SPONSORED PROGRAMS – POST AWARD

SAN FRANCISCO STATE UNIVERSITY

Audit Report 14-46
October 21, 2014

Members, Committee on Audit

Lupe C. Garcia, Chair
Adam Day, Vice Chair
Rebecca D. Eisen   Steven M. Glazer
Hugo N. Morales

Staff

Vice Chancellor and Chief Audit Officer: Larry Mandel
Senior Director: Michelle Schlack
Senior Audit Manager: Wendee Shinsato
Senior Auditor: Erika Almaraz

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
CONTENTS

Executive Summary ...................................................................................................................................... 1

Introduction................................................................................................................................................... 2
  Background ............................................................................................................................................... 2
  Purpose ...................................................................................................................................................... 4
  Scope and Methodology ............................................................................................................................ 5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

General Environment .................................................................................................................................... 6
  Policies and Procedures ............................................................................................................................ 6
  Conflict of Interest ................................................................................................................................. 7

Effort Reporting .......................................................................................................................................... 8

Sub-recipient Monitoring ............................................................................................................................ 9
APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Campus Response
APPENDIX C: Chancellor’s Acceptance

ABBREVIATIONS

BOT  Board of Trustees
CSU  California State University
HR  Human Resources
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
ORSP  Office of Research and Sponsored Programs
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 San Francisco State University campus from August 4, 2014, through September 5, 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 September 5, 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 campus conflict-of-interest policy did not require principal investigators (PI) working on non-governmental awards to complete ethics training. Additionally, the campus did not always obtain and review initial and annual conflict-of-interest forms from PIs.

EFFORT REPORTING [8]

The effort-certification process needed improvement. For example, one effort report was not completed, and seven effort reports were not submitted in a timely manner.

SUB-RECIPIENT MONITORING [9]

The campus did not always perform risk assessments prior to sub-award issuance.
INTRODUCTION

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 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 September 5, 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.
GENERAL ENVIRONMENT

POLICIES AND PROCEDURES

The campus conflict-of-interest policy did not require PIs working on non-governmental awards to complete ethics training.

We reviewed five non-governmental awards and found that PIs did not complete ethics training for any of them.

Coded memorandum Human Resources (HR) 2005-38, Conflict of Interest Update – Principal Investigators, dated August 20, 2005, states that PIs are required to file a project completion statement within 90 days after expiration of the grant/contract, or after the funds have been completely expended in the case of a gift. The coded memorandum also states that PIs must complete ethics training within six months of receiving the grant. Subsequent training is required at least once during each consecutive period of two calendar years that the grant is in place. Additionally, the coded memorandum 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 conflict-of-interest filing officer and the director of the office of research and sponsored programs (ORSP) stated that due to lack of communication between the two departments, PIs who needed to complete the required ethics training were not identified, and therefore did not complete the training.

Incomplete policies increase the risk of noncompliance with CSU policy and governmental requirements.

Recommendation 1

We recommend that the campus update the conflict-of-interest policy to require ethics training for PIs working on non-governmental awards.

Campus Response

We concur. The ORSP director and conflict-of-interest officer have updated the campus conflict-of-interest policy to require ethics training for PIs working on non-governmental awards. PIs have been identified and contacted regarding this requirement.

Completion date: November 30, 2014
CONFLICT OF INTEREST

The campus did not always obtain and review initial and renewal conflict-of-interest forms from PIs.

We reviewed 14 contracts and grants and found that:

- One PI on a National Science Foundation (NSF) grant did not complete an initial conflict-of-interest form. In addition, one initial conflict-of-interest form for an NSF grant was not dated, and therefore we could not verify whether it was completed at the time of proposal.

- Two PIs on Public Health Service (PHS)-funded awards did not complete an initial conflict-of-interest form at the time of proposal. In addition, two PIs on PHS funded awards did not complete an annual conflict-of-interest renewal form for 2013.

- Three PIs on non-governmental contracts and grants did not complete an initial conflict-of-interest form. In addition, two PIs on non-governmental contracts and grants did not complete an initial conflict-of-interest form before final acceptance of the award.

- Two conflict-of-interest forms completed for NSF grants were not reviewed as required by campus policy. Also, one conflict-of-interest form completed for a PHS-funded award was reviewed after the award start date.

NSF Award and Administration Guide, Chapter IV (A-3), Conflict of Interest Policies, dated January 1, 2008, states that an institutional policy must ensure that investigators have provided all required financial disclosures at the time the proposal is submitted to NSF. It must also require 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. An organizational policy must designate one or more persons to review financial disclosures, determine whether a conflict of interest exists, and determine what conditions or restrictions, if any, should be imposed by the organization to manage, reduce, or eliminate such conflicts of interest.

Code of Federal Regulations 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. Additionally, investigators must submit an updated disclosure of significant financial interests at least annually, in accordance with the specific time period prescribed by the Institution, during the period of the award. The federal regulation also states that the Institution must review the disclosure of significant financial interests within 60 days to determine whether a financial conflict of interest exists.

Coded memorandum HR 2005-38, Conflict of Interest Update – Principal Investigators, dated August 20, 2005, states that PIs are required to file an initial conflict-of-interest disclosure statement before final 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 the gift funds are exhausted or the research project is completed. When disclosure indicates that a financial interest exists, an independent substantive review of the disclosure statement and research project shall take place.
San Francisco State University (SFSU) Financial Conflict of Interest (FCOI) Policy, dated February 2014, states that PIs are required to complete and submit FCOI forms at the time of proposal submission; annually during the period of the award; and within 30 days of discovering or acquiring a new FCOI. The policy also states that the associate vice president for research and sponsored programs, or designee, will review all FCOI disclosure forms submitted by PIs.

The director of ORSP stated that the initial and renewal conflict-of-interest forms were not always obtained and reviewed in a timely manner due to staff turnover in the department, which delayed follow-up procedures.

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

**Recommendation 2**

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

**Campus Response**

We concur. ORSP has identified and reviewed business processes for initial and renewal conflict-of-interest forms from PIs. ORSP has also held additional training with staff to ensure timeliness and review the procedures.

Completion date: August 19, 2014

**EFFORT REPORTING**

The effort-certification process needed improvement.

We reviewed effort reports and supporting documentation for nine PIs and found that:

- One effort report was not completed, and seven effort reports were not submitted in a timely manner.

- One effort report was not accurately completed, as it did not include all of the PI’s compensated activity for the reporting period.

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. 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. It further states that
at a minimum, the campus president or designee must ensure that effort certifications are completed each academic term, but not less frequently than twice annually.

SFSU Time and Effort Reporting Policy, dated June 2014, states that time and effort reports should be distributed approximately 45 days following each period and collected within 30 business days following distribution.

The director of ORSP stated that the effort reports were not certified and submitted in a timely manner due to staff turnover in the department, which delayed follow-up procedures. She also stated that one effort report was not accurately completed due to oversight.

Effort-reporting certifications that are not properly completed and prepared in a timely manner decrease assurance of the reliability of the effort-reporting system and increase exposure to non-compliance with federal regulations.

**Recommendation 3**

We recommend that the campus:

a. Complete effort reports for each reporting period, and submit effort reports in a timely manner.

b. Review effort reports to ensure that the effort has been certified for accuracy and captures all of the PI’s effort for the reporting period.

**Campus Response**

We concur.

a. ORSP has reviewed and improved internal business processes to ensure timely completion of time and effort reports.

   Completion date: August 25, 2014

b. Effort reports will be updated and checked for all of the PI’s effort for a reporting period. Our internal processes have been improved to capture an entire PI’s effort reported for a reporting period. Additional training has been provided to ORSP staff to review these processes.

   Completion date: September 9, 2014

**SUB-RECIPIENT MONITORING**

The campus did not always perform risk assessments prior to sub-award issuance.

Specifically, we reviewed eight sub-recipients and found that four risk assessments were not completed prior to sub-award issuance.
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 Circular A-133, applicable standards of other sponsors, CSU regulations, and campus policies.

SFSU *Subrecipient Monitoring Review Procedure*, dated May 2014, states that, prior to issuing an agreement, the grant support coordinator will complete a sub-recipient risk analysis form and will consult with the grant administrator or sponsored programs manager if there are any questions.

The director of ORSP stated that these risk assessments were not documented prior to sub-award issuance due to staff turnover and staff shortage.

Untimely risk assessments increase the risk that sub-recipients will not be adequately monitored and reimbursements will be reduced, and subject the campus and CSU to potential liability.

**Recommendation 4**

We recommend that the campus perform all risk assessments prior to sub-award issuance.

**Campus Response**

We concur. As part of the sub-award set-up process, ORSP has conducted training of grant administrators to ensure risk assessments will be conducted prior to sub-award issuance. A checklist has been created to assist staff in processing sub-award agreements.

Completion date: November 30, 2014
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leslie E. Wong</td>
<td>President</td>
</tr>
<tr>
<td>Bon Bitonio</td>
<td>Controller, Fiscal Affairs</td>
</tr>
<tr>
<td>Richard Chen</td>
<td>Associate Controller, Fiscal Affairs</td>
</tr>
<tr>
<td>Ronald Cortez</td>
<td>Vice President, Administration and Finance and Chief Financial Officer</td>
</tr>
<tr>
<td>Michelle Gagnon</td>
<td>Sponsored Programs Manager, Office of Research and Sponsored Programs (ORSP)</td>
</tr>
<tr>
<td>Bryan Kauffman</td>
<td>Conflict-of-Interest Filing Officer</td>
</tr>
<tr>
<td>Cathy Liu</td>
<td>Trust Accounting Supervisor, Fiscal Affairs</td>
</tr>
<tr>
<td>Ryan Mendoza</td>
<td>Internal Auditor</td>
</tr>
<tr>
<td>Alison Ng</td>
<td>Compliance Manager, ORSP</td>
</tr>
<tr>
<td>Jay Orendorff</td>
<td>Director, Administration and Finance</td>
</tr>
<tr>
<td>Maureen Pasag</td>
<td>Director, Audit and Advisory Services</td>
</tr>
<tr>
<td>Susan Pelton</td>
<td>Sponsored Programs Manager, ORSP</td>
</tr>
<tr>
<td>Alison Sanders</td>
<td>Director, ORSP</td>
</tr>
<tr>
<td>Jaylan Turkkan</td>
<td>Associate Vice President, ORSP</td>
</tr>
</tbody>
</table>
November 19, 2014

Larry Mandel
Vice Chancellor & Chief Audit Officer
The California State University
401 Golden Shore
Long Beach, California 90802-4275

Dear Larry:

We have reviewed Audit Report #14-46, Sponsored Programs-Post Award audit from your office and are providing our responses to the recommendations electronically as requested.

Questions regarding the responses should be directed to Ron S. Cortez, Vice President and CFO, Administration and Finance at (415) 338-2521 or to Gary Norton, Interim Director, Audit & Advisory Services at (415) 405-4185.

Sincerely,

[Signature]

Dr. Les Wong
President

RM/id

Attachment

cc: Ron S. Cortez, Vice President & CFO, Administration and Finance
    Alison Sanders, Director, ORSP
    Gary Norton, Interim Director, Audit & Advisory Services
    Ryan Mendoza, Internal Auditor
GENERAL ENVIRONMENT

POLICIES AND PROCEDURES

Recommendation 1

We recommend that the campus update the conflict-of-interest policy to require ethics training for PIs working on non-governmental awards.

Campus Response

We concur. The ORSP director and conflict-of-interest officer have updated the campus conflict-of-interest policy to require ethics training for PIs working on non-governmental awards. PIs have been identified and contacted regarding this requirement.

Completion Date: November 30, 2014

CONFLICT OF INTEREST

Recommendation 2

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

Campus Response

We concur. ORSP has identified and reviewed business processes for initial and renewal conflict-of-interest forms from PIs. ORSP has also held additional training with staff to ensure timeliness and review the procedures.

Completion Date: August 19, 2014

EFFORT REPORTING

Recommendation 3

We recommend that the campus:

a. Complete effort reports for each reporting period, and submit effort reports in a timely manner.
b. Review effort reports to ensure that the effort has been certified for accuracy and captures all of the PI’s effort for the reporting period.
Campus Response

We concur.

a. ORSP has reviewed and improved internal business processes to ensure timely completion of time and effort reports.

Completion Date: August 25, 2014

b. Effort reports will be updated and checked for all of the PI’s effort for a reporting period. Our internal processes have been improved to capture an entire PI’s effort is reported for a reporting period. Additional training has been provided to ORSP staff to review these processes.

Completion Date: September 9, 2014

SUB-RECIPIENT MONITORING

Recommendation 4

We recommend that the campus perform all risk assessments prior to sub-award issuance.

Campus Response

a. We concur. As part of the sub-award set-up process, ORSP has conducted training of grant administrators to ensure risk assessments will be conducted prior to sub-award issuance. A checklist has been created to assist staff in processing sub-award agreements.

Completion Date: November 30, 2014
December 9, 2014

MEMORANDUM

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

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 14-46 on Sponsored Programs – Post Award, San Francisco State University

In response to your memorandum of December 9, 2014, I accept the response as submitted with the draft final report on Sponsored Programs – Post Award, San Francisco State University.

TPW/amd