

## **Section IV**

### **Findings**

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2006**

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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)? None Reported

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:

Program Name	CFDA Number
Research and Development Cluster	Various
Student Financial Aid	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, 2006**

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

**Finding 06-1 Allowable Costs**

**Condition**

Based on our testing of direct charges, we noted two charges which did not have adequate contemporaneous supporting documentation:

- (i) A foreign travel expenditure was charged to a sponsored project without documentation of pre-approval, as required by the project agreement (Award Contract Number: DAAD19-00-1-0374; CFDA # 12.431)
- (ii) A meal expenditure of \$46.25 was charged to a sponsored project without adequate documentation of the attendees and business purpose of the meal (Award #NSF 516390; CFDA # 47.041)

**Questioned Costs**

In relation to item (i) noted above, the questioned costs are \$14.56

Population tested: 50 non-payroll charges  
\$1,204,348

Total population of non-payroll charges: \$152,647,962

There are no questioned costs associated with item (ii) as documentation was subsequently obtained

**Cause**

Institute policies and procedures were not followed in these particular instances

**Criteria**

- (i) The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items (OMB Circular A-21 C.2)
- (ii) A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects. (OMB Circular A-21 C.4(a))

**Effect**

By not following its policies and procedures established for ensuring compliance with the allowable cost compliance requirements, the Institute could potentially make inappropriate charges to federal awards.

**Recommendation**

Reiterate the importance of compliance with policies and procedures

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2006**

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**Management Response**

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

**Finding 06-2 – Equipment Screening**

**Condition**

Based upon our testing of direct equipment charges, we noted that the Institute did not perform the proper equipment screening, as required by their internal policies, for ten of the thirty equipment purchases selected for review.

The awards impacted by the exceptions noted above were:

NSF LIGO.FY02ON – CFDA# 47.047

NSF 2005MRSEC – CFDA# 47.049

NSF.000305 – CFDA# 47.049

NIH MPET04 – CFDA# 93.286

**Questioned Costs**

None. Although prescreening did not occur, there was no available existing equipment; thus management subsequently concluded the purchases were necessary.

**Cause**

The Institute implemented a new system for tracking pre-purchased screening. During the implementation of the system, technical difficulties resulted in the exceptions noted above.

**Criteria**

Institute policy requires that all equipment purchases for Federally-funded projects over \$10,000 to have a campus-wide screening for like equipment through the Institute's Oracle system.

**Effect**

Without performance of the campus-wide screening, the Institute was in violation of its own policy and the risk of inappropriate equipment purchasing is increased.

**Recommendation**

We recommend that the Institute's policies and procedures for pre-purchase screening are adhered to.

**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, 2006**

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**Finding 06-3 – FISAP**

**Condition**

During our tie-out of the FISAP report to supporting documents, we noted the following amounts did not agree with the supporting documentation:

1. Section D Information on Enrollment field #7 (a) and (b)
2. Section E Assessments and Expenditures field #24

**Questioned Costs**

None. Audit finding pertains to noncompliance with the requirements set forth in completing the Fiscal Operations Report and Application to Participate (FISAP) (ED Form 646-1) (OMB No. 1845-0030). The items noted in error were already corrected through a re-submission prior to the completion of our audit.

CFDA #'s: 84.033; 84.007; 84.063; 84.038; 84.268

**Cause**

In regards to completion of the Information on Enrollment for the total number of students enrolled for 2005-2006, the information entered was only student enrollment for the fall semester.

The assessments and expenditure total incorrectly included \$500 of grants received relating to the Michigan Math competition.

**Criteria**

Per review of the instruction for the completion of the FISAP report (pg. II-3 of the instruction), "Schools that operate on a traditional academic calendar, or that have a majority of their eligible programs operating on a traditional calendar year, must enter an unduplicated number of all postsecondary students enrolled (full time and less than full time) for the 12-month period ending June 30, 2006. 'Unduplicated' means each student is counted/reported only once."

Per review of the instruction for the completion of the FISAP report (pg. II-6 of the instruction), the Department of Education collects the information relating to the amount of state grants and scholarships because it considers state grant and scholarship expenditures a resource when determining the amount of FSEOG funds awarded.

**Effect**

The number of students enrolled at the Institute and the amount expended for state grants and scholarships were incorrectly stated for FISAP reporting purpose.

**Recommendation**

We recommended a revision of the amounts prior to December 15, 2006, the date all corrections to FISAP data and resolution of edits must be submitted to the Department of Education. The items highlighted in our audit have already been corrected.

**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, 2006**

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**Prior Year Findings**

**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.

**Current Status**

Resolved: the appropriate documentation was obtained for the exceptions noted

The Institute's Purchasing Policies & Procedures Manual was, once again, updated in September 2006. The policies continue to emphasize "undocumented" orders are not an acceptable practice at the Institute. All "Invoice Attached" and/or "Reimbursement" or "Undocumented" purchase orders (PO's) are continually scrutinized by Procurement officials and under certain circumstances are brought to the attention of the Director of Procurement Services. Certain orders are returned to the requestor for either further justification/clarification or altogether rejected

In terms of a PO that is initially funded through Caltech funds and if a Change Order is subsequently issued where a federal award is now charged, all Purchasing Agents and/or Contracting Officers are now trained to go back to the supplier and request appropriate certifications

No equivalent issues were noted in the current year audit.



# 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 21, 2007

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 2006

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, 2006

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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**Fiscal Year 2006**

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
6.1	<p>Based on our testing of direct charges, we noted two charges which did not have adequate supporting documentation:</p> <ul style="list-style-type: none"> <li>(i) A foreign travel expenditure was charged to a sponsored project without documentation of pre-approval, as required by the project agreement (Award Contract Number: DAAD19-00-1-0374)</li> <li>(ii) A meal expenditure of \$46.25 was charged to a sponsored project without adequate documentation of the attendees and business purpose of the meal (Award #NSF.516390)</li> </ul>	<p>The findings noted are exceptions to Caltech's established policies and procedures on travel and food charges to federal awards. Caltech has followed up with the individuals involved to ensure that they are aware of Caltech (and Federal policy). In addition, these policies will be stressed, again, to all research administrators at the next Sponsored Research Forum scheduled for March 2007.</p>	Associate Controller, Post Award Administration	March 2007



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## Fiscal Year 2006

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
6.2	Based upon our testing of direct equipment charges, we noted that Caltech did not perform the proper equipment screening, as required by their internal policies, for ten of the equipment purchases selected for review.	Caltech has introduced a new procedure that requires completion of a form that prompts follow up on equipment screening to be completed by purchasing personnel prior to the order being placed.	Director of Procurement	March 2007
6.3	During our tie-out of the FISAP report to supporting documents, we noted the following amounts did not agree with the supporting documentation: 1. Section D. Information on Enrollment field #7 (a) and (b) 2. Section E. Assessments and Expenditures field #24	A corrected FISAP was submitted prior to the submission deadline. There was turnover in staff which resulted in a misunderstanding of the information being requested. This issue has now been clarified and the correct data will be provided in future.	Dean of Student Affairs	December 2006