

Section IV

Findings

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2009

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:

Program Name	CFDA Number	
Research and Development Cluster	Various	
Student Financial Aid 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, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 09-01: Timeliness of financial reporting for federal awards

Identification of programs affected by the finding

Sponsor Award Number: Various (N66001-08-1-2043, 2007-DN-077-ER0004-02, DE-FC52-08NA28613, N00014-06-1-0011, HR0011-04-1-0032, FA9550-08-1-0173, FA9550-06-1-0443, RQ-50267-0, HM 1582-08-1-0019, and 2007-DN-077-ER0004-03)

Sponsoring Agency: Various (Space and Naval Warfare Systems, Homeland Security Advanced Research Projects Agency, Department of Energy, Office of Naval Research, Defense Advanced Research Project Agency, Air Force, National Endowment for Humanities, and National Geospatial-Intelligence Agency)

CFDA #: Various (12.910, 97.077, 81.000, 12.300, 12.910, 12.800, 45.161, and 12.630)

Caltech Award #: Various (SNWS.TBN, HSARPA.000004, DOE.PSAAP, ONR.SYSTEMS, DARPA.CTROPTO/CTRFAB, AFOSR.DMOC, AFOSR.DWELLS, NEH.693281, NGIA.000002, and HSARPA.000005)

Audit Year: FY2009

Criteria

The Institute is responsible for submitting financial reports for awards on quarterly, semi-annual, annual or final basis, in accordance with specific sponsoring agency requirements.

Based on Office of Management and Budget ("OMB") Circular A-110, ____.52 (a)(1)(iv), 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), "Recipients 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, the financial reports related to the program are due within 15 - 90 days following the end of each reporting period.

Condition

The Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") for 10 out of 29 reports on federal awards were not submitted to the awarding agencies in a timely manner. Below are instances where the reports were submitted late from the testing sample.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2009

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

Award No.	Contract No.	Due date of Selected Report	Report Submission Date	Days late
SNWS.TBN	N66001-08-1-2043	10/31/2009	12/16/2009	46
HSARPA.000004	2007-DN-077-ER0004-02	11/14/2009	11/24/2009	10
DOE.PSAAP	DE-FC52-08NA28613	4/30/2009	9/14/2009	137
ONR.SYSTEMS	N00014-06-1-0011	3/31/2009	4/15/2009	15
DARPA.CTROPTO/CTRFAB	HR0011-04-1-0032	3/31/2009	6/16/2009	77
AFOSR.DMOC	FA9550-08-1-0173	4/15/09	7/8/2009	84
AFOSR.DWELLS	FA9550-06-1-0443	6/30/2009	7/9/2009	9
NEH.693281	RQ-50267-07	4/30/2009	5/27/2009	27
NGIA.000002	HM 1582-08-1-0019	7/31/2009	1/15/2010	168
HSARPA.000005	2007-DN-077-ER0004-03	2/15/2009	2/18/2009	3

The Institute has a total of 463 awards subject to financial reporting requirements with \$223 million of expenditures during fiscal 2009. Approximately 82% of the fiscal 2009 federal expenditures or \$182 million of federal expenditures were funded by 3 federal agencies, namely, National Aeronautics and Space Administration ("NASA"), National Institutes of Health ("NIH"), and National Science Foundation ("NSF"). No exceptions were identified in regards to the reporting requirements to these 3 largest Federal funding agencies for Caltech.

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, 2009

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

Cause

The following were the causes for the delays in the submission of the required financial reports:

Defense Advanced Research Project Agency

Final report was not submitted in a timely manner due to delay in receiving cost sharing information from subawardees.

Space and Naval Warfare Systems, Homeland Security Advanced Research Projects Agency, Department of Energy, Office of Naval Research, Air Force, National Endowment for Humanities, and National Geospatial-Intelligence Agency

Project Accounting department was downsized during the audit year. The staff, who took over the workload from the exiting employees, did not get adequate time to get acquainted with the reporting requirements of the newly assigned awards and missed some reporting deadlines, which were subsequently submitted to the sponsoring agencies. In addition, the report reminder database was being developed and had not been implemented during this audit year.

Effect

As the Institute did not submit the financial reports in a timely manner, in accordance with the award agreement, the Institute did not meet its contractual obligations.

Recommendation

An accurate tickler file should be set up indicating the reporting requirements of various awards. A procedure should also be implemented to monitor, review and update the tickler file for new awards and close of awards. Maintaining an accurate master listing of required reporting can provide control that the department can rely on to determine the appropriate due dates of report submission and plan appropriately for the preparation and completion of the reports.

Management's Views and Corrective Action Plan

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

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2009

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

Finding 09-02: Distribution of expenditure between two Federal awards under direct cost allocation principles

Identification of programs affected by the finding

Award Contract Number: 1000 G HD871 and DE-FG02-92ER40701

Sponsoring Agency: National Science Foundation (passed through from University of California Los Angeles) and Department of Energy

CFDA #: 47.049 and 81.064

Award #: UCLA.000024 and DOE.000036

Award Year: FY2009

Citation

2 CFR section 220 Appendix A part C. 4 d (2) to (4)

Criteria

Office of Management and Budget ("OMB") Circular A-21, Part C, Paragraph 4(d)(3) states:

"If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit."

Condition

Expenditures that benefited two federal awards, contract 1000 G HD871 and DE-FG02-92ER40701, for University of California Los Angeles ("UCLA") and Department of Energy ("DOE"), respectively, required distribution of the expenditures between both awards. While the expenditures benefited both federal awards, the summary of all the allowable expenses was not mathematically correct. As such, the distribution of the expenditures between both federal awards was not properly performed, thereby leading to the UCLA award being overcharged and the DOE award being under charged by the same amount of \$1,207.

Questioned Costs

The Questioned Costs for the inaccurate distribution of expenditures to the Federal awards amounts to \$1,207.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2009

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

Cause

The cause of the incorrect distribution for the cost of purchase of the item was due to the department's oversight in the review of the costs recorded to the Oracle system, and mathematical accuracy of the report. The error was subsequently corrected.

Effect

Due to the error in distributing costs, one federal award was overcharged.

Recommendation

Additional review should be implemented at the departmental level to ensure correct distribution of costs.

Management's Views and Corrective Action Plan

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

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2009

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

Finding 09-03: Support for Travel Costs

Identification of programs affected by the finding

Award Contract Number: 634177-H017357

Sponsoring Agency: National Science Foundation (passed through from Howard University)

CFDA #: 47.000

Award #: HOWARD.HUSUB

Award Year: FY2009

Citation

2 CFR section 220 Appendix A part C. 4 d (1), and (2)
Office of Management and Budget ("OMB") Circular A-21, Part A, 2(e)

Criteria

Circular A-21 of OMB requires that the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.

Additionally, the Institute is expected to comply with the documentation guidelines of Circular A-21 and include in its travel policy specific guidelines for all employees to follow. Section 1.5.2 of the institute's travel policy states that, "The traveler should spend Institute funds prudently...The traveler is responsible for the submission of all forms related to his/her travel... A completed and signed Travel Expense Report form should be submitted as soon as practical, but no later than 30 days after the traveler's return."

Condition

In testing the travel expense reports, 1 travel expense report out of the 10 selected for testing did not have a timely travel expense report submitted for the trip in support of the expenditure. The travel expenditure, which was \$472 for airfare, was incurred in November 2008 in relation to a subaward from Howard University.

Questioned Costs

The Questioned Costs for the travel awards with a lack of appropriate support amounts to \$472.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2009

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

Cause

The cause of the lack of supporting documentation for the airfare charged to the Howard University subaward was due to the traveler not complying with the Institute's travel policy and delay in providing the documentation to the Institute's payment services department.

Effect

Supporting documentation for travel expenditures was not submitted in a timely manner. Therefore, the Institute is not in compliance with its own travel policy, including the definition of adequate documentation to support costs charged to sponsored agreements per OMB Circular A-21, and the Code of Federal Regulations.

Recommendation

Additional procedures should be implemented at the Institute's Travel Services department to ensure that action for noncompliance to Institution's policies is taken in a timely manner and in accordance with Institute's established policies and procedures. This could include obtaining adequate support (e.g. invoices and travel folios) prior to recording charges to sponsored programs and/or request for reimbursement from sponsoring agencies.

Management's Views and Corrective Action Plan

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

**California Institute of Technology
Summary Schedule of Prior-Year Audit Findings
and Questioned Costs
For the Year Ended September 30, 2009**

Prior Year Findings

Finding 08-1 Timeliness of financial reporting for Federal awards.

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.

Current Status

Not yet implemented. Refer to Finding 09-01 and Management's Views and Corrective Action Plan 9.1.

CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Research Administration
Financial Services Administration Building, Mail Code 231-15
626-395-6073

June 25, 2010

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

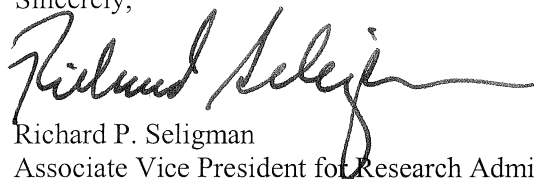
Subject: California Institute of Technology Management's Views and Corrective Action Plan

Reference: OMB Circular A-133 Audit for Fiscal Year 2009

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, 2009.

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

Sincerely,



Richard P. Seligman
Associate Vice President for Research Administration

Enclosure

CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Research Administration
 Financial Services Administration Building, Mail Code 231-15
 626-395-6073

Fiscal Year 2009

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
9.1	The Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") for 10 out of 29 reports for federal awards were not submitted to the awarding agencies in a timely manner.	The Institute has evaluated the compliance impact of the late report noting that the late reports account for 1% of total expenditures reported in the financial reports for the 463 awards in fiscal 2009. Additionally, in accordance with Management Response to FY 08-A133 Audit, the Institute has implemented a report reminder database, which became fully functional in March 2010. Project Accounting staff are monitoring financial report due dates by using this report reminder system. In addition, the federal sponsoring agencies have transitioned to Federal Financial Reports (FFR), a format stipulated by the Office of Budget and Management (OMB) in accordance with the implementation plans of Federal Financial Assistance Management Improvement Act of 1999. This form replaces the SF269 and SF272 and establishes government-wide standards for reporting periods and report due dates. These standardizations have	Director of Project Accounting	March 2010

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 626-395-6073

		significantly reduced confusions with financial report types and reporting deadlines among the awardee institutions as well as the sponsoring agencies.		
9.2	Expenditures that benefited two federal awards, contract 1000 G HD871 and DE-FG02-92ER40701, for University of California Los Angeles ("UCLA") and Department of Energy ("DOE"), respectively, required distribution of the expenditures between both awards. While the expenditures benefited both federal awards, the summary of all the allowable expenses was not mathematically correct. As such, the distribution of the expenditures between both federal awards was not properly performed, thereby leading to the UCLA award being overcharged and the DOE award being under charged by the same amount of \$1,207.	The discrepancy in the distribution occurred due to a mathematical error made by a department administrator. The questioned costs are for materials and supplies to support an offsite major program funded by multiple sponsors, including NSF and DOE. Supporting documentation was adequate and in accordance with Institution's policies. The error was subsequently corrected. Project Accounting will incorporate in their training programs the importance of after-the-fact timely review of charges posted to federal awards by the departmental administrators so that errors are identified and corrected in a timely manner.	Director, Project Accounting	On-going
9.3	In testing the travel expense reports, 1 travel expense report out of the 10 selected for testing did not have a timely travel expense report submitted for the trip in support of the expenditure. The travel expenditure,	The Institute agrees that complete and timely travel expense reports are required both by federal regulations and the Institute's travel policy. This specific instance of a seriously delayed travel expense report represents an aberration. Despite many follow up attempts	Director of Procurement	July 2010

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	<p>which was \$472 for airfare, was incurred in November 2008 in relation to a subaward from Howard University.</p>	<p>by Travel Services and the traveler's academic division, the traveler failed to submit an expense report until long after it was due. The Institute revoked the traveler's purchase card due to non-compliance with Institute policies, despite receiving 30, 60 and 90 day reminders from the Travel Services department. This is an indication of the seriousness with which the Institute views such matters.</p> <p>Travel Services will copy Project Accounting on 90-day and 120-day reminders sent to travelers. When confirmed by Travel Services Project Accounting will work with the divisions to remove any future unsupported costs from the federal awards.</p>		
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