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February 20, 2018

Dr. Mary A. Papazian, President
San José State University
One Washington Square
San José, CA 95192

Dear Dr. Papazian:

Subject: Audit Report 17-83, *Sponsored Programs – Post Award*, San José State University

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

San José State University

Audit Report 17-83
January 22, 2018

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 the areas reviewed to be effective.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for sponsored programs post award as of December 8, 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 identified opportunities for enhancement in sub-recipient monitoring procedures and practices.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. SUBRECIPIENT MONITORING

OBSERVATION

Administration of sub-recipient monitoring needed improvement.

The San José State University Research Foundation (Research Foundation) *Subaward Agreement and Subrecipient Monitoring Procedure* did not address how appropriate additional monitoring requirements would be identified and performed for sub-recipients classified as medium- or high-risk. The Research Foundation had not identified or performed any additional monitoring activities for four medium-risk sub-recipients that we reviewed.

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 Research Foundation:

- a. Update the *Subaward Agreement and Subrecipient Monitoring Procedure* to address how appropriate additional monitoring requirements would be identified and performed for sub-recipients classified as medium- or high-risk.
- b. Perform and document additional monitoring activities for sub-recipients classified as medium- or high-risk.

MANAGEMENT RESPONSE

We concur. The campus will implement compliance action by April 28, 2018, to:

- a. Update the *Subaward Agreement and Subrecipient Monitoring Procedure* to address appropriate additional monitoring requirements.
- b. Perform and document additional monitoring activities for sub-recipients classified as medium- or high-risk.

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 San José State University (SJSU), the Research Foundation is designated by the university as the sponsored program administrator. Both pre- and post-award activities are administered by the Research Foundation. In partnership with the Office of Research, overseen by the associate vice president of research, the Research Foundation is also responsible for compliance review of the university's sponsored projects throughout the entire life cycle of

each project. In fiscal year 2015/16, SJSU had \$38.4 million in expenditures related to federal sponsored programs.

SCOPE

We visited the SJSU campus from November 13, 2017, through December 8, 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 December 8, 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.
- 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.

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 conflict-of-interest reporting, 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 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 §11010.02, *Financial Conflict of Interest*
- *CSU PI Quick Reference Guide*
- *NIH Grants Policy Statement*
- *NSF Proposal and Award Policies and Procedures Guide*
- *SJSU Research Foundation Subaward Agreement and Subrecipient Monitoring Procedure*

AUDIT TEAM

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