

## **Section IV**

### **Findings**

**California Institute of Technology**  
**Independent Auditor's Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2014**

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**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

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: Unmodified

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
Homeland Security Grant Program	97.067

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**

None reported

# California Institute of Technology

## Independent Auditor's Schedule of Findings and Questioned Costs

### For the Year Ended September 30, 2014

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#### Section III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

##### **Finding 2014-001: National Institutes of Health Salary Limitation not Applied Correctly**

Program: R&D Cluster

Sponsor Award Number: DP1GM105376A, P01 CA132681A

Sponsoring Agency: National Institutes of Health

CFDA Number: 93.310, 93.395

Institute Award Number: NIH.DP1OD006924, NIH.P01YR1

##### **Condition**

In testing the Institute's compliance with the National Institutes of Health ("NIH") salary limitation, we sampled \$2.9 million of salaries and related costs stemming from seven NIH awards. Total expenditures for our sample of NIH awards were \$17.4 million. We noted one award for which the salary rate of an individual working on the award was greater than the allowable rate. This resulted in an award overcharge of \$420. During our testing of other labor transactions, we identified one additional NIH award that was overcharged by \$36. Both awards were active as of September 30, 2014.

##### **Citation**

National Institutes of Health Policy Grants Statement Effective 10.1.2013. *4.2.10 Salary Cap/Salary Limitation* and Circular A-110 Subpart C Paragraph 20

##### **Criteria**

When paying individual salaries through funds from NIH, the Institute is required to ensure that an individual is not paid at a rate in excess of the applicable salary limitation. Recipients of these funds are required to prorate the amount to reflect the percentage of time that the individual was working on the applicable grant. In addition, Circular A-110 requires that an organization's financial management system be designed in order to determine the allowability of costs.

##### **Questioned Costs**

\$456

##### **Cause**

Caltech utilizes an internal report to monitor the distribution of salaries to all NIH awards for researchers whose salaries are over the NIH salary cap. The report identifies salary distributions over the cap and the adjustments needed in order to be compliant with the salary limitation. Grant managers are then responsible for making any adjustments necessary. For the two exceptions noted above, this monitoring was not performed and therefore the grant manager did not make the necessary adjustments to prevent overcharging the award. Management's award close-out procedures require that a final review of the salary limitation be performed prior to closing the award, but this does not allow for timely correction of the charge. Additionally, management did not have a centralized mechanism in place to determine that all awards were being reviewed annually.

##### **Effect**

Failure to follow NIH salary limitation guidelines and implement a system where 100% of unallowable salary charges are removed, results in the Institute receiving more than the allowable amount of funding.

**California Institute of Technology**  
**Independent Auditor's Schedule of Findings and Questioned Costs**  
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**Recommendation**

We recommend the Institute enhance its review of the salary limitation adjustments needed. We further recommend that the Institute enhance its controls and processes to ensure a timely review of the salary limitation on all NIH awards is being performed. In addition, the Institute should establish a process to monitor that these reviews are being performed.

**Management's Views and Corrective Action Plan**

Management's views and corrective action plan is included at the end of this report.

**California Institute of Technology**  
**Summary Schedule of Status of Prior Audit Findings**  
**and Questioned Costs**  
**For the Year Ended September 30, 2014**

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**Condition**

In testing the Institute's reporting of subrecipients subject to the Federal Funding Accountability and Transparency Act, PwC sampled ten files involving subawards of \$2,100,000 out of a total population of subawards of \$38,800,000. PwC noted that FFATA reporting was performed for all awards tested. However, for three of the ten subrecipients tested, PwC noted that one report was submitted 31 days past the deadline, and one report was submitted 22 days past the deadline and the final report was submitted one day past the deadline.

**Current Status**

The Caltech Office of Sponsored Research now validates each month those federal awards subject to FFATA. This ensures that all subawards issued from covered awards are captured in the monthly reports submitted to the FFATA Subaward Reporting System. In addition, given that all of the information reported under FFATA is managed by Caltech's Procurement Services, Caltech's Office of Sponsored Research transitioned this reporting requirement to Procurement Services on October 1, 2014. No late FFATA reporting issues were noted during the current year audit, and no further action is required.



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May 14, 2015

PricewaterhouseCoopers LLP  
601 South Figueroa Street  
Los Angeles, CA 90017

Subject: California Institute of Technology Management's Views and Corrective Action Plan  
Reference: OMB Circular A-133 Audit for Fiscal Year 2014

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, 2014.

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

Sincerely,

A handwritten signature in blue ink that reads "Sharon E. Patterson". The signature is fluid and cursive.

Sharon E. Patterson  
Associate Vice President for Finance and Treasurer

Enclosure

**Fiscal Year 2014**

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
2014-001	<p>In testing the Institute's compliance with the National Institutes of Health ("NIH") salary limitation, we sampled \$2.9 million of salaries and related costs stemming from seven NIH awards. Total expenditures for our sample of NIH awards were \$17.4 million. We noted one award for which the salary rate of an individual working on the award was greater than the allowable rate. This resulted in an award overcharge of \$420. During our testing of other labor transactions, we identified one additional NIH award that was overcharged by \$36. Both awards were active as of September 30, 2014.</p>	<p>Caltech has several tools in place to monitor the NIH salary limitation. There is a standardized process for establishing salary cap companion accounts for Caltech researchers whose salaries are over the cap. The on-line NIH Salary Cap Calculator assists grant managers in determining the distribution of salaries between the NIH award and the salary cap companion account. The NIH Salary Cap report is available to help grant managers monitor their accounts to ensure that salaries have been distributed correctly and are compliant with the appropriate salary cap. Also, Post Award Administration (PAA) reviews the NIH Salary Cap report as part of their standard closeout procedures prior to closing an award. It should be noted that the two awards included in the finding were active awards and not due to close during FY2014. For the one award overcharged by \$36 dollars, Caltech management does not consider this to be a material amount.</p> <p>In addition to the above, Caltech PAA will perform a review of all NIH awards on a semi-annual basis in order to ensure timely identification and correction of any overages. Caltech PAA will also provide refresher training to grant managers in order to ensure that they fully understand how to utilize the tools that are available to them. Furthermore, Caltech PAA will update internal controls documentation to ensure that roles and responsibilities of each department are clearly stated and that thresholds defining immaterial amounts will be provided.</p>	<p>Felicia Beanum, Senior Director,          Post Award Administration          fbeanum@caltech.edu</p>	<p>9/30/2015</p>