Section IV

Findings
California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2008

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, 2008, 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, sufficient coverage was obtained by testing the Research and Development cluster, and since the Institute is a low risk auditee. The Student Financial Aid cluster will be tested during the year ending September 30, 2009.

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, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 08-01: Timeliness of financial reporting for federal awards

Identification of programs affected by the finding
Award Contract Number: N66001-08-1-2043 and NBCH1050001
Sponsoring Agency: Space and Naval Warfare System and Department of Interior
CFDA #: 12.910 and 15.000
Award #: SNWS.TBN and DOI.MGA
Award Year: FY2008

Criteria
Based on OMB Circular A-110, .52 (a)(1)(iv), the SF-269 Financial Status Report shall be required to be submitted no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extension of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

Based on OMB Circular A-110, .52(a)(2)(iv), the SF-272 Report of Federal Cash Transaction shall be required to submit not more than the original and two copies of the SF-272 15 calendar days following the end of each quarter. The Federal awarding agencies may require a monthly report from those recipients receiving advances totaling $1 million or more per year.

Additionally, based on the review of the award agreements for the Space and Naval Warefare System ("SNWS") and Department of Interior ("DOI"), the financial reports related to the program are due within 10 to 15 working days following the end of each quarter.

Condition
Based on testing of the Institute's compliance with respect to Reporting under Circular OMB A-133, it was noted that for the Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") selected for testing for SNWS relating to the quarter ended June 30, 2008, and for DOI relating to the year ended December 31, 2007, respectively, were not submitted to the award agencies until December 2008. This represented a 6-months and 12-months delay after the reporting period for the SNWS and DOI awards, respectively. In addition, the reports for the DOI awards were not submitted to the awarding agency between the years 2005 and 2008.

The Institute is not in compliance with the requirements set forth in the OMB Circular A-133 with respect to Reporting, which requires that a report should be submitted on a timely basis in accordance with the award agreements. Additionally, the Institute is not complying with the reporting requirements set forth under the award agreement.

Our initial sample was 10 reports, which yielded two late reports. However, based upon reviewing all remaining reports, no additional errors were found.

Questioned Costs
Not Applicable. Audit finding pertains to noncompliance with the reporting requirements set forth under OMB Circular A-133.
California Institute of Technology  
Independent Auditors’ Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2008

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

Cause
Noted that the following were the causes for the delay in the submission of the required financial reports:

1. Space and Naval Warfare System

Based on the award agreement, the SNWS award tested had an award begin date of May 21, 2008, where by the award file maintained by the Institute's Office of Sponsored Research indicated a requirement of Form 269 submission on a quarterly basis. Since the Institute's Project Accounting was not aware that a Form 269 is to be submitted for June 30, 2008, as the award had only been in effect for approximately one month at that point in time, the June and September quarterly reports were not submitted until November 18, 2008, when a correspondence was received from SNWS requesting the quarterly progress report.

2. Department of Interior

During the review of the award agreement and award summary by the Institute's Project Accounting, the requirement of Form 272 submission was erroneously overlooked. As such, Form 272 was not submitted for the year 2005 – 2008 until December 2008. During 2008, the new Project Accounting Director performed additional review of the award agreement noting that the financial report submission is indeed required, and as such, subsequently filed all required Form 272 during December 2008 for the years 2005 through 2008.

Effect
As the Institute did not submit the financial reports in a timely manner, in accordance with the award agreement, the Institute is not meeting its contractual obligations, and could potentially affect the funding of the federal awards or any future relationship with the awarding agency.

Recommendation
During the set up of a federal award by the Institute's Office of Sponsored Research, a thorough review of the award agreement and related supplemental agreements (e.g. statement of work) should be performed. A tickler file should also be set up indicating the reporting requirement of various awards. The Institute’s Project Accounting, upon receiving the award information, should also verify the required reporting information. The various level of review can ensure that the required reporting is properly addressed to the parties involved in the preparation of the reports. Additionally, the tickler file can assist the Institute by providing a master listing of required reporting; and it can also provide advanced notice to the various departments in preparation of the report submissions.
California Institute of Technology
Summary Schedule of Prior-Year Audit Findings and Questioned Costs
For the Year Ended September 30, 2008

Prior Year Findings

Finding 07-1 Allowable Costs

Condition
Based on testing of direct charges, there was a charge which 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).

Current Status
The incorrect charge was refunded in the prior year.

Project Accounting includes a review of all “food” expenditure type charges for allowability and allocability as part of a monthly review of higher risk expenditure types charged to federal awards.

No equivalent issues were noted during the current year audit, and no further action is required.
June 9, 2009

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 2008

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, 2008.

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
Fiscal Year 2008

<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>8.1</td>
<td>Based on testing of the Institute's compliance with respect to Reporting under Circular OMB A-133, it was noted that for the Financial Status Report (&quot;Form 269&quot;) and Federal Cash Transaction Report (&quot;Form 272&quot;) selected for testing for SNWS relating to the quarter ended June 30, 2008, and for DOI relating to the year ended December 31, 2007, respectively, were not submitted to the award agencies until December 2008. This represented a 6-months and 12-months delay after the reporting period for the SNWS and DOI awards, respectively. In addition, the reports for the DOI awards were not submitted to the awarding agency between the years 2005 and 2008. The Institute is not in compliance with the requirements set forth in the OMB Circular A-133 with respect to Reporting, which requires that a report should be submitted on a timely basis in accordance with the award agreements. Additionally, the Institute is not complying with the reporting requirements set forth under the award agreement. Our initial sample was 10 reports, which yielded two late reports. However, based upon reviewing all remaining reports, no additional errors were found.</td>
<td>The requirement for clear identification and subsequent monitoring of financial reporting requirements related to federal awards has been reinforced at Research Administration staff meetings (both the pre and post award offices). In addition, a tickler file is being developed that will track non-standard financial reporting requirements.</td>
<td>AVP Research Administration</td>
<td>March 2010</td>
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</tbody>
</table>