Section IV

Findings
California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2007

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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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:

<table>
<thead>
<tr>
<th>Program Name</th>
<th>CFDA Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development Cluster</td>
<td>Various</td>
</tr>
</tbody>
</table>

During the year ended September 30, 2007, the Student Financial Aid cluster was excluded from testing pursuant to section .520 of OMB Circular A-133 since it is a low risk Type A program, was tested during the year ended September 30, 2006 and sufficient coverage was obtained by testing the Research and Development cluster and the Institute is a low risk auditee.

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.
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 07-1 Allowable Costs

Condition
Based on our testing of direct charges, we noted one charge consisted of two meals taking place on different days. The charge on April 9, 2007 for $58.52 was in adherence with Institute’s policy for business meals, as the business purpose for the meal directly benefited the award. However, the second meal charge, dated April 2, 2007, for $92.13 was incorrectly charged to the award.

The award impacted by the exception was FA9550-04-1-0434 and the sponsoring agency was the Air Force (CFDA No. 12.630).

Questioned Costs
The questioned cost is $92.13.
Total direct costs tested: 35 non-payroll charges (travel, consulting, other: $430,839)
Total population of non-payroll charges: $160,538,673

Cause
The meal was inadvertently charged to the incorrect award.

Criteria
In accordance with A-21 and the Institute's internal policies and procedures, meal charges to an award must be directly related to work performed on an award and is necessary to the furtherance of the work being performed.

Effect
The Institute was not in compliance with correctly charging meals to an award.

Recommendation
The Institute needs to ensure that charges to an award are appropriately related to the award in question. Award Managers and Principal Investigators need to ensure the documentation is accurate in order to ensure that appropriate awards are charged for incurred expenses.

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, 2007

Prior Year Findings

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)

Current Status
These findings were exceptions to Caltech’s established policies and procedures. Caltech stressed these policies to research administrators at the March 2007 Sponsored Research Forum. In addition a new control has been introduced whereby a monthly report listing all foreign travel expenditures is generated and reviewed by Project Accounting. Project Accounting uses this report to liaise with the appropriate division contact to confirm if prior approval is required and, if so, to confirm that it has been obtained. See current year finding 07-1.

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

Current Status
Subsequent to implementing Caltech’s electronic procurement solution, TechMart, the Purchasing Services staff has been advised and trained with regards to our Equipment Screening Certification requirements. The attached documents outline the procedures for verifying that screening has been or needs to be performed:

- Purchasing Services Equipment Screening Certification Guidelines, dated November 15, 2005
- Equipment Screening (Note: This document has been identified as Attachment H in the Purchasing Services Policies and Procedures Manual, dated October 2007)

No equivalent issues were noted in the current year audit.
California Institute of Technology
Summary Schedule of Prior-Year Audit Findings and Questioned Costs (Continued)
For the Year Ended September 30, 2007

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

Current Status
Resolved: A corrected FISAP was submitted prior to the submission deadline. This issue was clarified with staff and the corrected data will be provided in future.

No equivalent issues were noted in the current year audit.
June 13, 2008

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 2007

Dear Sirs:


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

Sincerely,

[Signature]

Sharon Patterson
Associate Vice President for Finance and Treasurer

Enclosure
<table>
<thead>
<tr>
<th>Finding Number</th>
<th>Condition</th>
<th>Management’s Views and Corrective Action Plan</th>
<th>Responsible Individual</th>
<th>Planned Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1</td>
<td>Based on our testing of direct charges, we noted one charge consisted of two meals taking place on different days. The charge on April 9, 2007 for $58.52 was in adherence with Institute’s policy for business meals, as the business purpose for the meal directly benefited the award. However, the second meal charge, dated April 2, 2007, for $92.13 was incorrectly charged to the award. The award impacted by the exception was FA9550-04-1-0434 and the sponsoring agency was the Air Force (CFDA No. 12.63).</td>
<td>In response to this audit issue, Caltech provided additional training to research administrators. The allowability and documentation standards for food charges on federal awards was included as a training topic at the March 22, 2007 Sponsored Research Forum. In addition, a new monthly review of ‘food’ expenditure type charges to federal awards is being undertaken by Project Accounting. We anticipate that the tighten controls in this area will reduce the likelihood of inappropriate charging in the future.</td>
<td>Associate Vice President, Research Administration</td>
<td>February 2008</td>
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</tbody>
</table>