

## **Section IV**

### **Findings**

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2005**

---

**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:

<b>Program Name</b>	<b>CFDA Number</b>
Research and Development Cluster	Various
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee?	No

**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, 2005**

---

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

**Finding 05-1 Procurement**

**Condition**

Based on our review of selected purchase order files, we noted that Institute policies and procedures were not adhered to, resulting in the following:

- 2 of the 30 transactions tested were processed without the appropriate supporting documentation on procurement rationale, which is required by A-133, A-110 and FAR 52.203-2. These expenditures were related to CFDA # 81.064 and 93.172.
- 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (CFDA # 47.050, 81.064 and 93.172) which is required by A-133, A-110 and FAR 52.203-2.

**Questioned Costs**

None as the appropriate certifications were subsequently obtained and indicated no issues with the vendors.

**Cause**

University policies and procedures were not followed. This also caused the lack of vendor certification.

**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. In addition, 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.

**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. In addition, the Institute may inappropriately contract with entities which are suspended or debarred and as a result the related expenditures could be disallowed.

**Recommendation**

Improve policies and procedures for monitoring adherence to the procurement process which will also ensure certifications from vendors (or review of vendor status on the website) is performed 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  
Summary Schedule of Prior-Year Audit Findings  
and Questioned Costs  
For the Year Ended September 30, 2005**

---

**Prior Year Findings**

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

Caltech is obtaining an A-133 certification, when required, prior to executing the subcontract. Additionally, as directed by PwC, Caltech is obtaining certifications on an annual basis for each subcontract that is subject to A-133. Upon receipt of the annual A-133 certification, the certification is "scanned" into a database located on the Procurement Services "share" drive.

No equivalent issues were noted in the current year audit.

**Finding 04-2 Procurement**

As a result of this finding, awareness of signature authority levels has been raised to all Caltech Purchasing Agents/Contracting Officers. A "spot audit" check is performed by Supervisors/Team Leaders once a quarter to ensure adherence to proper signature authority.

In addition, the Signature Delegation policy was modified in December, 2005 to allow flexibility of appropriate re-delegation. This modified policy can be found at:

<http://procurement.caltech.edu/purchasing/purchasingpoliciesandprocedures.html>

No equivalent issues were noted in the current year audit.

**Finding 04-3 Suspension & Debarment**

The procedures regarding the Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters (required for federally funded awards exceeding \$25,000) and the Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (required for federally funded awards exceeding \$100,000) have not changed. Caltech Purchasing Agents/Contracting Officers have always been required to obtain the certifications prior to issuing a federally funded purchase order. The Purchase Order Documentation Checklist (CIT Form 0059) which is prepared for each standard purchase order serves as a reminder to the Purchasing Agent/Contracting Officer to obtain the necessary certifications. If a supplier is nonresponsive, the Purchasing Agent/Contracting Officer can also obtain the supplier's debarment status at the Government's Excluded Parties List Web site (<http://epls.arnet.gov/>)

No equivalent issues were noted in the current year audit.

**California Institute of Technology  
Summary Schedule of Prior-Year Audit Findings  
and Questioned Costs  
For the Year Ended September 30, 2005**

---

**Finding 04-4 Reporting**

Due to technical and logistical difficulties with implementing the original corrective action plan of creating a reminder system for principal investigators, Caltech has decided on another approach, which is based on processes already put into place. Beginning in fiscal year 2004, Caltech modified its Award Summary document to reflect much greater detail with regard to the various reports due on sponsored awards. Beginning in fiscal year 2005, Caltech implemented electronic distribution (via e-mail) of Award Summaries and award documents to principal investigators, and to campus staff and central administrative units. These two processes have greatly facilitated access by Caltech personnel to award-specific requirements, including those requirements related to report due dates.

**Finding 04-5 Internal Control Over Financial Reporting**

The control issues identified were remediated in connection with the preparation of the 2005 financial statements.



*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 9, 2006

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 2005

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, 2005.

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

Pasadena, California 91125

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

## Fiscal Year 2005

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
5.1	<p>Based on our review of selected purchase order files, we noted that Institute policies and procedures were not adhered to, resulting in the following:</p> <ul style="list-style-type: none"> <li>• 2 of the 30 transactions tested were processed without the appropriate supporting documentation on procurement rationale, which is required by A-133, A-110 and FAR 52.203-2. These expenditures were related to CFDA # 81.064 and 93.172.</li> <li>• 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (CFDA # 47.050, 81.064 and 93.172) which is required by A-133, A-110 and FAR 52.203-2.</li> </ul>	<p>The Institute's Purchasing Policies &amp; Procedures manual, dated September, 2004, states that "Undocumented orders, those for which a Requisition has not been initiated, present a significant problem to the Institute and are not an acceptable practice."</p> <p>Two of the three PO files tested were "Invoice Attached" and/or "Reimbursement" or "Undocumented" PO's whereby the requester obtained goods or services on credit prior to the Purchasing Services Department receiving an approved purchase requisition. Subsequently, the requester submitted the purchase requisition and/or invoice for payment.</p> <p>The third PO was initially approved and funded through two endowment accounts and subsequently a change order was issued whereby the requester wanted a large portion of funding changed to a federal award.</p>	Director of Procurement	September 2006

# 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

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
		<p>Thus, the appropriate certifications were not initially obtained with the issuance of the PO, but were ultimately obtained.</p> <p>We will continue to work with the campus to provide training and will modify the purchasing module and website to make it clear that undocumented orders are a violation of Institute policy. In addition, we will require a higher level of review and potential non-reimbursement for any violations.</p>		