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September 22, 2017

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840-0115

Dear Dr. Conoley:

**Subject: Audit Report 17-81, *Sponsored Programs – Post Award*,
California State University, Long Beach**

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,
Long Beach**

Audit Report 17-81
August 25, 2017

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of financial, operational, and administrative 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 the areas reviewed to be in need of some improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the financial, operational, and administrative controls for sponsored programs post award as of July 14, 2017, 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 note repeat findings from the prior auxiliary organizations audit relating to the timely completion of sub-recipient risk assessments and the completion of annual conflict-of-interest statements and financial conflict-of-interest training for certain federal awards. The review also identified opportunities for improvement in other sub-recipient monitoring practices, expenditure processing, and the review and update of policies and procedures.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. SUB-RECIPIENT MONITORING

OBSERVATION

Administration of sub-recipient monitoring needed improvement.

We reviewed nine federally funded sub-recipients, and we found that:

- In eight instances, risk assessments to identify key risks and determine the level of monitoring required were not performed until after the execution of the sub-recipient agreement. Additionally, in one separate instance, a risk assessment was not performed. This is a repeat observation from the prior auxiliary organizations audit.
- In eight instances, reviews of sub-recipient A-133 audit reports were not performed timely. These reviews were performed from 77 to 888 days after the execution of the sub-recipient agreement. Additionally, in one separate instance, where a sub-recipient was not subject to an A-133 audit, an Audit Certification and Financial Questionnaire was not completed as required by the Office of Research and Sponsored Programs (ORSP) *Sub-recipient Policy*.
- In all four instances where the sub-recipient award was funded by a Public Health Service (PHS) agency, sub-recipient agreements did not specify all required terms and conditions relating to conflict-of-interest reporting.
- In three instances, ORSP was unable to locate the sub-recipient commitment forms that are used to evaluate the sub-recipient and document certifications required by the sponsor.

We also found that ORSP policy did not address how appropriate additional monitoring requirements would be identified and incorporated into sub-recipient agreements for sub-recipients classified as medium- or high-risk. As a result, for the one medium-risk sub-recipient that we reviewed, ORSP had not identified or performed any additional monitoring activities.

Sufficient administration and monitoring of sub-recipients decreases the risk of noncompliance with federal requirements and possible regulatory scrutiny and protects the campus, auxiliary organizations, and California State University (CSU) from potential liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the California State University, Long Beach Research Foundation (Research Foundation):

- a. Update sub-recipient agreement templates to include all required PHS terms and conditions relating to conflict-of-interest reporting for those awards.

- b. Update the ORSP *Subrecipient Policy* to address the process to identify and carry out additional monitoring requirements for sub-recipients classified as medium- or high-risk.
- c. Provide refresher training to appropriate ORSP staff responsible for sub-recipient monitoring processes on the revised policy and the issues noted above.

MANAGEMENT RESPONSE

We concur.

- a. ORSP will work with the campus and the Research Foundation to develop a sub-recipient agreement template that meets the PHS conflict-of-interest policy requirements. The template will also include the identification of specific conflicts of interest and the necessary mitigations, therein.
- b. ORSP will update the *Subrecipient Policy*, along with its process, to address appropriate additional monitoring requirements for sub-recipients classified as medium- or high-risk. Additionally, sub-recipient commitment forms will become a required document prior to issuing a sub-recipient award in all cases. Updates to the policy will take into account the appropriate monitoring requirements at each stage of the award life cycle.
- c. To ensure that sub-recipient monitoring is timely and compliant, ORSP will train all pre- and post-award employees of policy and procedure updates. ORSP will also implement refresher training to ensure that ORSP staff are made aware of the revised policies and processes.

Estimated date of completion is January 31, 2018.

2. CONFLICT OF INTEREST

OBSERVATION

The campus did not always obtain renewal conflict-of-interest forms from principal investigators (PI) or ensure that PIs had completed of conflict-of-interest training, as required by federal regulations and ORSP policy.

We reviewed five awards funded by the National Science Foundation (NSF) and five awards funded by PHS agencies, and we found that:

- PIs did not complete renewal conflict of-interest statements on an annual basis for any of the awards. This is a repeat observation from the prior auxiliary organizations audit.
- For all five PHS-funded awards, PIs and key personnel did not complete financial conflict-of-interest training. This is a repeat observation from the prior auxiliary organizations audit.

Adequate administration of conflict-of-interest forms and training decreases the risk of noncompliance with federal requirements and possible regulatory scrutiny.

RECOMMENDATION

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

- a. Implement a process to obtain renewal conflict-of-interest forms from PIs.
- b. Enforce the requirement for PIs and key personnel working on PHS-funded awards to complete financial conflict-of-interest training.
- c. Require PIs and key personnel to complete conflict-of-interest training for the three active PHS-funded awards reviewed.

MANAGEMENT RESPONSE

We concur.

- a. The ORSP compliance team will implement a process that ensures that renewal conflict-of-interest forms are collected for all PIs and key personnel during the life cycle of active awards.
- b. ORSP will enforce the requirement for PIs and key personnel to complete mandatory financial conflict-of-interest (FCOI) training for PHS-funded research projects. Investigators must complete mandatory FCOI CITI training before engaging in research funded by PHS and must complete refresher training thereafter.
- c. ORSP will ensure that PIs and key personnel working on the three active PHS-funded awards complete the mandatory FCOI CITI training.

Estimated date of completion is December 29, 2017.

3. EXPENDITURE PROCESSING

OBSERVATION

Expenditures were not always processed in compliance with campus and CSU policy.

We reviewed 40 sponsored programs expenditures and found that:

- In two instances, petty cash expenditures exceeded the \$100 limit specified in the California State University, Long Beach (CSULB) *Petty Cash Policy*.
- In one instance, adequate documentation reconciling gift cards purchased to gift cards distributed could not be located.
- In one instance, a purchase was made that did not appear to benefit the grant, as the purchase was made six days before the grant's expiration.

We also found that policies and procedures regarding ORSP's review of expenditures before they are posted to the general ledger, including *Allocating Costs to Sponsored Awards*, *ORSP Transaction Compliance Review*, *Signature Authority on Grants and Contracts and Research Stimulation Funds*, and *Unallowable Expenses*, needed to be updated to reflect current campus practices.

Adequate processing and proper support of expenditures decreases the risk that unallowable costs will be incurred and funds will be misused.

RECOMMENDATION

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

- a. Remind PIs of campus and ORSP policies and procedures relating to sponsored program expenditures, emphasizing the areas discussed above.
- b. Provide refresher training to accounting, ORSP, Research Foundation, and other appropriate staff who process or review sponsored program expenditures, emphasizing the areas discussed above.
- c. Update policies and procedures regarding ORSP's review of expenditures to reflect current campus practices.

MANAGEMENT RESPONSE

We concur.

- a. ORSP will work with grant and contract administrators and PIs to review policies and procedures that affect grant purchases. ORSP will place a stronger emphasis on PI orientations and trainings to provide grant management information that includes, but is not limited to, the review of the petty cash policy, supporting documentation for expenditures, and the required documentation for gift cards and other incentives.
- b. ORSP will work with accounting and the Research Foundation to review policy and procedure updates, as well as provide refresher training to all new and existing staff who process or review grant-related expenditures.
- c. ORSP will update policies and procedures, including, but not limited to, *Allocating Costs to Sponsored Awards*, *ORSP Transaction Compliance Review*, *Signature Authority on Grants and Contracts and Research Stimulation Funds*, and *Unallowable Expenses*, to ensure that current practices regarding the review of expenditures are up to date and reflect current campus practices.

Estimated date of completion is January 31, 2018.

4. POLICIES AND PROCEDURES

OBSERVATION

ORSP policies and procedures relating to sponsored programs and the ORSP website had not been updated to reference or incorporate federal Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Specific policies reviewed that needed to be updated include the *Program Income Generated by Externally-Funded Sponsored Projects Policy*, *University and Foundation Policy on Use of Cost Sharing or Cost Matching in Externally Sponsored Projects*, *Administrative Costs Charging on Federal Grants Policy and Procedure*, and *Responsibilities and Qualifications of Principal Investigators Policy*.

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, in conjunction with the Research Foundation, review and update ORSP policies and procedures relating to sponsored programs and the ORSP website to reflect Uniform Guidance.

MANAGEMENT RESPONSE

We concur.

ORSP will work with the campus and the Research Foundation to update policies and procedures to ensure that current policies and practices are up to date and reflect the Uniform Guidance.

Estimated date of completion is January 31, 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 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 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 CSULB, the associate vice president of research and sponsored programs and the Research Foundation share responsibility for the administration of sponsored programs. Pre-award activities are administered by the ORSP. ORSP also oversees post-award programmatic and budgetary matters, including the issuance of subcontracts. Other post-award activities, including financial administration and reporting, expenditure processing and review, and personnel administration, are administered by the Research Foundation. In fiscal year 2015/16, CSULB had \$22.1 million in expenditures related to federal sponsored programs.

SCOPE

We visited the CSULB campus from June 19, 2017, through July 14, 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 July 14, 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 federal conflict-of-interest disclosure and training requirements.
- 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, and that sponsors are only invoiced for appropriate costs.
- Processes to administer program income in accordance with sponsor requirements and federal regulations.

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 sub-recipient monitoring and allowable costs and did not include all aspects of management of post award activities, such as effort reporting and cost-sharing 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 (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

- 42 CFR, Part 50, *Responsibilities of Institutions Regarding Investigator Financial Conflicts of Interest*
- 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 §11010.02, *Financial Conflict of Interest*
- *CSU PI Quick Reference Guide*
- *NIH Grants Policy Statement*
- *NSF Proposal and Award Policies and Procedures Guide*
- *CSULB Administrative Costs Charging on Federal Grants Policy and Procedure*
- *CSULB Allocating Costs to Sponsored Awards*
- *CSULB Financial Conflict of Interest Policy*
- *CSULB ORSP Transaction Compliance Review*
- *CSULB Petty Cash Policy*
- *CSULB Program Income Generated by Externally-Funded Sponsored Projects Policy*
- *CSULB Responsibilities and Qualifications of Principal Investigators Policy*
- *CSULB Signature Authority Guideline*
- *CSULB Signature Authority on Grants and Contracts and Research Stimulation Funds*
- *CSULB Sub-Recipient Policy*
- *CSULB Unallowable Expenses Policy*
- *CSULB University and Foundation Policy on Use of Cost Sharing or Cost Matching in Externally Sponsored Projects Policy*

AUDIT TEAM

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