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ABBREVIATIONS

BOT  Board of Trustees
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
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 University, Channel Islands campus from September 15, 2014, through October 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 October 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]

Campus policies and procedures relating to sponsored programs needed improvement. For example, policies and procedures had not been documented relating to the overall management of sponsored programs.
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 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 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.
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 October 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

Policies and procedures relating to sponsored programs needed improvement.

We found that:

- The campus did not have policies or procedures for the overall management of sponsored programs that defined the roles and responsibilities of the pre-award and post-award offices.

- The policy on cost sharing did not address the methods of valuing and recording non-cash match or the process of monitoring cost sharing throughout the life of the award.

- The sub-recipient monitoring policy did not address the type and extent of monitoring required for high-risk sub-recipients.

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 California State University (CSU) and campus policies. It further states that sound management and administration of sponsored programs requires coordination among organizationally separate units and individuals on the campus.

Integrated California State University Administrative Manual (ICSUAM) §11000.003.007, *Cost Sharing*, effective December 1, 2011, states that each campus shall establish and maintain procedures to properly monitor and document any committed cost sharing in compliance with applicable regulations and agreements.

ICSUAM §11000.002.005, *Subrecipient Monitoring*, effective December 1, 2011, states that each campus 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. It further states that campus procedures should provide consideration to high-risk sub-recipients as necessary.

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 senior research officer for research and sponsored programs stated that the lack of written policies and procedures for the overall management of sponsored programs was largely due to the
evolving structure of the sponsored programs operation on campus. He further stated that it has been a challenge to find time to codify sponsored programs’ operations, in part due to staffing reductions and a growing workload. He also stated that the campus policy on sub-recipient monitoring was guided by OMB circulars and policies from other CSU campuses and that the campus had not noted any document suggesting a need for a statement about high-risk sub-recipients. The interim university controller for financial services stated the failure to address methods of valuing and recording non-cash match in the policy was most likely due to staffing transitions. He further stated that although the campus has been monitoring cost sharing throughout the life of the award, the policy did not address this due to oversight.

Lack of or incomplete policies and procedures for sponsored programs increases the risk of misunderstandings related to sponsored programs administration and noncompliance with CSU and governmental requirements, and compromises accountability.

**Recommendation 1**

We recommend that the campus:

a. Develop policies and procedures for the overall management of sponsored programs that define the roles and responsibilities of the pre-award and post-award offices.

b. Update cost sharing policies to address methods of valuing and recording non-cash match and the process for monitoring cost sharing throughout the life of the award.

c. Update the sub-recipient monitoring policy to address the type and extent of monitoring required for high-risk sub-recipients.

**Campus Response**

We concur.

a. The senior research officer and associate vice president, financial services will develop policies and procedures for the overall management of sponsored programs that define the roles and responsibilities of the pre-award and post-award offices. A copy of the policy and procedure will be provided by June 2, 2015.

b. The senior research officer and associate vice president, financial services will update cost-sharing policies to address methods of valuing and recording non-cash match and the process for monitoring cost sharing throughout the life of the award. A copy of the updated policy will be provided by June 2, 2015.

c. The senior research officer will update the sub-recipient monitoring policy to address the type and extent of monitoring required for high-risk sub-recipients. A copy of the updated policy will be provided by June 2, 2015.
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Richard R. Rush</td>
<td>President</td>
</tr>
<tr>
<td>Stephanie Bracamontes</td>
<td>Associate Director, Special Projects</td>
</tr>
<tr>
<td>Leo Cervantes</td>
<td>Post-award Grant/Contract Administrator</td>
</tr>
<tr>
<td>Caroline Doll</td>
<td>Director, Special Projects</td>
</tr>
<tr>
<td>Missy Jarnagin</td>
<td>Associate Vice President, Financial Services</td>
</tr>
<tr>
<td>Tina Knight</td>
<td>Interim Director, Sponsored Programs</td>
</tr>
<tr>
<td>Jason Miller</td>
<td>Senior Research Officer, Research and Sponsored Programs</td>
</tr>
<tr>
<td>Godfrey Mubiru</td>
<td>Interim University Controller, Fiscal Services</td>
</tr>
<tr>
<td>Beatriz Ruettgers</td>
<td>Grants Analyst, Sponsored Programs</td>
</tr>
<tr>
<td>Ysabel Trinidad</td>
<td>Vice President, Business and Financial Affairs</td>
</tr>
</tbody>
</table>
January 15, 2015

Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4200

RE: Campus Responses to Recommendations: Audit Report 14-47 – Sponsored Programs Post Award Audit

Dear Mr. Mandel:

Enclosed please find CI’s responses to the recommendations found in Audit Report 14-47, Sponsored Programs Post Award Audit.

If there are questions or additional information is necessary, please contact Caroline Doll at (805) 437-3232.

Sincerely,

[Signature]

Ysabel Trinidad
Vice President of Business and Financial Affairs

cc: Richard Rush
SPONSORED PROGRAMS – POST AWARD

CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

Audit Report 14-47

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus:

a. Develop policies and procedures for the overall management of sponsored programs that define the roles and responsibilities of the pre-award and post-award offices.

b. Update cost sharing policies to address methods of valuing and recording non-cash match and the process for monitoring cost sharing throughout the life of the award.

c. Update the sub-recipient monitoring policy to address the type and extent of monitoring required for high-risk sub-recipients.

Campus Response

We concur.

a. The Senior Research Officer and AVP, Financial Services will develop policies and procedures for the overall management of sponsored programs that define the roles and responsibilities of the pre-award and post-award offices. A copy of the policy and procedure will be provided by June 2, 2015.

b. The Senior Research Officer and the AVP, Financial Services will update cost-sharing policies to address methods of valuing and recording non-cash match and the process for monitoring cost sharing throughout the life of the award. A copy of the updated policy will be provided by June 2, 2015.

c. The Senior Research Officer will update the sub-recipient monitoring policy to address the type and extent of monitoring required for high-risk sub-recipients. A copy of the updated policy will be provided by June 2, 2015.
February 12, 2014

MEMORANDUM

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

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 14-47 on Sponsored Programs – Post Award,
         California State University, Channel Islands

In response to your memorandum of February 12, 2014, I accept the response
as submitted with the draft final report on Sponsored Programs – Post Award,
California State University, Channel Islands.

TPW/amd