

**CALIFORNIA STATE UNIVERSITY
NEEDS TO CONTINUE ITS IMPROVEMENTS
IN MANAGING COST SHARING**

**National Science Foundation
Office of the Inspector General**

**March 31, 2004
OIG 04-1-005**

FOR OFFICIAL USE ONLY

[REDACTED]

[REDACTED]

TABLE OF CONTENTS

	Page
Executive Summary	ii
Introduction	1
Objectives, Scope, and Methodology	3
Part I: Review of 11 Audits With Cost-Sharing Findings	4
Part II: Steps Taken By CSU to Improve Grants Management	8
APPENDIX A: List of Audit Reports Included in this Summary	13
APPENDIX B: CSU’s Response to Audit Report	14

ACRONYMS

AOA	Auxiliary Organizations Association
AOR	Authorized Organizational Representative
CSUDHF	California State University Dominguez Hills Foundation
CSUFF	California State University Fullerton Foundation
CSULBF	California State University Long Beach Foundation
NSF	National Science Foundation
OIG	National Science Foundation Office of the Inspector General
OMB	U.S. Office of Management and Budget
PI	Principal Investigator
SDSUF	San Diego State University Foundation
SJSUF	San Jose State University Foundation
UAS	California State Los Angeles-University Auxiliary Services, Inc.

Executive Summary

California State University (CSU), California's largest university system, annually receives more than \$30 million in Federal grants from NSF. Many of these grants require the University to share the costs of the funded project. Specifically, for the period FY 1994-2003 NSF required CSU to provide \$85 million of cost sharing on 354, or 38 percent, of 937 awards from NSF. On the total awards NSF funded \$280 million.

Most of CSU's 23 campuses have established independent foundations to manage the administrative requirements of their Federal grants. As such, these auxiliary organizations must have in place accounting systems and controls to accurately track, value, and report on the status of their campuses' cost-sharing commitments. These organizations must ensure that the cost sharing provided is for allowable costs, as defined by Federal requirements, and that they monitor the cost sharing provided by subrecipients.

However, 11 audits covering nine campuses over a nine-year period found that the foundations did not effectively manage their NSF cost-sharing grants. The audits found many common problems, suggesting a fundamental University-wide weakness in CSU's controls to oversee and manage its cost-sharing commitments. Specifically, the audits found a lack of written policies and procedures for cost sharing, inadequate systems to track cost sharing or maintain supporting documentation, overstatement of in-kind cost sharing, inadequate monitoring of cost sharing, including monitoring of subrecipient cost sharing, and a lack of certification of cost sharing.

As a result, CSU could not support \$32 million of the \$51 million of cost sharing claimed. Although CSU subsequently decided not to claim \$30 million of that amount and later provided support for the remaining \$2 million, the overall lack of support for substantial amounts of cost sharing indicates systemic weaknesses in grants management at CSU and the potential for future cost-sharing shortfalls.

CSU took several steps, including revising and significantly expanding the Chancellor's directive on cost sharing in January 2004, and convening a task force, which in November 2002, issued a report assessing CSU's grant and contract administration. In addition, beginning in January 2001 the University Auditor conducted 11 grant and contract audits, including one of the University system as a whole. Although these steps have improved CSU's management of cost sharing, the University still needs to establish at the University level a management structure to provide overall direction, guidance, and oversight of CSU's grant administration operations, including cost sharing.

Accordingly, we recommend that the University provide more detailed guidance on cost sharing to the campuses and foundations; establish responsibilities for a system-wide structure and framework to direct and oversee sponsored research and cost sharing at the campuses and foundations; enable the University Auditor to assess the foundations' compliance with Federal requirements for administering awards, including cost sharing, on a regular basis; and ensure that campuses with large amounts of Federal awards provide for routine audits of internal controls over award administration.

CSU generally agreed with the recommendations; however, it disagreed that it should establish responsibilities for system-wide management of Federal awards because it did not believe that the audit findings warranted such a major reorganization and thought that centralized management would be both duplicative and unnecessary, since ultimate responsibility for award administration rested at the campus level. Although we agree that a major reorganization is not necessary and system-wide management should not duplicate administration at the campus level, the pattern of weaknesses in CSU's decentralized structure for managing and accounting for its cost sharing and ensuring compliance with Federal requirements indicates a need for more centralized direction and leadership.

Managing Federal grants requires the development of system-wide controls, including policies and procedures for sponsored research, the collection of information from campuses and foundations about their sponsored research procedures, dissemination of information about best practices to the campuses, and processes to monitor activities to ensure that Federal requirements and award terms and conditions, including cost-sharing obligations, are met. Since CSU agreed to our recommendation to have the University Auditor increase the number of grant audits, we suggest that CSU work with the University Auditor to decide on the necessary system-wide controls to ensure adequate oversight. Thus, we reiterate our recommendation for system-wide management of Federal awards.

Introduction

Background

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, defines cost sharing as an awardee's contributions to a Federally funded program. NSF sometimes requires cost sharing when an award will generate program income, such as revenues from training materials developed under a project, or when the award creates a tangible benefit, such as infrastructure that will endure after an award has expired. Cost sharing includes cash and in-kind contributions that are verifiable from recipient's records, not included as contributions for any other Federally-assisted program, necessary and reasonable to the accomplishment of program objectives, allowable under applicable cost principles, and not paid by the Federal government under another award, except where authorized by Federal statute. During the ten-year period from FY 1994-2003, NSF required California State University (CSU) to provide \$85 million of cost sharing on 354 (38 percent) of 937 awards for which NSF provided \$280 million.

The California State University System

The California State University system consists of campuses in 23 locations throughout the state. Formally created in 1960 by the California Master Plan for Higher Education, CSU is the middle tier between the nine campuses in the University of California system and 108 campuses of the California Community College system. CSU's primary mission is to provide undergraduate education to state residents; however, it has received increasing amounts of funds for sponsored research over the years. For example, in FY 2002 CSU had revenues of \$5.3 billion, \$984 million of which came from grants and contracts. Of grant and contract funds, \$650 million or 66 percent came from Federal funds, of which approximately half was for financial aid. Of Federal funds, \$36 million or about 6 percent came from NSF. However, over the last ten years NSF funding to CSU campuses has increased 22 percent from \$24.8 million in 1994 to \$30.4 million in 2003.

At the time CSU was established, it was constrained by state law from receiving grant and contract funding directly and it used separate auxiliaries to receive and administer such funds. Auxiliaries¹ are also authorized to perform a variety of other functions, including management of campus bookstores, real and personal property, alumni relations, gifts and bequests, campus services, and student body organization programs. Each campus enters into a written agreement with CSU's Chancellor specifying exactly what functions its foundation(s) will perform. Although the state restrictions have been relaxed over time, many campuses still administer grants and contracts through their affiliated foundations. The most common model is to conduct pre-award management activities at the individual university campuses and have the foundations perform the post-award management functions.

¹ Auxiliaries are separate corporations under section 501© (3) of the tax code. Many are CSU foundations, but some are student organizations. For the purposes of this report, we are using the word foundations to refer to the auxiliaries for which one function is sponsored research administration.

The CSU Board of Trustees has overall responsibility for administering the university system. However, the Board has delegated certain authority to the Chancellor and specific authority to the college presidents. The Chancellor has further delegated certain functions to CSU's Chief Financial Officer. At the campus level the presidents are responsible for making sure that the foundations "operate in conformity with the policy of the Board of Trustees and the campus."² Thus, for grant and contract administration, the campus presidents are responsible for ensuring that their foundations comply with all State, Board, Chancellor, and campus requirements. The most important directive from the Chancellor concerning grant and contract administration was Executive Order 168, *The California State University and Colleges Auxiliary Organizations-Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, promulgated in 1973. On January 7, 2004 the Chancellor released a replacement, Executive Order 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, which significantly expanded the guidance on sponsored research.

To oversee grants management at the campuses and associated foundations, CSU relies primarily on audits, including the annual OMB Circular A-133³ audits conducted both at the University level and at each foundation, occasional issue-specific internal audits by campus auditors, and audits by the University Auditor. Every three years the University Auditor audits each auxiliary organization, although these audits generally do not include grants and contracts in the scope of work. However, in January 2001, as a result of some of the NSF OIG audits on cost sharing, the CSU Board of Trustees' Audit Committee directed the University Auditor to conduct 11 grant and contract audits, including one system-wide audit and the others at selected campuses and/or foundations.⁴

² Title 5 California Code of Regulations, Section 42402, "Authority of Campus President."

³The title of OMB Circular A-133 is: *Audits of States, Local Governments, and Non-Profit Organizations*.

⁴In addition to the systemwide audit, the University Auditor conducted audits at the following campuses and/or foundations: Sacramento, California Polytechnic State University, Fullerton, San Diego, Humboldt, San Jose, Northridge, Bakersfield, San Francisco, and Los Angeles.

Objectives, Scope, and Methodology

The objectives of this summary report are to:

- Summarize the cost-sharing problems found in 11 audits within the CSU system, which include five cost-sharing audits conducted by an NSF OIG contractor and six other audits with cost-sharing findings conducted by OIG, contractors, or A-133 auditors,⁵
- Evaluate CSU's organizational structures and policies and procedures for managing and overseeing cost-sharing activities University-wide.

To address the first objective, we reviewed 11 audits performed over the past four years at CSU campus foundations and summarized the major findings. To address the second objective, we reviewed Executive Order 168 and its replacement, Executive Order 890, which is the Chancellor's primary directive to the campuses and foundations about award administration; the Chancellor's task force report on the organization of grants management at the campuses and foundations; and 11 audit reports of grants management performed by the University Auditor, ten at campuses and foundations and one system-wide.⁶ In addition, we conducted telephone interviews and exchanged e-mails with officials at the campuses and foundations and with staff in the Chancellor's Office and the Office of the University Auditor to determine whether the actions CSU has taken since the OIG completed its cost-sharing audit are sufficient to ensure that the University has adequate controls at all recipient campuses and foundations to manage NSF awards, including required cost-sharing contributions, in compliance with Federal and NSF requirements.

We conducted our audit in accordance with the Comptroller General's *Government Auditing Standards*.

⁵ The 11 audits conducted by NSF OIG, contractors, or OMB Circular A-133 auditors included in this report are listed in Appendix A.

⁶ For the list of the University Auditor's grant and contracts audits, see footnote 4, above.

PART I: Review of 11 Audits With Cost-Sharing Findings

Internal Controls Need Improvement

Our review of the 11 audits at nine campuses conducted by NSF OIG, contractors, and A-133 auditors identified a pattern of weaknesses in CSU's controls in managing and accounting for its cost sharing and of non-compliance with Federal and NSF requirements. Specifically, we found that:

- Three campuses lacked adequate policies and procedures for cost sharing, two of which had no written policies and procedures for cost sharing at all.
- Four campuses either did not track their cost sharing or did not maintain supporting documentation.
- Two campuses significantly overstated in-kind cost sharing.
- Six campuses did not adequately monitor cost sharing, including sub-recipient cost sharing.
- Seven campuses had certification deficiencies for cost sharing.

As a result of these internal control weaknesses, five CSU campus foundations could not support more than half or the \$51 million of cost sharing they claimed on the audited awards.

Lack of Policies and Procedures

Two foundations, one at Los Angeles and the other at Fullerton, had no policies and procedures for cost sharing, and another, at San Marcos, had inadequate policies and procedures. Specifically, three audit reports, issued between 1998 and 2002, found that California State Los Angeles Auxiliary Services, Inc. (UAS) had no policies and procedures for cost sharing. Similarly two audit reports and a management letter issued in 1998 found that CSU Fullerton Foundation (CSUFF) had no policies and procedures for cost sharing. A 1999 management letter stated that CSUFF had written cost sharing policies but had not fully implemented them. A September 2001 NSF OIG audit report found that CSU San Marcos Foundation's cost-sharing policies and procedures were incomplete because they did not include written instructions for documenting or certifying cost sharing.

Inadequate Grants Accounting Systems

Four audits found inadequate internal controls over accounting for cost sharing on NSF awards. CSU Long Beach Foundation could not provide documentation for \$2.2 million of services, equipment, and donated software claimed as in-kind cost sharing. In addition, during our audit UAS had to reconstruct six years of cost-sharing data to support \$1.7 million or 74 percent of the \$2.3 million it claimed as cost sharing because it did not track or document cost sharing. Further, UAS was not able to satisfactorily support the remaining \$.6 million of cost sharing that it claimed.

San Diego State University Foundation (SDSUF) also had inadequate cost accounting controls to track cost sharing on NSF awards. The foundation did not provide after-the-fact labor activity reports to support faculty release time claimed as cost sharing on 10 of 28 NSF awards audited, even though the amount of salary and wages associated with faculty release time represented 32 percent of the total \$1.3 million cost sharing claimed under the audited awards. For example, on one award, SDSUF claimed faculty release time for fall and spring 1994 through 1996 and part of spring 1997, but the PI or faculty members did not confirm the time until November 2000.

The CSU Office of the Chancellor, with \$2.5 million of required cost sharing, also could not document \$131,915 of faculty release time claimed by a subawardee for the period July 1998 through June 2000 because the subrecipient did not calculate it until July 2001. Altogether, auditors were unable to substantiate more than \$1 million of claimed cost sharing for faculty release time at one campus and two foundations having a combined cost-sharing obligation of about \$12 million.

Inaccurate Valuation of In-Kind Cost Sharing

Two audits found significant inaccurate valuations of in-kind cost sharing. CSU Long Beach Foundation overstated its cost-sharing contribution for donated software by \$26 million because it claimed the full commercial price when OMB Circular A-21 requires that donated property be valued net of educational discounts. At CSUFF, auditors questioned \$93,099 of \$111,658 claimed cost sharing for donated software because the auditors were unable to verify the software valuation.

Inadequate Monitoring of Cost Sharing

Contrary to Federal and NSF requirements, three campuses or foundations did not adequately monitor claimed cost sharing and three others did not adequately monitor cost sharing claimed by their subrecipients. Both UAS and CSU San Marcos Foundation inappropriately delegated responsibility for monitoring cost sharing to their Principal Investigators (PIs), instead of requiring their grant administrators to track cost sharing. PIs are not trained to monitor cost sharing and are not independent. San Jose State University Foundation was aware of cost-sharing shortfalls on four of its 32 NSF awards, but did not notify NSF of its inability to provide the cost sharing before the awards expired or request a required no-cost extension because it erroneously believed that it could fund cost sharing after the awards' expiration dates.

Three campuses or foundations did not adequately monitor cost-sharing obligations provided by their subrecipients through site visits or other means, as required by Federal rules.⁷ San Francisco State University Foundation did not scrutinize its subrecipients' cost sharing; and \$3 million of \$7 million cost sharing claimed was unacceptable, because it used Federal funds or had no documentation. In addition, although the auditors did not question any costs as a result,

⁷OMB Circular A-133, Compliance Supplement, part 3, section M., states that during the award, the pass-through entity should monitor the subrecipient's use of Federal funds through site visits or other means that provide "reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provision of contracts or grants agreements. . . ."

they noted that CSU Dominguez Hills Foundation, Inc. did not obtain an audit report for UAS, or two management letters and an audit report for CSUFF. The letters and audit reports would have notified CSUDHF that these subrecipients did not have written policies and procedures for cost sharing, and that it should therefore monitor their claimed cost sharing closely. CSU's Office of the Chancellor was cited for not knowing, even two months after the award had expired, that its three subrecipient universities had cost-sharing requirements totaling \$1.5 million. Further, the Office did not have a process that required subrecipient campuses to track their cost-sharing contributions and periodically submit documentation supporting claimed cost sharing for approval.

Certification Deficiencies

NSF policies require that an award recipient with a cost-sharing obligation of \$500,000 or more certify to NSF annually and at the end of the project the amount of cost sharing incurred. The amounts must be certified by a recipient's Authorized Organizational Representative (AOR), a designated official with legal authority to bind the organization and with sufficient knowledge and independence to ensure the integrity of the cost-sharing system. Seven CSU foundations did not certify cost sharing, certified inaccurate cost-sharing amounts, or did not have an AOR certify the cost sharing.

Three campus foundations did not certify cost sharing annually. A May 1998 audit report stated that San Francisco State University Foundation had not reported any cost sharing since August 23, 1996, even though one of the amendments to the grant specifically required documentation of cost sharing on an annual and cumulative basis. A September 2001 audit report stated that the Office of the Chancellor failed to provide annual certifications for 1998 and 1999 and a final cost-sharing certification because it was unaware of the reporting requirement. Auditors found that San Jose State University Foundation did not submit annual certifications for two awards. For one award, the PI simply stated in the annual progress report that the cost-sharing commitment "*was fulfilled and documented*", but the auditors found that the reports for 1997 through 2000 did not reflect the specific dollar amount of cost sharing that had been provided.

Audits of two other CSU foundations found that although they filed the required cost-sharing certifications, the amounts were incorrect. At CSUFF the cost-sharing amounts stated in the annual reports differed from those in the final report. At UAS, the auxiliary claimed at the time of the audit an additional \$239,873 of cost sharing that had never been certified.

In addition, at four foundations the AOR did not sign cost-sharing certifications. At CSU Long Beach Foundation and CSUFF annual cost sharing certifications were signed by the PIs, who do not have institutional authority or independence. Similarly, at SDSUF a grant administrator and the PI performed the annual certification; and at San Jose State University Foundation the PI signed certifications on an award from 1997 through 1999 because the foundation was unaware that certification by an AOR was required.

Consequences of Inadequate Internal Controls

As a result of these grants management weaknesses, five CSU campuses and foundations could not support \$32 million of the \$51 million claimed cost sharing we reviewed. Subsequent to the audits, the campuses and foundations discontinued their claims for \$30 million⁸ of the total unsupported amount or found support for the remaining \$2 million of claimed cost sharing. However, the failure to provide acceptable documentation for 63 percent of cost sharing claimed at the time of the audits indicates a fundamental lack of understanding of applicable Federal requirements that could result in substantial future cost-sharing shortfalls. Unmet cost sharing can limit project scope and compromise research objectives. In addition, to the extent that NSF has to pay a larger portion of project costs than expected, it forgoes opportunities to fund other research projects. From an awardee's perspective the inability to meet required cost sharing could ultimately jeopardize future Federal funding.

In addition to unsupported cost sharing, six campuses and foundations did not meet their cost-sharing commitments before their awards expired, resulting in another \$.5 million of questioned costs. NSF management has the authority to negotiate settlement of a lesser amount of questioned costs based on factors beyond the scope of applicable Federal administrative requirements and cost principles. For example, during audit resolution, NSF management can consider satisfactory completion of project goals or grantee willingness to take corrective action. Based on these kinds of criteria, NSF sustained \$179,320 or 34 percent of the \$.5 million of costs questioned in the audit reports.

⁸ The foundation that opted not to continue to claim \$30 million of cost sharing was CSU Long Beach Foundation (CSULBF), which claimed \$32 million more cost sharing on three awards than required. However, of the \$8 million of acceptable cost sharing, CSULBF still had a cost-sharing shortfall of \$.5 million on one award.

PART II: Steps Taken by CSU to Improve Grants Management

Need For Central Management

The common problems these many CSU campuses experienced with cost sharing suggest a need for more centralized direction and oversight. Specifically, effective management of Federal awards at a decentralized university like CSU requires a vision of the role of sponsored research within the system, leadership to implement that vision system-wide, and processes to assess and manage the programmatic, compliance, and financial risks involved in accepting Federal funding. Managing Federal grants also requires the development of system-wide controls to mitigate those risks, including policies and procedures for sponsored research, the collection of information from campuses and foundations about their sponsored research procedures, dissemination of information about best practices to the campuses, and processes to monitor activities to ensure that Federal requirements and award terms and conditions, including cost-sharing obligations, are met.

However, the pervasive nature of the audit results shows that CSU needs to strengthen these elements of award management. While CSU has taken a number of actions to address the problems reflected in these audits, we believe more should be done to provide overall leadership and management structure, including the development of a vision for grants management in the University system, processes to implement it, assessment and management of the risks inherent in accepting Federal funds, and oversight of sponsored research management system-wide. Specifically, CSU needs to provide more guidance about cost sharing to its campuses and foundations; establish responsibilities to identify, manage, and control the risks of sponsored research at the campuses and foundations, enable the University Auditor to regularly assess the foundations' internal controls over sponsored research and their compliance with Federal requirements for administering awards, including cost sharing; and ensure that campus internal auditors periodically test internal controls over award administration.

CSU Needs to Provide More Guidance on Cost Sharing

To manage its grants effectively, the Chancellor's Office must provide more specific guidance and direction on cost sharing to the campuses. The University manifested leadership over the administration of its grants and contracts primarily through Executive Order 168, the Chancellor's directive on award administration issued to the campus presidents in 1973. However, the Order provided limited guidance. With respect to cost sharing Executive Order 168 stated only that cost sharing "should reflect an accurate and acceptable contribution by the campus."⁹ It provided no guidance on accounting for cost sharing or defining what is acceptable cost sharing.

In January 2004 the Chancellor's Office replaced Executive Order 168 with Executive Order 890, *Administration of Grants and Contracts in Support of Sponsored Programs*. While an improvement, Executive Order 890 only requires that campuses and foundations document

⁹ Executive Order 168, January 19, 1973, Section 1 d. The section also stated that if a project required direct contribution of State funds or a diversion of funds from their budgeted purposes, campuses had to obtain prior approval from the Chancellor's Office.

actual cost sharing “consistent with” campus cost allocation plans, sponsor requirements, and OMB Circular A-110, where applicable.¹⁰ Although the reference to OMB Circular A-110 appropriately directs grants administrators to Federal requirements for cost sharing, Executive Order 890 does not provide explicit guidance about CSU’s expectations for how its campuses will at a minimum account for and administer their cost-sharing commitments. Specifically, the guidance does not discuss:

- Federal requirements for awardees to have financial management systems to track cost sharing on each specific award and to ensure that claimed cost sharing is not included as contributions for any other Federally assisted program or paid by the Federal Government under another award,
- Applicable portions of OMB Circular A-21 requiring recipients of Federal funds to have a time keeping system to ensure that effort claimed as cost sharing on an award is tied to that award only and is certified by someone with first-hand knowledge in a timely manner,
- How to value in-kind cost sharing such as donated software,
- How to document and monitor cost sharing including subrecipient cost sharing and how to report and certify cost sharing.

CSU has not provided detailed guidance on cost sharing because it believes that it only needs to reference the applicable Federal requirements in its directives on sponsored research and that the campuses and foundations will follow that to draft their own specific policies and procedures accordingly. However, audit results show that campuses and foundations have not always developed policies and procedures, or ensured their adequacy. The unavailability of detailed direction from the Chancellor’s Office increases the risk that campuses and foundations will have inadequate and inconsistent policies and procedures and, as a result, may not meet their cost-sharing obligations. Although the legal and financial risk of failing to provide required cost sharing exists at the campus and foundation level, cost-sharing shortfalls at CSU campuses could eventually jeopardize Federal funding system-wide.

CSU Needs to Develop A System-Wide Control Framework for Award Administration

Effective grants management requires organizational structures and processes to oversee the administration of sponsored research at the campuses and foundations. Although Executive Order 890 and additional guidance from the Chancellor's office can help, they will not fully compensate for the limited oversight and internal processes within the Chancellor’s Office to manage campus-wide compliance with Federal sponsored research requirements.

Executive Order 890 does not address CSU system-wide management of sponsored research and cost sharing. It states that the three offices of Academic Affairs, Business and Finance, and Human Resources within the Office of the Chancellor share responsibility for keeping the new Executive Order current. Otherwise, it places responsibility for management of sponsored research at the individual campus level. However, we believe that oversight of sponsored research and cost sharing at the campuses and foundations requires the establishment of responsibilities within the University organizational structure in order to undertake more comprehensive management functions, such as:

¹⁰ Executive Order 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, Section 3.5.5.

- setting strategic, operational, reporting, and compliance objectives for sponsored research within CSU,
- establishing the management direction and policies for effectively carrying out a campus-wide sponsored research program,
- identifying, assessing, and responding to the risk of campus-wide administration of Federal funds,
- engaging in preventative and detective control activities, such as reviewing campuses policies and procedures for cost sharing to ensure compliance with Federal requirements,
- ensuring the Chancellor has adequate information from the campuses and foundations about sponsored research issues and that they communicate effectively with both the Chancellor's Office and each other to address these issues, and
- monitoring campus-wide compliance with Federal and agency grant provisions.

One way to provide this centralized direction and oversight would be to establish a University-level staff, dedicated to sponsored research, which could provide an overall control environment for administering Federal grants and contracts at CSU. This staff could focus on assessing risk associated with sponsored research; implementing control activities, such as reviewing the adequacy of campuses policies and procedures for ensuring compliance with Federal and agency requirements to help mitigate and manage those risks; collecting and disseminating best-practices information about sponsored research and cost sharing between the Chancellor's Office and the campuses and foundations; and monitoring sponsored research administration at the campuses and foundations.

The foundations currently do communicate through the Auxiliary Organizations Association (AOA), a system-wide consortium of auxiliaries. In particular, sponsored research directors at 21 CSU campus foundations belong to the AOA Research Committee, which exchanges information about grants management. However, the AOA has no formal authority within the CSU system and cannot provide the vision, guidance, management, and oversight of grants administration necessary to ensure compliance with Federal requirements at all member foundations. Thus, we believe that CSU as a system needs to develop a management framework for overseeing grants administration at all campuses and establish specific responsibilities within the University to assess, monitor, and control the risk of sponsored research and cost sharing at the campuses and foundations. Investing in an organizational infrastructure at the University level to set overall policy and oversee the administration of Federal sponsored research activities at the individual campuses and foundations could help prevent the problems CSU campuses and foundations have had in the past and ensure that the approximately \$650 million of annual funding CSU receives in Federal funding is not jeopardized.

CSU Needs to Continue Grants and Contracts Audits

Effective oversight of sponsored research requires that CSU and the independent University Auditor expand their roles in monitoring grants and contracts administration at the campuses and foundations. Currently CSU primarily relies on OMB Circular A-133 audits of the University and of the individual auxiliary foundations, supplemented by internal audits at

individual campuses and foundations and audits by the University Auditor to oversee sponsored research.

However, past A-133 audits often have not reviewed NSF awards because they were below the dollar threshold for testing or not included in the Research and Development clusters. CSU also cannot rely on internal audits to monitor sponsored research at the campuses because not all campuses have internal auditors; and for those that do, the auditors only perform ad hoc reviews of grants management as specific problems arise. They do not routinely review grant administration programs or assess the overall adequacy of the programs' internal controls and processes.

Nor has CSU historically been able to rely on the University Auditor for audits of grants and contracts because those audits generally do not include the sponsored research operations. Only in response to our audits did the University Auditor undertake reviews of grant and contract activities at selected campuses and foundations in January 2001. However, given the nature of the University Auditor's findings on these audits, CSU should continue to have regular audits of its campuses' sponsored research programs. In its system-wide audit, the University auditor noted many of the same internal control weaknesses reported in our audits:

- Seven campuses did not have complete or finalized written policies and procedures for faculty release time, tracking academic overload, cost sharing and in-kind commitments, maintenance of financial reports, and/or subrecipient monitoring,
- Five campuses did not adequately approve and support project expenditures,
- Eight campuses did not have documentation indicating that interim and/or final reports were submitted to grantors, and
- Five campuses did not require PIs to submit cost-sharing records and source documentation.

We did find that the University Auditor's findings were being appropriately monitored and acted on by the individual campuses, and therefore that the audits can be an effective control to ensure that the campuses and foundations comply with NSF and Federal grant requirements.

Recommendations

We recommend:

1. The Chancellor ensure that CSU prepares detailed guidance for the campuses and foundations to use as a model in drafting or revising their own policies and procedures on cost sharing;
2. The Chancellor establish responsibilities within CSU's organizational structure for a system-wide management control framework to oversee and mitigate the financial risks of Federally sponsored research grants, including cost sharing, at the campuses and foundations;

3. The CSU Board of Trustees provide for regular assessment by the University Auditor of campuses' and foundations' compliance with Federally sponsored research and cost-sharing requirements; and
4. The Chancellor ensure that campuses with large amounts of Federally funded grants conduct routine audits of the internal controls over sponsored research, including cost sharing.

Auditee's Response

CSU agreed with all the recommendations except the recommendation for system-wide management of Federal awards. It said that there was insufficient evidence that the problems identified in the audit reports included in the summary were current and substantive enough to warrant the costs of the recommended reorganization. In addition, CSU thought centralized management would duplicate efforts at the campus level and was unnecessary, since the responsibility for identifying, assessing, and responding to the risks of administering Federal funds rested primarily at the campuses. (CSU's entire response is included as Appendix B.)

Auditor's Comments to Auditee's Response

CSU has taken a number of actions to address the problems reflected in this report. However, we believe that CSU needs to do more to provide overall leadership and management structure. The pattern of weaknesses in CSU's decentralized structure for managing and accounting for cost sharing and ensuring compliance with Federal requirements shows that CSU needs to exercise more centralized direction over sponsored research at the campuses. The University Auditor, in its 2002 risk assessment, underscored our concern when it ranked grants and contracts third on its list of CSU's overall financial risks.

Managing Federal grants requires the development of system-wide controls, including policies and procedures for sponsored research, the collection of information from campuses and foundations about their sponsored research procedures, dissemination of information about best practices to the campuses, and processes to monitor activities to ensure that Federal requirements and award terms and conditions, including cost-sharing obligations are met. Since CSU agreed to our recommendation to have the University Auditor increase the number of grant audits, we suggest that the University Auditor use the results of these audits to assist CSU in determining the necessary system-wide controls to ensure adequate oversight. Thus, we reiterate our recommendation for system-wide management of Federal awards.

Appendix A

List of Audit Reports Included in this Summary

Report Number ¹	Campus/ Foundation	Audit Type ²	Auditor	Report Date	Period Covered
98-1030	San Francisco State University Found.	1	Conrad	05/06/98	09/01/92-12/31/97
99-6001	CSU Fullerton Foundation	3	NSF OIG	10/16/98	02/15/94-01/31/97
00-1005	CSU Dominguez Hills Foundation	1	Conrad	01/20/00	07/01/95-09/30/99
00-5032	CS Los Angeles-Univ. Auxiliary Services	2	Grant Thornton	06/30/98	07/01/97-06/30/98
XX-XXX	CS Los Angeles-Univ. Auxiliary Services	2	Grant Thornton	06/30/99	07/01/98-06/30/99
00-1015	CSU Long Beach Foundation	1	NSF OIG	09/29/00	04/01/94-08/31/99
01-1014	CSU San Marcos Foundation	1	Conrad	09/17/01	08/01/97-01/22/01
01-1017	CSU Office of the Chancellor	1	Conrad	09/14/00	03/31/98-06/30/00
01-1018	CSU San Jose State University Found.	1	Conrad	09/25/01	02/01/95-01/31/00
02-1002	CSU San Diego State University Found.	1	Conrad	02/18/01	03/15/93-10/31/00
02-1003	CS Los Angeles-Univ. Auxiliary Services	1	Conrad	02/12/02	04/15/94-01/12/01

Notes:

¹ Report Number refers to the NSF OIG report issue date. Report XX-XXX refers to a report NSF did not issue, but which had cost-sharing findings and was therefore included in this summary.

² Audit Type	Type of Audit
1	Financial and Compliance
2	A-133 Annual Single Audit
3	Survey or Special Audit

Appendix B



THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD · CHANNEL ISLANDS · CHICO · DOMINGUEZ HILLS · FRESNO · FULLERTON · HAYWARD · HUMBOLDT
LONG BEACH · LOS ANGELES · MARITIME ACADEMY · MONTEREY BAY · NORTHBRIDGE · POMONA · SACRAMENT
SAN BERNARDINO · SAN DIEGO · SAN FRANCISCO · SAN JOSE · SAN LUIS OBISPO · SAN MARCOS · SONOMA · STANISLAU

March 19, 2004

Ms. Deborah Cureton
Associate Inspector General for
Audit National Science Foundation
4201 Wilson Boulevard Arlington,
VA 22230

Subject: Draft Summary Report on Cost

Sharing Dear Ms. Cureton,

On behalf of [REDACTED], [REDACTED] and the nine California State University (CSU) campuses involved in the subject audit, I would like to reply to your draft summary audit report on cost sharing. First, let me express my appreciation for your staff's cooperation in preliminarily discussing this report and its finding with the CSU. I am confident that we have dramatically improved management of cost sharing commitments since the time of the initial audit findings and will be able to address NSF concerns that adequate internal controls are in place.

You requested that any significant factual correction be addressed. Please note that the federal funding amounts reported for 2002 represent all federal funds inclusive of financial aid. For the fiscal year ending June 30, 2003, CSU received \$666,777,000 in non-capital grants and contracts federal funding. Approximately \$359 million of that amount was funding for financial aid.

General Comments

I would like to express my concern that the draft summary presents an outdated and inaccurate picture of management of grants and contracts in the CSU today. The summary focuses on three-year-old reports of expenditures dating back 10 years prior. In the intervening years, considerable effort has been focused on a systemwide basis toward improving management and fiscal administration of sponsored-program activities. This has occurred at both a system level and individual campus level on a variety of fronts.

One of the most significant activities, as noted in the summary report, is the recent issuance of Executive Order 890 - Administration of Grants and Contracts in Sponsored Programs. This EO directs policy for both the University and all Auxiliaries engaged in the management of sponsored programs. EO 890 requires that campus presidents identify the responsible campus official for implementation of the policy. Each will be expected to reply to the Chancellor by July 1, 2004, indicating compliance with the provisions of the directive.

While we certainly acknowledge the importance of compliance with federal and NSF cost sharing requirements, we feel the report places its conclusions on a minority of exceptions. The summary report recognizes that only \$2 million of the \$32 million in initially unsupported cost share claims remained unresolved upon conclusion of the original audits and post audit implementation of the recommendations by CSU campuses. A full 80% (\$26 million) of unsupported claims were the result of an erroneous interpretation by a single CSU campus related to assessing software contributions. All exceptions and audit recommendations have been rectified by the implementation of new policies, procedures and practices. Additionally, many of the campuses indicated that they received written confirmation by NSF that internal control and compliance issues had been adequately addressed.

The summary report is based upon a more informal, ad hoc evaluation of CSU's current environment and actions taken in recent years to strengthen management of NSF awards. The follow-up lacked any formal post audit sampling or evidence to verify that the problems identified in the initial audits were substantive enough to warrant the significant and potential costly reorganization efforts recommended.

Response to Specific Recommendation

1. ***Recommend the Chancellor ensure that CSU prepares detailed guidance for the campuses and foundations to use as a model in drafting or revising their own policies and procedures on cost sharing.***

CSU Response:

We concur. The issues raised in this summary report were identified to the CSU some time ago and served as one of the triggers for the review and subsequent rewrite and issuance of EO 890. EO 890 specifically addresses cost sharing requirements in three ways: compliance with systemwide policy on cost allocation plans (Executive Order No. 753), sponsor requirements and OMB Circular A-110. OMB Circular A-110 contains detailed *and authoritative* provisions on cost-sharing requirements, including valuation methods, allowability of costs, and documentation guidelines so it is unclear how the Chancellor's Office can contribute more detailed or authoritative guidelines. The Chancellor's Office will, however, work with the campus fiscal and research officers to develop best practice models and guidelines on federal cost sharing policies and will host associated training.

2. ***Recommend the Chancellor establish responsibilities within CSU's organizational structure for a systemwide management control framework to oversee and mitigate the financial risks of Federally sponsored research grants, including cost sharing, at the campuses and foundations.***

CSU Response:

We disagree. The Chancellor's Office has extensively evaluated the issue of more centralized control framework. A specially convened Task Force on grants and contracts reviewed this issue and determined that each campus should continue to have the authority to determine how organizationally grant and contract administration should be managed. In addition, the Chancellor's Office reviewed the feasibility of a centralized grant and contract office as part of EO 890 deliberations and determined that while some of the functions recommended under a centralized research office might be of benefit, centralized management direction and organizational structure would be duplicative and, ultimately, would not remove the campus's responsibility for monitoring compliance with federal and agency grant provisions, and identifying, assessing and responding to the risk of administering Federal funds. We will, however, continue to assure that the current systemwide policy is maintained and up to date by periodic policy reviews and working closely with campus constituent groups such as the research officers to insure sponsored research practices, particularly related to cost sharing reporting and documentation, are administered with the highest level of competency and continuous improvement.

3. ***Recommend the CSU Board of Trustees provide for regular assessments by the University Auditor of campuses' and foundations' compliance with Federally sponsored research and cost-sharing requirements.***

CSU Response

We concur. Currently the CSU has the latitude to conduct audits of grants and contracts when deemed appropriate by the Board of Trustees or when risk indicators at individual campuses warrant it.

The Chancellor will ask the Board of Trustees to consider in its identification of audit priorities, compliance with Federally funded sponsored research requirements. These specific audits may be performed utilizing either internal audit assignments or independent auditors. Additionally, the Chancellor's Office will direct campuses that individual A-133 audit findings are monitored to ensure any identified weaknesses are followed up and corrective courses of action are implemented.

4. ***Recommend the Chancellor ensure that campuses with large amounts of Federally funded grants conduct routine audits of the internal controls over sponsored research, including cost sharing.***

CSU Response

We concur. All campuses are already subject to a variety of audits of sponsored research including A-133, auxiliary compliance audits and program-specific sponsor audits.

In addition, the Chancellor's Office will direct campuses with larger amounts of Federally funded grants to conduct routine audits of internal controls over sponsored research, including cost sharing.

Please contact [REDACTED] if you have any further questions.

Sincerely,

[REDACTED]

[REDACTED]

cc: [REDACTED]