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June 6, 2018

Dr. Robert S. Nelsen, President  
California State University, Sacramento  
6000 J Street  
Sacramento, CA 95819

Dear Dr. Nelsen:

**Subject: Audit Report 18-68, *Sponsored Programs – Post Award*,  
California State University, Sacramento**

We have completed an audit of *Sponsored Programs – Post Award* as part of our 2018 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 – POST AWARD**

**California State University,  
Sacramento**

Audit Report 18-68  
May 9, 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 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 April 20, 2018, 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 completion of conflict-of interest statements and ethics training, administration of externally sponsored contracts and grants established by the former Center for Collaborative Policy (CCP), and the review process to ensure compliance with additional employment limitations.

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 statements and ethics training were not always completed timely by principal investigators (PI) working on non-governmental and federally sponsored projects.

We reviewed five non-governmental awards and seven federal awards, and we found that:

- For one non-governmental award and two federal awards, PIs did not complete the initial conflict-of-interest form timely.
- For four non-governmental awards, PIs either did not complete required ethics training or did not complete the training timely.

Adequate administration of conflict-of-interest forms and training decrease the risk of noncompliance with federal and California State University (CSU) requirements.

#### RECOMMENDATION

We recommend that the campus:

- a. Implement a documented process to track and monitor PIs who have not completed required conflict-of-interest forms timely.
- 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. The campus has implemented updated *Financial Conflict of Interest Procedures* that include a documented process to track and monitor PIs who have not completed required conflict-of-interest forms timely. The campus will provide evidence of the updated procedures by June 30, 2018.
- b. The campus has implemented updated *Financial Conflict of Interest Procedures* that include 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. The campus will provide evidence of the updated procedures by June 30, 2018.

## 2. CENTER FOR COLLABORATIVE POLICY

### **OBSERVATION**

Administration of externally sponsored contracts and grants established by the CCP needed improvement.

We reviewed four CCP externally sponsored projects and found that contracts and agreements were not always properly executed. Individuals in CCP executed service requests and work orders with various state agencies for facilitation services without appropriate delegated contracting authority.

Further, we found that CCP proposals for externally sponsored projects were not always submitted through the Office of Research, Innovation and Economic Development (ORIED), as required by campus procedures. As a result, these proposals were not approved by appropriate university administrators, and the center did not obtain authorization to administer these projects. In addition, exceptions to the federally negotiated indirect cost (IDC) rate or to the minimum state agency IDC rate were not appropriately approved.

In addition, we found that CCP did not submit project expenditures to the appropriate administrator for compliance with contract terms and conditions.

Although CCP has been closed, work under existing contracts and ongoing projects continues under a new administrator, the college of continuing education (CCE). New contracts and projects may also be initiated by the CCE program that absorbed CCP's resources, the Consensus and Collaboration Program, after the transition has been fully completed.

Proper administration of externally sponsored contracts and grants decreases the risk of unauthorized or invalid contractual agreements, noncompliance with CSU and governmental requirements, and financial and legal liability, and also increases accountability.

### **RECOMMENDATION**

We recommend that the campus:

- a. Communicate to CCE employees who are administering CCP projects or who may administer future Consensus and Collaboration Program projects that all contracts and agreements for sponsored programs, including work orders and service requests, must be processed through campus procurement and contract services and signed by an individual with appropriate delegated authority.
- b. Communicate to CCE employees who may administer future Consensus and Collaboration Program projects that applicable proposals must be submitted through ORIED as required by campus procedures, and remind them of campus requirements relating to proposal approval and appropriate IDC rates for sponsored projects.
- c. Determine the appropriate campus or auxiliary office to review CCP expenditures for compliance with contract terms and conditions, and implement a compliance review.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will communicate to CCE employees who are administering CCP projects or who may administer future Consensus and Collaboration Program projects that all contracts and agreements for sponsored programs, including work orders and service requests, must be processed through campus procurement and contract services and signed by an individual with appropriate delegated authority by June 30, 2018.
- b. The campus will communicate to CCE employees who may administer future Consensus and Collaboration Program projects that applicable proposals must be submitted through ORIED as required by campus procedures, and remind them of campus requirements relating to proposal approval and appropriate IDC rates for sponsored projects by June 30, 2018.
- c. CCE has policies and procedures that require grant expenditures to be reviewed for compliance with contract terms and conditions. The campus will review these policies and procedures, and make updates if needed, to ensure they identify the appropriate campus or auxiliary office to review CCE grant expenditures for compliance with contract terms and conditions and will verify that the appropriate compliance reviews are taking place by August 31, 2018.

**3. ADDITIONAL EMPLOYMENT DETERMINATION**

**OBSERVATION**

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

We found that the review for compliance with CSU additional employment limitations was decentralized and not comprehensive. University Enterprises, Inc. (UEI), the campus sponsored programs administrator, reviewed a campus faculty workload report with information on the employee's university position and any additional employment from CCE and UEI before approving any additional employment appointments. However, this workload report did not include other sources of university additional employment, such as special consultant and temporary assignment job codes.

The campus department responsible for the review for compliance with CSU additional employment limitations was human resources until the recent creation of the office of faculty advancement (OFA). OFA reviewed university additional employment (special consultant and temporary assignment job codes), but the review was not always performed prior to the appointment or compensation for work performed, and did not consistently take into account UEI and CCE additional employment appointments. This was due to the department not always receiving complete information on additional employment and appointment paperwork in a timely manner.

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 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 process to review the extent of faculty employees' workloads, including all sources of campus and auxiliary payments, prior to the appointment to any position by November 9, 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 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.

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 October 2017, 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, Sacramento (Sacramento State), ORIED and UEI share responsibility for the administration of sponsored programs. Pre-award activities are administered by ORIED, while UEI is the university-designated sponsored program administrator and oversees post-award activities including financial administration and reporting, expenditure processing and review, personnel administration, issuance of

subcontracts, and sub-recipient monitoring. In fiscal year 2016/17, Sacramento State had \$14.6 million in expenditures for federal sponsored programs.

## SCOPE

We visited the Sacramento campus from March 12, 2018, through April 20, 2018. 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 January 1, 2016, through April 20, 2018.

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 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 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.
- Pre-award administration of the proposal and IDC approval process for campus-administered projects, including obtaining approval from the Office of the Chancellor for sponsored projects received from a state agency with an IDC rate lower than 25 percent.

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 post-award administration.

## 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*
- ICSUAM §1100.00 *Delegation of Authority to Obligate the University*
- Coded memorandum Human Resources (HR) 2015-03, *Ethics Regulations and COI Code Training*
- HR 2002-05, *Additional Employment Policy*
- HR 2015-05, *Principal Investigators – Nongovernmental*
- *CSU PI Quick Reference Guide*
- *NIH Grants Policy Statement*
- *NSF Proposal and Award Policies and Procedures Guide*
- *Sacramento State Financial Conflict of Interest: Investigator Procedures*
- *Sacramento State Office of Faculty Advancement Unit 3 – Faculty Additional Employment*
- *Sacramento State Submission Procedures for Grant and Contract Proposals*
- *Sacramento State Procurement/Contract Guide*
- *Sacramento State Administration of Sponsored Projects at CSU Sacramento*
- *Sacramento State Application of Facilities and Administrative (F&A) Rates on Sponsored Agreements*

## AUDIT TEAM

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