POST AWARD

HUMBOLDT STATE UNIVERSITY

Audit Report 10-32
November 4, 2010

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ABBREVIATIONS

ARRA American Recovery and Reinvestment Act
CSU California State University
HSU Humboldt State University
Foundation Humboldt State University Sponsored Programs Foundation
OMB Office of Management and Budget
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2009, the Board of Trustees, at its January 2010 meeting, directed that Post Award be reviewed. The Office of the University Auditor had previously reviewed post-award activities as part of the 2007 audits of Contracts and Grants and, for the majority of campuses, in triennial audits of Auxiliary Organizations.

We visited the Humboldt State University campus from June 14, 2010, through July 14, 2010, and audited the procedures in effect at that time.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cost sharing/matching and payroll distribution/effort reporting. These conditions, along with other weaknesses, are described in the executive summary and body of this report. In our opinion, except for the effect of the weaknesses described above, the operational and administrative controls for post-award activities in effect as of July 14, 2010, taken as a whole, were sufficient to meet the objectives stated below.

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.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

ADMINISTRATION [6]

Certain award modifications were inadequately documented and approved.

COST SHARING/MATCHING [7]

Administration of cost-sharing requirements needed improvement. For example, documentation confirming that cost-sharing requirements had been met was placed in award files at award closure, rather than throughout the term of the award.

PAYROLL DISTRIBUTION/EFFORT REPORTING [8]

The Humboldt State University Sponsored Programs Foundation (Foundation) did not consistently maintain current appointment forms for faculty members participating in sponsored projects. In addition, effort reports were not always completed or received on a timely basis, a repeat finding from the prior Auxiliary Organizations audit.
EXECUTIVE SUMMARY

SUBRECIPIENT MONITORING [10]

The Foundation did not adequately document subrecipient monitoring.

TECHNICAL REPORTING [11]

Closure of award files and related general ledger accounts was not always complete, nor was it always performed in a timely manner. In addition, technical reports were not always submitted to sponsors within deadlines established in the award agreements, a repeat finding from the prior Auxiliary Organizations audit.
INTRODUCTION

BACKGROUND

Post award is a subset of sponsored projects/research activities generally encompassing what occurs in the period following award acceptance through the final closeout process. Six California State University (CSU) campuses and the chancellor’s office administer the post-award aspects of sponsored projects/research on the state side. These six campuses are Bakersfield, Channel Islands, Maritime Academy, San Francisco, Sonoma, and Stanislaus. The other 17 CSU campuses manage post award through auxiliary organizations.

The federal government is the largest provider of sponsored project/research funding in the CSU. In 2007/08, 20 different federal agencies provided approximately $150 million. The largest amounts of federal funding were received from the Department of Health and Human Services, Department of Defense, National Science Foundation, and National Aeronautics and Space Administration. The American Recovery and Reinvestment Act (ARRA) also became a source of federal funding for sponsored projects/research after Congress passed it on February 13, 2009.

Post award is subject to various types of audits, including internal audits by the Office of the University Auditor and external audits required by granting agency regulations. Ongoing external audits include the federal Office of Management and Budget Circular A-133 audits that are required annually for recipients who expend more than $500,000 of federal funds. The same external auditors who opine on the entities’ financial statements also perform the A-133 audits.

Based upon a fiscal year 2009/10 systemwide risk assessment, the overall post-award function was identified as having greater risk than other sponsored program activities.

In the Office of the Chancellor, post award is administered through the Office of Sponsored Program Administration, which reports through the assistant vice chancellor/controller, financial services, to the executive vice chancellor/chief financial officer. Prior to March 2010, an auxiliary organization, the Humboldt State University Sponsored Programs Foundation (Foundation), administered grant and contract activities at Humboldt State University, including the pre-award and post-award function. In March 2010, the Foundation was reorganized, and the responsibilities for transaction processing (such as paying employees, preparing and sending invoices, and financial reporting) were transferred to campus financial services. The Foundation continued to administer pre-award activities and some post-award activities, such as monitoring technical reporting, effort reporting, cost match requirements, subrecipient activities, and quarterly reporting for ARRA awards. However, the campus is evaluating additional changes.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to post-award administration and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Internal controls in high-risk areas of post-award administration operate as intended.
- Post-award cost sharing/matching complies with applicable sponsor requirements and contract terms and conditions.
- Integrated systems for post-award effort reporting exist and support compliance with CSU and funding agency requirements.
- Adequate after-the-fact verification of employee activity provides accurate, complete, and defensible documentation of payroll distribution and post-award effort expended.
- Subrecipient relationships are appropriately established and monitored.
- The CSU has administered ARRA-funded research projects in accordance with federal guidance on accountability and transparency.
- Post-award reporting procedures are adequate to demonstrate acceptable performance in sponsored projects.
- Post-award closeout procedures are performed in a timely manner and comply with sponsoring agency requirements.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment B, Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that post award would include a review of contract/grant budgeting and financial planning, cost accounting and allocation, cost matching and transfer processes, effort reporting, fiscal reporting, subrecipient monitoring, and management and security of information systems.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from fiscal year 2008/09 through fiscal year 2009/10. In instances wherein it was necessary to review annualized data, calendar years 2008 and 2009 were the periods reviewed.

A preliminary risk assessment of post award was used to select those areas or activities with highest risk for our audit testing. This assessment was based upon a systematic process using prior audits, management’s feedback, and professional judgments on probable adverse conditions and other pertinent information, including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- Cost sharing/matching.
- Payroll distribution/effort reporting.
- Subrecipient monitoring.
- ARRA funding.
- Progress/technical reporting.
ADMINISTRATION

Certain award modifications were inadequately documented and approved.

We reviewed ten awards with cost-sharing requirements and ten awards with technical-reporting requirements and noted the following:

- In December 2005, the sponsor and an authorized Humboldt State University Sponsored Programs Foundation (Foundation) designee signed an agreement on an award that started in January 2006 and ended in June 2008. However, the final agreement did not reflect the reduction in the cost-sharing requirement requested prior to the granting of the award.

- On another project that started in May 2008 and was originally scheduled to end in May 2009, the principal investigator requested a no-cost extension. However, the award documents were not formally modified for changes in the termination date and technical reporting deadlines due to the absence of approval from a person authorized to act on behalf of the Foundation.

Executive Order 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, states that sound management and administration of sponsored programs requires coordination among organizationally separate units and individuals on the campus and that the campus shall establish necessary controls for sound fiscal management of sponsored programs.

The Foundation Board of Directors Signature Policy, effective May 15, 2003, identifies individuals who are authorized to negotiate and execute, on behalf of the Foundation, grants and contracts and any and all documents pertaining thereto, including account transactions pertaining to banking and investments and to submit claims for reimbursement and other financial reports as required.

The Foundation sponsored programs director stated that contract amendments were not adequately documented due to a lack of formal procedures and that communication between the grant analyst, the principal investigator, and the person authorized to execute agreements on behalf of the Foundation did not occur due to a lack of training on delegation of authority.

Failure to adequately document award modifications increases the risk that the award will not reflect the intent of the sponsor, the campus, or the Foundation and increases the risk of misunderstandings and non-payment.

**Recommendation 1**

We recommend that the campus, in conjunction with the Foundation, ensure that award modifications are adequately documented and approved.
Campus Response

We concur. Procedures are being implemented to ensure that award modifications are adequately documented and properly approved.

Expected completion date: March 31, 2011

COST SHARING/MATCHING

Administration of cost-sharing requirements needed improvement.

We reviewed ten awards with cost-sharing requirements and found that:

- Documentation confirming that cost-sharing requirements had been met was placed in award files at award closure, rather than throughout the term of the award. Seven of the award files for research that concluded between May 31, 2008, and September 30, 2009, lacked sufficient documentation to confirm that cost-sharing requirements had been met.

- The campus policy did not address the type of cost-sharing documentation appropriate for retention in award files.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §C, Parts 21 and 23, state, in part, that recipient’s financial management systems shall provide for effective control over and accountability for all funds, property and other assets, and accounting records that are supported by source documentation. Additionally, cost sharing or matching contributions must be verifiable from the recipient’s records, must be provided for in the approved budget, must be allowable, necessary and reasonable, and must conform to other provisions of the Circular.

The Foundation sponsored programs director stated that documentation of cost-sharing requirements had not yet occurred because of significant delays experienced by Foundation personnel during closeout and award termination. He further stated that the Foundation lacked detailed policies discussing documentation requirements because they had previously emphasized individual training.

Failure to adequately document cost-sharing requirements increases the risk of reduced reimbursements and increased regulatory scrutiny.

**Recommendation 2**

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

a. Document cost-sharing requirements in award files throughout the term of an award, rather than at award closure.
b. Develop policies to address the type of cost-sharing documentation appropriate for retention in the award files.

**Campus Response**

We concur.

a. Procedures are being implemented to document cost-sharing requirements throughout the award term.

b. Cost-sharing documentation and retention procedures are being documented.

Expected completion date: March 31, 2011

**PAYROLL DISTRIBUTION/EFFORT REPORTING**

**APPOINTMENT FORMS**

The Foundation did not consistently maintain current appointment forms for all faculty members participating in sponsored projects.

We reviewed the effort certifications and time reports submitted by nine faculty members working on sponsored projects during four semesters between fall 2008 and summer 2009 and noted the following:

- The Foundation did not have appointment forms for seven of the nine faculty members.
- One faculty member’s appointment form reflected an incorrect hourly rate.

Articles 12.1 and 12.2 of the Collective Bargaining Agreement with the California Faculty Association states, in part, that appointments shall be made through written notification by the president. No employee shall be deemed appointed in the absence of an official written notification. Official notification to an employee of an appointment shall include the beginning and ending dates of appointment, classification, time base, salary, rank when appropriate, employee status, assigned department, or equivalent unit and other conditions of employment.

The Foundation Administrative Guidebook §III.A-1, *Expenditure Processes: General Payroll Processing – Appointment*, states that before an individual can be paid through the Foundation’s payroll processes, that individual must first be appointed to the Foundation’s payroll system, even if already a university employee. Appointment is accomplished through use of a Foundation Appointment Form, along with completion of a W-4 form, I-9 form, and ethnicity form.

The Foundation sponsored programs director stated that the lack of current appointment forms for faculty participating in sponsored projects was due to oversight.
Failure to maintain current appointment forms for all individuals working on sponsored projects increases the risk of errors in payroll processing, incorrect hourly rates charged to awards, and non-compliance with faculty overload restrictions.

**Recommendation 3**

We recommend that the campus, in conjunction with the Foundation, maintain current appointment forms for all faculty members working on sponsored projects.

**Campus Response**

We concur. Procedures are being implemented to ensure current appointment forms are maintained.

Expected completion date: March 31, 2011

**COMPLETION/TIMELINESS**

Effort reports were not always completed or received on a timely basis. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed the effort reporting by ten faculty members working on sponsored projects during four semesters between fall 2008 and summer 2009 and found that:

- On one project, the Foundation disbursed funds based on a campus-generated invoice without an effort report.
- Five of the ten effort reports had been submitted to the Foundation between one and three months late.

OMB Circular A-21, *Cost Principles for Educational Institutions*, §J.10, states that a plan-confirmation effort-reporting system is one where the distribution of salaries and wages to sponsored projects is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes. In this type of system, a statement to verify the work performed will be signed by the employee, principal investigator, or other responsible official at least annually.

The Foundation Administrative Guidebook §IV.A, *Specific Expenditure Processes and Related Topics – Salaries/Wages*, states, in part, that check requests are to be processed each payroll period to initiate a paycheck, and such check requests must be accompanied by supporting documentation (either time sheets for hourly rates or Level of Effort Certifications for monthly salaries).

The Foundation Administrative Guidebook §III.A-2, *Expenditure Processes: General, Payroll Frequency*, states that the Foundation annually publishes a listing of due dates and times for Foundation payroll documents (time sheets, for example), as well as a listing of the precise payroll release dates and times.
The Foundation sponsored programs director stated that effort reports were not obtained when the campus invoiced for salary reimbursement on a sponsored project due to an oversight. He also stated that the Foundation did not actively pursue the principal investigators on delinquent effort reports due to a lack of formal policies establishing consequences for failure to report effort in a timely manner.

Failure to obtain effort reports in a timely manner increases the risk of regulatory scrutiny and resultant penalties.

**Recommendation 4**

We recommend that the campus, in conjunction with the Foundation, ensure that effort reports for all faculty members on sponsored projects are completed and submitted in a timely manner.

**Campus Response**

We concur. Procedures are being implemented to ensure effort reporting is performed timely.

Expected completion date: March 31, 2011

**SUBRECIPIENT MONITORING**

The Foundation did not adequately document subrecipient monitoring.

We reviewed the subaward agreements and related files for eight subrecipients participating in sponsored projects with activity from August 2008 through June 2010 and noted that the Foundation did not adequately document subrecipient monitoring, including receipt and review of all A-133 reports.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §400(d), states that pass-through entities shall:

- Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensure that subrecipients expending $500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements.

The Foundation sponsored programs director stated that subrecipient monitoring was not formally established due to the limited number of subrecipients participating in Humboldt State University (HSU) awards.
Failure to adequately document subrecipient activities increases the risk of non-compliance with federal regulations.

**Recommendation 5**

We recommend that the campus, in conjunction with the Foundation, adequately document subrecipient monitoring.

**Campus Response**

We concur. Procedures are being implemented to identify subrecipients and document monitoring efforts.

Expected completion date: March 31, 2011

**TECHNICAL REPORTING**

**FILE AND LEDGER CLOSURE**

Closure of award files and related general ledger accounts was not always complete, nor was it always performed in a timely manner.

We reviewed ten federally sponsored projects with award termination dates from May 2008 through September 2009 and noted the following:

- Two awards were missing documentation to support technical reporting.
- The HSU financial services team did not close five of the awards until March 2010 or April 2010.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §71(b), states that recipients shall liquidate, within 90 calendar days after the date of completion of the award, all obligations incurred under the award. It also states in §71(d) that the recipient must promptly refund any unobligated federal funds that the awarding agency has advanced that were not authorized to be retained for use in other projects.

The financial services director stated that the award closeout did not occur in a complete and timely manner due to a lack of managerial oversight.

Failure to close award files and related general ledger accounts in a complete and timely manner increases the risks that unobligated funds will not be returned to the sponsor promptly and that final technical and financial reports will not be provided to the sponsor as required.
Recommendation 6

We recommend that the campus, in conjunction with the Foundation, complete and close awards in a timely manner.

Campus Response

We concur. Closing procedures are being implemented to ensure awards are closed appropriately and timely.

Expected completion date: March 31, 2011

TIMELY REPORTING

Technical reports were not always submitted to sponsors within the deadlines established in the award agreements. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed ten awards with activity between July 2006 and June 2010, and ten awards with award termination dates between May 2008 and September 2009, and noted the following:

- Progress reports on two awards were submitted to the sponsor after the interim reporting dates established in the award agreement.
- Evidence of the submission of final technical and financial reports for one of the closed awards was not retained in the award file as required by the HSU record retention policy, and the Foundation was unable to confirm that the reports were submitted prior to the deadline established in the award agreement.

Grant number 2008-32549 between the Foundation and The David and Lucille Packard Foundation establishes interim reporting requirements.

The Memorandum of Understanding between the Humboldt County Probation Department and the Foundation establishes interim reporting requirements.

Agreement number P0685900 between the Foundation and the Department of Fish and Game establishes final technical and financial reporting requirements.

The Foundation Administrative Guide, §IV.W, Specific Expenditure Processes and Related Topics – Reporting, states, in part, that final project reports are due to the funding agency no later than 90 days following a funded project’s termination date.

The Foundation Administrative Guide, §IV.X, Specific Expenditure Processes and Related Topics – Record Retention, states, in part, that the standard for record retention is typically three years from the date of submission of the final fiscal report.
The Foundation sponsored programs director stated that it has historically been considered the responsibility of the principal investigators to submit technical reports to the sponsors prior to established deadlines, and procedures to enforce timely submission have not been implemented. He further stated that evidence of the submission was not always retained in the award files due to oversight by the Foundation grant analysts.

Failure to provide technical reports in a timely manner and to maintain evidence of submission per the HSU record retention policy increases the risk of reduced funding and reimbursement from sponsors.

**Recommendation 7**

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

a. Ensure that all technical reports are submitted by the deadlines established in the award agreements.

b. Ensure that evidence of the submission of technical reports is retained in the award files in accordance with the HSU record retention policy.

**Campus Response**

We concur.

a. Procedures are being implemented to utilize the Common Financial System Grants Module to track submission deadlines and proactively monitor submission of progress/technical reports to ensure timely submission by PIs.

b. Procedures are being implemented to ensure evidence of submission of technical reports is retained.

Expected completion date: March 31, 2011
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<td>Rollin C. Richmond</td>
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<td>Mike Burghart</td>
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<td>Luke George</td>
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<td>Jeff White</td>
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December 9, 2010

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210

Audit Report 10-32 – Post-Award

Dear Mr. Mandel:

Please find enclosed Humboldt State University’s response to Audit Report 10-32 –Post Award, findings #1 through #7.

Please review the information and let us know if there are any questions, concerns, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened.

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Burt Nordstrom
Vice President

cc: Rollin C. Richmond, President (w/o enclosures)
    Carol Terry, Associate Vice President of Business Services (w/o enclosures)
POST AWARD

HUMBOLDT STATE UNIVERSITY

Audit Report 10-32

ADMINISTRATION

Recommendation 1

We recommend that the campus, in conjunction with the Foundation, ensure that award modifications are adequately documented and approved.

Campus Response

We concur. Procedures are being implemented to ensure that award modifications are adequately documented and properly approved.

Expected Completion Date: March 31, 2011

COST SHARING/MATCHING

Recommendation 2

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

a. Document cost-sharing requirements in award files throughout the term of an award, rather than at award closure.

b. Develop policies to address the type of cost-sharing documentation appropriate for retention in the award files.

Campus Response

a. We concur. Procedures are being implemented to document cost-sharing requirements throughout the award term.

b. We concur. Cost-sharing documentation and retention procedures are being documented.

Expected Completion Date: March 31, 2011
PAYROLL DISTRIBUTION/EFFORT REPORTING

APPOINTMENT FORMS

Recommendation 3

We recommend that the campus, in conjunction with the Foundation, maintain current appointment forms for all faculty members working on sponsored projects.

Campus Response

We concur. Procedures are being implemented to ensure current appointment forms are maintained.

Expected Completion Date: March 31, 2011

COMPLETION/TIMELINESS

Recommendation 4

We recommend that the campus, in conjunction with the Foundation, ensure that effort reports for all faculty members on sponsored projects are completed and submitted in a timely manner.

Campus Response

We concur. Procedures are being implemented to ensure effort reporting is performed timely.

Expected Completion Date: March 31, 2011

SUBRECIPIENT MONITORING

Recommendation 5

We recommend that the campus, in conjunction with the Foundation, adequately document subrecipient monitoring.

Campus Response

We concur. Procedures are being implemented to identify sub-recipients and document monitoring efforts.

Expected Completion Date: March 31, 2011
TECHNICAL REPORTING

FILE AND LEDGER CLOSURE

Recommendation 6

We recommend that the campus, in conjunction with the Foundation, complete and close awards in a timely manner.

Campus Response

We concur. Closing procedures are being implemented to ensure awards are closed appropriately and timely.

Expected Completion Date: March 31, 2011

TIMELY REPORTING

Recommendation 7

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

a. Ensure that all technical reports are submitted by the deadlines established in the award agreements.

b. Ensure that evidence of the submission of technical reports is retained in the award files in accordance with the HSU record retention policy.

Campus Response

a. We concur. Procedures are being implemented to utilize the Common Financial System Grants Module to track submission deadlines and proactively monitor submission of progress/technical reports to ensure timely submission by PIs.

b. We concur. Procedures are being implemented to ensure evidence of submission of technical reports is retained.

Expected Completion Date: March 31, 2011
January 4, 2011

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
    Chancellor

SUBJECT: Draft Final Report 10-32 on Post Award, Humboldt State University

In response to your memorandum of January 4, 2011, I accept the response as submitted with the draft final report on Post Award, Humboldt State University.

CBR/amd