

Office of Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

February 6, 2018

Dr. Leroy M. Morishita, President
California State University, East Bay
25800 Carlos Bee Boulevard
Hayward, CA 94542

Dear Dr. Morishita:

Subject: Audit Report 17-82, Sponsored Programs – Post Award, California State University, East Bay

We have completed an audit of *Sponsored Programs – Post Award* as part of our 2017 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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SPONSORED PROGRAMS – POST AWARD

**California State University,
East Bay**

Audit Report 17-82
December 15, 2017

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to the post award administration of sponsored programs and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus and auxiliary organization procedures.

CONCLUSION

We found the control environment for some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for sponsored programs – post award as of October 19, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

The review noted repeat findings from the prior auxiliary organizations audit relating to effort reporting and subrecipient monitoring for federal awards and timely completion of conflict-of-interest statements and conflict-of-interest training for certain non-governmental awards. The review also identified opportunities for improvement in project close-out processes and the review and update of sponsored programs policies and procedures.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. EFFORT REPORTING

OBSERVATION

Campus effort-reporting policies and procedures needed improvement, and effort certifications were not always accurate.

We found that the campus effort-reporting policies and procedures did not:

- Define the roles and responsibilities of the various offices and individuals at the campus involved in the effort-reporting process. This is a repeat observation from the prior auxiliary organizations audit.
- Provide sufficient guidance on how to calculate effort reported in the effort certification form.
- Address how the campus would ensure that faculty members being paid entirely from federal grant funds would not exceed 100 percent time-base in accordance with the California State University (CSU) additional employment policy.
- Include a review process to ensure the accuracy of effort certifications and ensure that the level of effort reported was consistent with the employee's salary distribution, or that reasons for deviations were appropriately documented. As a result, in our review of effort certifications and supporting documentation for seven individuals, we found that effort was not accurately reported on effort certification forms in six instances. In five of these instances, certifications either did not capture all sources of effort during the reporting period, or did not reflect pay received over the entire time period. In the sixth instance, no effort certification was created for one principal investigator (PI) who had mandatory cost share effort.

In addition, faculty additional employment effort was not recorded using the CSU-designated job code.

Complete effort-reporting policies and procedures, accurate reporting, and maintenance of sufficient supporting documentation for effort reporting decrease the risk of noncompliance with CSU and governmental reporting requirements.

RECOMMENDATION

We recommend that the campus:

- a. Update its effort-reporting policies and procedures to address the areas noted above.
- b. Implement a process to review effort reports for accuracy and to make adjustments to salary distribution, as necessary, to be consistent with actual effort expended.

- c. Re-evaluate the job code used to process additional employment for work on sponsored programs to ensure compliance with systemwide human resources (HR) policies and procedures.
- d. Provide training to appropriate office of research and sponsored programs (ORSP) staff and PIs responsible for effort certifications on the revised effort-reporting policies and procedures, and on the specific issues noted above.

MANAGEMENT RESPONSE

We concur.

- a. The campus will update policies and procedures for effort reporting to outline: 1) roles and responsibilities, 2) guidance on how effort is calculated, 3) processes for ensuring that effort does not exceed allowable limits, and 4) guidance for reconciling actual effort against estimated effort. The campus will provide the updated policies and procedures to the Office of Audit and Advisory Services (OAAS) by June 15, 2018.
- b. The aforementioned policies and procedures will outline a process to define the threshold for when adjustments are needed (e.g., 5 percent). The policies and procedures will designate PIs with the responsibility for certifying effort and will establish a process for ORSP staff to review certifications.
- c. As part of converting to a semester calendar, the campus' academic affairs division and ORSP will collaborate to adopt the use of the CSU-designated job code. The campus will provide documentation to show implementation of the job code by June 15, 2018.
- d. ORSP will provide training to staff and to PIs at quarterly meetings. Documentation of this training will be provided to OAAS by June 15, 2018.

2. SUBRECIPIENT MONITORING

OBSERVATION

Administration of subrecipient monitoring needed improvement.

We reviewed nine federally funded subrecipient awards, and we found that:

- In two instances, risk assessments to identify key risks and determine the level of monitoring required were not performed. Additionally, in a separate instance, a risk assessment was completed, but a monitoring plan to address the identified risks was not developed.
- In two instances, the annual subrecipient monitoring record completed by the PI contained incorrect information, such as missing dates or monitoring dates outside of the monitoring period.

- The ORSP subrecipient monitoring policy was unclear regarding the specific subrecipient monitoring tools and documentation that were required. Specifically, it discussed both customized subrecipient monitoring plans developed by ORSP and a standard subrecipient monitoring form. These documents did not appear to relate to each other, and it was unclear when one or both of the documents was required to be completed.
- The ORSP subrecipient monitoring policy did not fully address the federal requirement to verify whether a subrecipient received an A-133 audit and to follow-up on any reported deficiencies. This is a repeat observation from the prior auxiliary organizations audit. ORSP had not always obtained and reviewed, when applicable, annual subrecipient A-133 audit reports for the multiyear subawards that we reviewed.

Sufficient administration and monitoring of subrecipients decreases the risk of noncompliance with federal requirements and possible regulatory scrutiny and protects the campus, auxiliary organizations, and CSU from potential liability.

RECOMMENDATION

We recommend that the campus:

- a. Perform timely risk assessments and develop monitoring plans to address identified medium and high risks for all federally funded subrecipients.
- b. Update the ORSP subrecipient monitoring policy to clarify the specific subrecipient monitoring tools and documentation required, and to address the process for obtaining and reviewing annual subrecipient A-133 audit reports.
- c. Provide refresher training to appropriate ORSP staff and PIs responsible for subrecipient monitoring processes on the revised policy and the issues noted above.

MANAGEMENT RESPONSE

We concur.

- a. The campus will develop a risk assessment tool for assessing risk of subrecipients and outline procedures for the timely use of the risk assessment tool to identify and monitor federally funded subrecipients with medium and high levels of risk.
- b. Subrecipient monitoring tools and required documentation, including subrecipients' annual financial audits, will be included in the aforementioned updated policies and procedures.
- c. ORSP will provide training to those employees and PIs responsible for subrecipient monitoring at quarterly meetings.

The campus will provide updated policies and procedures and documentation of training to OAAS by June 15, 2018.

3. CONFLICT OF INTEREST

OBSERVATION

Conflict-of-interest statements and ethics training were not always completed timely by PIs working on non-governmental sponsored projects.

We reviewed nine non-governmental sponsored projects and found that:

- For two awards, PIs did not complete the initial conflict-of-interest form timely. This is a repeat observation from the prior auxiliary organizations audit.
- For one award, the PI did not complete the interim conflict-of-interest form for grant renewal. This is a repeat observation from the prior auxiliary organizations audit.
- For four awards, PIs did not complete required ethics training. For one additional award, the PI did not complete ethics training timely. This is a repeat observation from the prior auxiliary organizations audit.

Adequate administration of conflict-of-interest forms and training decrease the risk of noncompliance with CSU requirements.

RECOMMENDATION

We recommend that the campus:

- a. Implement a documented process to timely obtain from PIs initial and interim conflict-of-interest forms for non-governmental sponsored projects.
- b. Implement a documented process to timely identify PIs who are required to complete ethics training, set up the PI in the training system, and monitor completion of the training.

MANAGEMENT RESPONSE

We concur.

- a. ORSP will develop a documented process for identifying the filing status of PIs required to submit initial and interim conflict-of-interest forms, and for ensuring the timely submission of the forms.
- b. ORSP will develop a documented process for identifying the status of PIs required to complete ethics training, and for ensuring the timely completion of the training.

The campus will provide documented processes to OAAS by June 15, 2018.

4. POLICIES AND PROCEDURES

OBSERVATION

Policies and procedures relating to sponsored programs needed improvement.

We found that:

- The campus policies and procedures did not outline the roles and responsibilities of the pre-award and post-award offices, in accordance with systemwide requirements. Additionally, the memorandum of understanding between the California State University, East Bay Foundation (Foundation) and the campus relating to post-award administration responsibilities was outdated and did not reflect current sponsored programs responsibilities.
- The *PI Grant Manual* and *Quick Access: Processes and Procedures* did not always reflect current campus practices.

Complete and up-to-date policies and procedures decrease the risks of noncompliance with CSU and governmental requirements and increase accountability.

RECOMMENDATION

We recommend that the campus:

- a. Update sponsored programs policies and procedures to define the roles and responsibilities of the pre-award and post-award offices.
- b. Update the memorandum of understanding between the Foundation and the campus relating to post-award administration responsibilities.
- c. Review and update the *PI Grant Manual* and *Quick Access: Processes and Procedures* documents to reflect current campus practices.

MANAGEMENT RESPONSE

We concur.

- a. ORSP will update its policies and procedures to define the pre- and post-award roles and responsibilities. The campus will provide updated policies and procedures to OAAS by June 15, 2018.
- b. Management will update the MOU between the Foundation and the university. A copy of the updated MOU will be provided to OAAS by May 15, 2018.
- c. Reference materials, including those for PIs (i.e., the *PI Grant Manual*), will align with updated policies and procedures that will reflect current campus practices. The campus will provide the updated policies and procedures to OAAS by June 15, 2018.

5. PROJECT CLOSE-OUT

OBSERVATION

Close-out processes for sponsored projects were not always completed timely in accordance with campus policies and procedures.

Specifically, we reviewed five federally funded projects that ended between June 30, 2016, and April 6, 2017, and found that for all five projects, either close-out checklists were not completed or were not completed timely, or projects were not timely deactivated in the campus financial management system.

Adequate administration of grants decreases the risk of non-compliance with relevant requirements and the likelihood of exposure to penalties and disallowances for non-compliance with grant terms.

RECOMMENDATION

We recommend that the campus remind appropriate ORSP staff of project close-out requirements.

MANAGEMENT RESPONSE

We concur. ORSP will provide a written reminder to staff responsible for project close-out requirements. The campus will provide documentation of the reminder to OAAS by June 15, 2018.

GENERAL INFORMATION

BACKGROUND

Sponsored programs include all work performed under grants or contracts funded by external 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.

Post-award administration may be performed by 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 post-award activities of sponsored programs on the state side. The other 18 CSU campuses manage post-award administration through auxiliary organizations.

Federal grants and contracts are governed by the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), issued by the Office of Management and Budget (OMB). The Uniform Guidance, effective December 26, 2014, establishes standards for financial and program management and requires external audits to be performed on non-federal entities with \$750,000 or more of federal award expenditures during the fiscal year. The Uniform Guidance is the culmination of a three-year collaborative effort across federal agencies, which streamlined eight federal regulations into a single, comprehensive policy guide to standardize requirements and reduce administrative burden.

Sponsoring agencies may impose additional requirements on federal awards. Two of the largest sponsoring agencies are the National Institutes of Health (NIH) and the National Science Foundation (NSF). The NIH Grants Policy Statement, last revised in November 2016, and the NSF Proposal and Award Policies and Procedures Guide, last revised in January 2017, delineate policy requirements for the administration of projects funded by these agencies.

Within the CSU, the chancellor's office Sponsored Programs Administration department provides systemwide support related to the administration of research and sponsored programs, including developing systemwide policies, providing training, analyzing legislation, and providing general guidance to campuses and auxiliaries engaged in externally funded projects. A number of systemwide collaborative groups have been formed to support sponsored programs within the CSU, including the Council of Chief Resource Officers and the Research Administration Committee. Systemwide policies for sponsored programs administration are primarily contained within Integrated California State University Administrative Manual (ICSUAM) §11000, et seq.

At California State University, East Bay (CSUEB), the Foundation is the legal recipient of awards. Effective November 20, 2012, all post-award authorities and responsibilities formerly undertaken by the Foundation were transferred to the campus ORSP. Both pre- and post-award activities are administered by ORSP and the associate vice president for research and

sponsored programs oversees the administration of sponsored programs. In fiscal year 2015/16, CSUEB had \$11.34 million in expenditures related to federal sponsored programs.

SCOPE

We visited the CSUEB campus from September 18, 2017, through October 19, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative, financial, and operational controls are in place and operative. The audit focused on procedures in effect from January 1, 2015, through October 19, 2017.

Specifically, we reviewed and tested:

- Post award administration and organization, including clear lines of organizational authority and responsibility, and current and comprehensive policies and procedures.
- Adherence to conflict-of-interest disclosure and ethics training requirements for non-governmental awards.
- Management of subrecipients, including the assessment and monitoring of sub-recipients in accordance with CSU, federal, and sponsor requirements.
- Fiscal administration, including the financial systems and controls in place to ensure that costs charged to sponsored programs are allowable, allocable, and reasonable, and that projects are closed out timely and in accordance with sponsor requirements.
- Processes to ensure that effort-reporting certifications encompass sponsored and all other activities, and are accurate, timely, and properly supported.

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.

Our testing and methodology, which was designed to provide a review of key administrative, financial, and operational controls, included interviews, walkthroughs, and detailed testing on certain aspects of sponsored programs post award administration. Based on recent changes in federal regulations, our review focused specifically on subrecipient monitoring and allowable costs and did not include all aspects of management of post award activities.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Code of Federal Regulations Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- ICSUAM §11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Program Activities*
- ICSUAM §11002.05, *Subrecipient Monitoring*
- ICSUAM §11003.05, *Allowable Costs*
- ICSUAM §11003.06, *Effort Reporting*
- ICSUAM §11010.02, *Financial Conflict of Interest*
- *CSU PI Quick Reference Guide*
- HR coded memorandum 2015-03, *Ethics Regulations and COI Code Training*
- HR coded memorandum 2015-05, *Principal Investigators – Nongovernmental*
- *NIH Grants Policy Statement*
- *NSF Proposal and Award Policies and Procedures Guide*
- *CSUEB Principal Investigator's Grant Manual*
- *CSUEB Quick Access: Processes & Procedures*
- *CSUEB Effort Reporting Policy*
- *CSUEB Subrecipient Monitoring Policy*

AUDIT TEAM

Assistant Vice Chancellor: Michael Caldera
Senior Audit Manager: Wendee Shinsato
Senior Auditor: Christina Chen
Internal Auditor: Laura Vazquez