
<td>Frank Ewers</td>
<td>Associate Vice President, Office of Research</td>
</tr>
<tr>
<td>Steven N. Garcia</td>
<td>Vice President, Administrative Affairs and Chief Financial Officer</td>
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<tr>
<td>Darwin Labordo</td>
<td>Associate Vice President, Finance and Administrative Services</td>
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<tr>
<td>Mark Lopez</td>
<td>Director of Budget Services</td>
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<tr>
<td>Dennis Miller</td>
<td>Chief Employment Officer, Cal Poly Pomona</td>
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<td></td>
<td>Foundation, Inc. (Foundation)</td>
</tr>
<tr>
<td>David Prenovost</td>
<td>Chief Financial Officer, Foundation</td>
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<tr>
<td>Debbie Schroeder-Linthicum</td>
<td>Grants and Contracts Manager, Foundation</td>
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<tr>
<td>Vicki Stepp</td>
<td>Director, Office of Research and Sponsored Programs</td>
</tr>
<tr>
<td>Paul Storey</td>
<td>Executive Director, Foundation</td>
</tr>
</tbody>
</table>
October 6, 2014

Mr. Larry Mandel, Vice Chancellor and
Chief Audit Officer
The California State University
401 Golden Shore, Suite 210
Long Beach, CA 90802

Dear Mr. Mandel:

Subject: Campus Response to Recommendations of Sponsored Programs – Post Award Audit 14-44

Enclosed is California State Polytechnic’s campus response to the Sponsored Programs – Post Award Audit 14-44. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report’s recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services and Associate Chief Financial Officer at 909-869-2008 or dlabordo@csupomona.edu.

Sincerely,

Steven N. Garcia,
Vice President for Administrative Affairs and Chief Financial Officer

Cc: J. Michael Ortiz, President
Marten denBoer, Provost and Vice President, Academic Affairs
Frank Ewers, Associate Vice President for Research, Office of Research
Darwin Labordo, Associate Vice President, Finance & Administrative Services
David Prenovost, CFO, Foundation Financial Services, Cal Poly Foundation
Debbie Schroeder-Linthicum, Grants/Contracts Manager, Foundation Financial Services
Vicki Stepp, Director, Research & Sponsored Programs
G. Paul Storey, Executive Director, Cal Poly Foundation
Joice Xiong, University Auditor

Enclosure
SPONSORED PROGRAMS – POST AWARD

CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Audit Report 14-44

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus update the conflict-of-interest policy and procedures to address monitoring for completion of conflict-of-interest forms and ethics training.

Campus Response

We concur. The campus will update the conflict-of-interest policy and procedures to address monitoring for completion of conflict-of-interest forms and ethics training.

Timeline: March 31, 2015

EFFORT REPORTING

TIMECARDS

Recommendation 2

We recommend that the campus, in conjunction with the Foundation, revise the Foundation timekeeping system used to certify effort for employees working on contracts and grants to require management or supervisor approval prior to payment.

Campus Response

We concur. The campus will have the Foundation revise the Foundation timekeeping system used to certify effort for employees working on contracts and grants to require appropriate approval prior to payment.

Timeline: March 31, 2015

DOCUMENTATION

Recommendation 3

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

a. Complete effort reports for effort compensated.
b. Complete timecards used to certify effort in a timely manner.

c. Reiterate to Foundation employees that time can only be charged to contracts and grants within the period authorized by the grant and the employee appointment forms.

Campus Response

We concur. The campus will work with the Foundation:

a. To complete effort reports for effort compensated.

b. To complete timecards used to certify effort in a timely manner.

c. To reiterate to their employees that time can only be charged to contracts and grants within the period authorized by the grant and the employee appointment forms.

Timeline: December 31, 2014
October 13, 2014

MEMORANDUM

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

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 14-44 on Sponsored Programs – Post Award, California State Polytechnic University, Pomona

In response to your memorandum of October 13, 2014, I accept the response as submitted with the draft final report on Sponsored Programs – Post Award, California State Polytechnic University, Pomona.

TPW/amd