

## **Section IV**

### **Findings**

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2004**

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None Reported

Noncompliance material to the financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? No

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings that are required to be reported in accordance with OMB Circular A-133? Yes

Identification of major programs:

**CFDA Number**

- |    |                                      |         |
|----|--------------------------------------|---------|
| 1. | Research and Development Cluster     | Various |
| 2. | Student Financial Assistance Cluster | Various |

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? Yes

**SECTION II – FINANCIAL REPORTING FINDINGS**

No matters are reportable.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 04-1 Subrecipient A-133 Reports**

**Condition**

The Institute did not obtain the appropriate certification of compliance from seven of the thirteen subrecipients selected for testing.

**Questioned Costs**

None.

**Cause**

The Institute did not follow its established policies and procedures to ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133

**Criteria**

A pass-through entity is responsible pursuant to OMB Circular A-133 Section 400 and OMB Circular A-110 Section 51 for: (1) ensuring that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and OMB Circular A-110 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings

**Effect**

The Institute is not in compliance with subrecipient monitoring requirements.

**Recommendation**

The Institute should develop monitoring controls to ensure adherence to the Institute's established policies and procedures.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-2 Procurement**

**Condition**

Based on our review, the Institute was not in compliance with A-133, A-110 and FAR 52.203-2. Our review of selected purchase order ("PO") files, determined that 2 of the 30 transactions tested were processed without proper signature authority. One PO was improperly signed by an employee outside of the Procurement Department and the second PO was improperly signed by an employee who was not authorized to approve the dollar value of the purchase order. The amounts were \$35,371 (CFDA 47.049) and \$583,735 (CFDA 93.389), respectively.

**Questioned Costs**

None.

**Cause**

Procurements were approved without following the established policies and procedures of the Institute.

**Criteria**

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110. All non-Federal entities shall follow Federal laws and implement regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

**Effect**

By not following its policies and procedures established for ensuring compliance with the procurement compliance requirements, the Institute could potentially make inappropriate expenditures from federal awards.

**Recommendation**

Improve policies and procedures for monitoring adherence to the procurement process.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-3 Suspension & Debarment**

**Condition**

Based on our review of selected purchase order files, we noted the following noncompliance with A-133, A-110 and FAR 52 203-2:

- 1 of the 30 PO files tested lacked a Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (=> \$100,000) (CFDA 12.000)
- 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (=>\$25,000) (CFDA 12.000, 47.049, 47.041)

**Questioned Costs**

None.

**Cause**

The Institute does not have a procedure in place to ensure that vendor certifications are received or a procedure to review vendor status on the Federal Excluded Parties List System website at <http://epls.arnet.gov>.

**Criteria**

Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000. A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date only those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered "covered transactions". § 220 of the government wide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., sub-awards to subrecipients) are considered "covered transactions" this was the case before November 26, 2003, and was not changed by the revised rules.

**Effect**

Inappropriate contracting with entities which are suspended or debarred and the potential of the related expenditures being disallowed.

**Recommendation**

Design and implement policies and procedures for receiving certifications from vendors or reviewing vendor status on the website before entering into the contracts.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-4 Reporting**

**Condition**

While performing our testing over compliance with technical reporting compliance requirements, one instance from a sample of thirty reports was determined to be noncompliant. We discovered that one invention report was not filed as required by the award contract. (CFDA 12.910)

**Questioned Costs**

None

**Cause**

The Institute does not have a procedure in place to ensure that the reports required by the grants are submitted on a timely basis.

**Criteria**

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

**Effect**

Noncompliance with the technical report requirements of specific awards.

**Recommendation**

We recommend that the Institute design and implement policies and procedures such as a "tickler file" to track what reports are due for the various awards, the due date of those reports, and have an individual or department monitor the submission of the reports by the due date.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Summary Schedule of Prior-Year Audit Findings  
and Questioned Costs  
For the Year Ended September 30, 2004**

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**Finding 03-1 Student Status Changes not Reported in a Timely Manner**

A new Registrar was hired in May 2004 and has initiated a business process review of the drop and withdrawal procedures to ensure that all transactions are processed internally in a timely fashion. The Institute has joined the National Student Loan Clearinghouse (NSLC) who does the reporting to NSLDS on the Institute's behalf. The Institute arranged to report at least four times a term to the NSLC as of the Fall 2004 term. All changes for the Student Status Confirmation Report (SSCR) as well as the deferment requests are reported through the NSLC on the Institute's behalf within the 30 day statutory requirement. No finding noted during the testing in fiscal year 2004.

**Finding 03-2 Procurement Policies**

In 2003, our auditors noted a finding over the inappropriate approval of a purchase order. The Institute's Corrective Action Plan regarding this finding was not sufficiently implemented to prevent the additional occurrences in 2004. This finding is addressed in the 2004 Management's Views and Corrective Action Plan.



# CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Finance & Controller  
Financial Services Administration Building, Mail Code 229-15  
626-395-3937

June 15, 2005

PricewaterhouseCoopers LLP  
350 South Grand Avenue  
Los Angeles, California 90071-2889

Subject: California Institute of Technology Management's Views and Corrective Action Plan

Reference: OMB Circular A-133 Audit for Fiscal Year 2004

Dear Sirs:

Enclosed is the California Institute of Technology's OMB Circular A-133 Management's Views and Corrective Action Plan for fiscal year ended September 30, 2004.

Please feel free to call me if any further information or clarification is required.

Sincerely,

A handwritten signature in cursive script that reads "Sharon E. Patterson".

Sharon E. Patterson  
Associate Vice President for Finance and Controller

Enclosure



# CALIFORNIA INSTITUTE OF TECHNOLOGY

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 Financial Services Administration Building, Mail Code 229-15  
 626-395-3937

## Fiscal Year 2004

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
04-1	The Institute did not obtain the appropriate certification of compliance from seven of the thirteen subrecipients selected for testing.	The Institute agrees that certifications were not obtained from all sub-awardees during 2004.	Director of Procurement	July 2005
04-2	Based on our review, the Institute was not in compliance with A-133, A-110 and FAR 52.203-2. Our review of selected purchase order ("PO") files, determined that 2 of the 30 transactions tested were processed without proper signature authority. One PO was improperly signed by an employee outside of the Procurement Department and the second PO was improperly signed by an employee who was not authorized to approve the dollar value of the purchase order. The amounts were \$35,371 (CFDA 47.049) and \$583,735 (CFDA 93.389), respectively.	The Institute is currently implementing controls to ensure compliance with subrecipient monitoring requirements. The Institute agrees with this finding. The signature delegation policy will be modified to allow flexibility of appropriate re-delegation.	Director of Procurement	April 2005

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Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
04-3	<p>Based on our review of selected purchase order files, we noted the following noncompliance with A-133, A-110 and FAR 52.203-2:</p> <ul style="list-style-type: none"> <li>• 1 of the 30 PO files tested lacked a Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (=&gt; \$100,000) ( CFDA 12.000 )</li> <li>• 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (=&gt;\$25,000) (CFDA 12.000, 47.049, 47.041)</li> </ul>	<p>The Institute agrees with this finding.</p> <p>Purchasing Services Contracting Officers have been specifically reminded to use the existing PO documentation checklist in all purchase orders. The checklist serves as an administrative reminder to the purchasing agent identifying the thresholds whereby various certifications are required. Employees have been advised that future failure to adhere to these procedural requirements will result in appropriate disciplinary action.</p>	Director of Procurement	April 2005
04-4	<p>While performing our testing over compliance with technical reporting requirements, one instance from a sample of thirty reports was determined to be noncompliant. We discovered that one invention report was not filed as required by the award contract. (CFDA 12.910)</p>	<p>The Institute agrees with this finding.</p> <p>The Office of Sponsored Research will establish a tickler system to remind responsible individuals of their technical and/or invention reporting obligations.</p>	Senior Director of Sponsored Research	September 2005