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January 9, 2020

Dr. Jeffrey D. Armstrong, President  
California Polytechnic State University, San Luis Obispo  
1 Grand Avenue  
San Luis Obispo, CA 93407

Dear Dr. Armstrong:

**Subject: Audit Report 19-70, *Sponsored Programs*,  
California Polytechnic State University, San Luis Obispo**

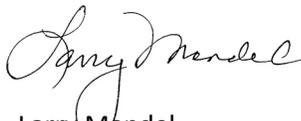
We have completed an audit of *Sponsored Programs* as part of our 2019 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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 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**

**California Polytechnic State University,  
San Luis Obispo**

Audit Report 19-70  
December 4, 2019

## EXECUTIVE SUMMARY

### OBJECTIVE

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

### CONCLUSION

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 as of October 4, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on sponsored programs administration. However, the review did identify opportunities for improvement in some areas, such as monitoring for responsible conduct of research and animal-subject research training, conflict-of-interest administration, additional employment determination, and policies and procedures relating to the overall management of sponsored programs.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CONFLICT OF INTEREST

#### OBSERVATION

Conflict-of-interest (COI) administration for sponsored programs needed improvement.

We reviewed campus COI policies and procedures, as well as COI documentation for ten sponsored projects, and found that:

- The campus *Policy on Conflict of Interest in Externally Funded Research* was last updated in 2004 and did not fully address National Science Foundation (NSF) requirements. In addition, it did not address ethics training requirements for non-governmental awards.
- For two projects funded by Public Health Services (PHS), principal investigators (PI) and key personnel did not always complete COI renewal forms.
- For three of the five non-governmental projects we reviewed, investigators and key personnel either did not complete California State University (CSU) ethics training, or completed the training late.

Complete and up-to-date policies and procedures and adequate administration of COI statements and related training decrease the risk of noncompliance with governmental requirements and possible regulatory scrutiny.

#### RECOMMENDATION

We recommend that the campus:

- a. Update COI policies and procedures to address the issues noted above, and communicate the updates to appropriate PIs, pre-award staff, and post-award staff involved in the COI certification and training processes.
- b. Implement a documented process to obtain and track COI renewal forms from PIs and monitor ethics training.
- c. Require PIs and key personnel to complete COI renewal forms or ethics training for the two active PHS-funded awards and the one active non-governmental award noted above.

#### MANAGEMENT RESPONSE

We concur.

- a. We will update COI policies and procedures to address the issues noted in the report and communicate the updates to appropriate PIs, pre-award staff, and post-award staff involved in the COI certification and training processes.

- b. We will implement a documented process to obtain and track COI renewal forms from PIs and monitor ethics training.
- c. We will require PIs and key personnel to complete COI renewal forms or ethics training for the two active PHS-funded awards and the one active non-governmental award noted in the report.

Anticipated implementation date: June 4, 2020

## 2. RESPONSIBLE CONDUCT OF RESEARCH

### OBSERVATION

The process to identify individuals required to complete responsible conduct of research (RCR) training needed improvement.

In January 2018, the sponsored programs office (SPO), in conjunction with information technology (IT) and Cal Poly Corporation (Corporation) human resources, developed a monthly query based on organization key and object code, to identify faculty, staff and students required to complete RCR training.

Based on audit inquiry, SPO found eight faculty and staff members on United States Department of Agriculture (USDA) projects that were not identified by the monthly query because the query did not encompass all necessary object codes.

Additionally, ten students on USDA and NSF projects were not assigned to complete RCR training because existing student workers were assigned to new projects and the new-hire process, part of which involves a review for training requirements, was not initiated. As a result, none of these individuals had taken RCR training.

Appropriate oversight administration of RCR training helps to ensure that PIs and students follow established policies and procedures and reduces the campus' exposure to risk related to noncompliance with federal regulations.

### RECOMMENDATION

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

- a. Review and update the existing process to identify individuals required to complete RCR training.
- b. Communicate the updates to appropriate PIs, SPO staff, and Corporation staff involved in the RCR training processes.
- c. Require faculty and staff to complete RCR training for the active USDA projects noted above.

**MANAGEMENT RESPONSE**

We concur.

- a. We will review and update the existing process to identify individuals required to complete RCR training.
- b. We will communicate the updates to appropriate PIs, SPO staff, and Corporation staff involved in the RCR training processes.
- c. We will require faculty and staff to complete RCR training for the active USDA projects noted in the report.

Anticipated implementation date: June 4, 2020

**3. ANIMAL RESEARCH TRAINING**

**OBSERVATION**

PIs and researchers who conducted animal-subject research did not always complete required training.

The campus *Protocol for Animal Use and Care* requires all researchers, including faculty, students, and staff conducting animal-subject research, to complete online animal protection training. This training must remain current throughout the animal-subject research.

We reviewed 10 researchers from four projects involving animal-subject research and found that:

- In one instance, the PI completed the required training after the animal-subject research has started.
- In four instances, researchers identified in the project roster did not complete the training.
- In one instance, the PI's training expired during the animal-subject research.

Effective administration of animal-subject protection training helps to ensure compliance with federal regulations and sponsor requirements and reduces the risks and potential liability to the campus.

**RECOMMENDATION**

We recommend that the campus:

- a. Develop a process to monitor animal-subject protection training for all PIs and researchers who conduct animal-subject research, and ensure that the training remains current throughout the research.

- b. Require the PIs and researchers noted above to complete animal-subject protection training for awards that are currently active.

**MANAGEMENT RESPONSE**

We concur.

- a. We will develop a process to monitor animal-subject protection training for all PIs and researchers who conduct animal-subject research, and ensure that the training remains current throughout the research.
- b. We will require the PIs and researchers noted in the report to complete animal-subject protection training for awards that are currently active.

Anticipated implementation date: June 4, 2020

**4. ADDITIONAL EMPLOYMENT DETERMINATION**

**OBSERVATION**

The campus tracking and review process for additional employment needed improvement.

We found that the campus did not have documented policies and procedures for prior approval and monitoring of additional employment in accordance with the CSU additional employment policy. Additionally, the current review process for additional employment limitations was decentralized and did not take into account all types of additional employment appointments.

For example, although Corporation human resources performed a review for additional employment limitations when assigning employees to sponsored projects, this review did not take into account the employee’s budgeted hours for the new project or any campus additional employment appointments. The university academic personnel review of additional employment primarily focused on special consultant appointments and did not involve a review of other current and budgeted sources of campus and auxiliary employment. We reviewed five fall 2018 effort reports, and it appears that one faculty member may have exceeded the additional employment limitation of 25 percent.

Determination of the extent of an employee’s workload prior to appointment based on all sources of employment increases assurance of the reliability of effort-reporting systems and decreases exposure to noncompliance with CSU and federal regulations.

**RECOMMENDATION**

We recommend that the campus develop and implement a documented process to review the extent of an employee’s workload, including all sources of campus and auxiliary payments, prior to the appointment to any position.

**MANAGEMENT RESPONSE**

We concur. The campus will develop and implement a documented process to review the extent of an employee's workload, including all sources of campus and auxiliary payments, prior to the appointment to any position.

Anticipated implementation date: June 4, 2020

**5. POLICIES AND PROCEDURES**

**OBSERVATION**

The campus policy for sponsored programs, *Policy on the Administration of Sponsored Programs*, was put into effect on July 1, 2004, and did not fully reflect current practices.

For example, we noted that the Cal Poly Foundation, instead of the Corporation, was noted as the designated sponsored programs administrator, and the policy referenced superseded systemwide policy Executive Order 890, *Administration of Grants and Contracts in Support of Sponsored Programs*.

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

**RECOMMENDATION**

We recommend that the campus:

- a. Review and update the *Policy on the Administration of Sponsored Programs*, ensuring that it reflects current practices and addresses regulatory requirements.
- b. Communicate the updated policy to appropriate PIs and sponsored programs staff.

**MANAGEMENT RESPONSE**

We concur.

- a. We will review and update the *Policy on the Administration of Sponsored Programs*, ensuring that it reflects current practices and addresses regulatory requirements.
- b. We will communicate the updated policy to appropriate PIs and sponsored programs staff.

Anticipated implementation date: June 4, 2020

## 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.

As a condition of accepting sponsor funds, campuses must comply with a variety of award terms and conditions, as well as applicable state and federal regulations. Each campus may have one or several offices that provide oversight to ensure that sponsored program activities are conducted in compliance with relevant requirements.

In order to ensure the highest standards of research integrity, certification and training programs are essential. Major areas covered by these programs include:

- Conflicts of interest – Disclosing and managing situations in which financial or other personal considerations may compromise, or have the appearance of compromising, a researcher’s professional judgment in conducting or reporting research. The National Institutes of Health (NIH), the NSF, and the state of California all have specific conflict-of-interest reporting and training requirements.
- Responsible conduct of research – Ensuring the awareness and application of established professional norms and ethical principles in the performance of all activities related to scientific research. NIH, NSF, and the National Institute of Food and Agriculture (NIFA) have specific requirements for RCR training.
- Human subjects – Protecting the rights and ensuring the safety of human subjects participating in research projects. The Department of Health and Human Services requires that a federal wide assurance with its Office for Human Research Protections be obtained. Additionally, NIH requires education on the protection of human research participants.
- Animal subjects – Protecting animal welfare and ensuring the humane care and use of live animals in research projects. The Animal Welfare Act (AWA) requires training to be provided to personnel involved in the care and treatment of certain research animals. Along with the AWA, the United States Public Health Service (PHS) requires facilities using live vertebrate animals in research to adhere to additional requirements, including the provision of a written animal welfare assurance of compliance.
- Suspension and Debarment: Ensuring that employees who have been suspended, debarred or charged with criminal activity are not allowed to administer federal funds on behalf of the university.

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 primarily 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.

Within the CSU, the CO Office of Research Initiatives and Partnerships contributes systemwide support and promotion for CSU research, scholarship, and creative activities. In addition, the CO 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 ICSUAM §11000, et seq.

At California Polytechnic State University, San Luis Obispo (Cal Poly San Luis Obispo), the university office of research and economic development (ORED) and the Corporation share responsibility for the administration of sponsored programs. The ORED's responsibilities primarily relate to pre-award activities and include reviewing and submitting proposals to external funding agencies; ensuring that COI forms are timely completed and reviewed; tracking and monitoring required training related to COI, RCR, human-subject protection, and animal welfare; and performing suspension and debarment verification for PIs. Most post-award activities, including financial administration and reporting, expenditure processing and review, personnel administration, issuance of subaward and subrecipient monitoring, and cost sharing are administered by the sponsored programs office at the Corporation. In fiscal year 2017/18, Cal Poly San Luis Obispo had \$15.2 million in federal sponsored programs expenditures.

## SCOPE

We visited the Cal Poly San Luis Obispo campus from September 3, 2019, through October 4, 2019. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2017, through October 4, 2019.

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.
- Management of sub-recipients, 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.
- Processes to ensure that effort reporting certifications encompass sponsored and all other activities, and are accurate, timely, and properly supported.
- Processes to manage sponsored programs cost sharing in accordance with CSU, federal, and sponsor requirements.
- Administration of the proposal and indirect-cost rate approval process.
- Adherence to conflict-of-interest disclosure and training requirements.
- Maintenance of assurances for human and animal research.
- Compliance with human subject, animal welfare, and responsible conduct of research training requirements.
- Suspension and debarment review processes for principal investigators and other key personnel involved in federal sponsored projects.

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 operational, administrative and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of sponsored programs administration. Our review did not include all aspects of sponsored programs administration, such as institutional review boards and institutional animal care and use committees, or financial and programmatic reporting processes.

## CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus and auxiliary procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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 (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- CFR Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for which PHS Funding is Sought*
- America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science (COMPETES) Act, Section 7009
- Animal Welfare Act, Section 2.32
- Health Research Extension Act of 1985, Public Law 99-158, *Animals in Research*
- PHS *Policy on Humane Care and Use of Laboratory Animals*
- NIH *Grants Policy Statement*
- NIH Notice OD-00-039, *Required Education in the Protection of Human Research Participants*
- NIH Notice OD-10-019, *Update on the Requirement for Instruction in the Responsible Conduct of Research*
- NSF *Proposal and Award Policies and Procedures Guide*
- NIFA Research Terms and Conditions, Article 7
- ICSUAM §11000, *Sponsored Programs Administration*
- Human Resources (HR) coded memorandum 2015-05, *Principal Investigators - Nongovernmental*
- HR 2018-02, *Ethics Regulations and COI Code Training*
- CSU *PI Quick Reference Guide*
- Cal Poly San Luis Obispo *COI Procedures for Complying with PHS Regulations*
- Cal Poly San Luis Obispo *Policy on Conflict of Interest in Externally Funded Research*
- Cal Poly San Luis Obispo *Policy on the Administration of Sponsored Programs*
- Cal Poly San Luis Obispo *Protocol for Animal Use and Care*
- Cal Poly San Luis Obispo *Responsible Conduct of Research Guide*

## AUDIT TEAM

Director of Audit Analytics, Operations and Quality Assurance: Wendee Shinsato  
Senior Auditor: Christina Chen