

## **Section IV**

### **Findings**

**California Institute of Technology**  
**Independent Auditor's Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2015**

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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
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**

None reported

# California Institute of Technology

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

### For the Year Ended September 30, 2015

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

##### **Finding 2015-001 - Service Center Charges:**

Program: Research & Development Cluster

Sponsor Award Number: N51608C

Sponsoring Agency: National Science Foundation

CFDA Number: 47.049

Institute Award Number: AURA.000002

Award Period: 2014 – 2015

##### **Condition**

In testing the Institute's conformity with the compliance requirements for certain non-salary direct costs, we selected 21 charges, comprising \$1.8 million of costs stemming from 20 federally funded awards. Total expenditures for these cost types, for these awards, was \$20.3 million. We noted one charge for a new service center in the amount of \$41,848. The service center charges were based on budgeted hours rather than actual hours and therefore were not determined on a basis generally consistent with charges from other service centers. The Institute's policies and procedures do not indicate that rates are required to be based on actual hours rather than budgeted hours. However, the Institute assumes that charges will be based on actual hours unless otherwise noted by the service center. The service center provides curation and archive services, and primarily services non-federal awards for the Institute. This was the only Institute federal award to which the service center charged costs.

The service center noted above was also included in a sample of five service centers tested from a population of 30. We noted no errors in our testing as all centers were using break even rates.

##### **Citation**

Circular A-21 Subpart C Paragraph 2

##### **Criteria**

Circular A-21 states that in order for costs in general to be allowable they must be reasonable, allocable, given consistent treatment and conform to the agreement terms. Additionally, service center charges are required to be based on actual usage of the services on the basis of a schedule of rates or established methodology.

##### **Questioned Costs**

\$41,848

##### **Cause**

Beyond providing the policy to service centers, the Institute does not provide further training on application of service center rates.

##### **Effect**

The concept of applying rates based on actual rather than budgeted time is not apparent to all and resulted in an incorrect charge.

**California Institute of Technology**  
**Independent Auditor's Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2015**

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**Recommendation**

We recommend the Institute's policy be modified to address the application of rates and specific training in this area be provided.

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

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

# California Institute of Technology

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

### For the Year Ended September 30, 2015

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#### **Finding 2015-002 - Foreign Subrecipient Monitoring:**

Program: Research & Development Cluster

Sponsor Award Number: U41 HG002223D

Sponsoring Agency: National Institutes of Health (NIH)

CFDA Number: 93.172

Institute Award Number: NIH.WB2013

Award Period: 2014 – 2015

#### **Condition**

In testing the Institute's compliance with the monitoring of subrecipient requirements, we sampled 30 subrecipient agreements out of a total population of 155. We identified two subawards with foreign entities, for which the Institute did not perform the appropriate monitoring procedures as it did not evaluate whether the entities were subject to audit requirements for federal expenditures. In both cases, the Institute did not engage in discussions to understand whether these subrecipients had sufficient federal expenditures in the subrecipients' fiscal year to make them subject to either an A-133 audit or audit under *Government Auditing Standards*. In both cases, as part of its award monitoring procedures, the Institute did review and approve the invoices and associated costs, which provided evidence that the costs incurred were appropriate. The expenditures included in the accompanying schedule of expenditures of federal awards for these two subawards are \$512,000 and \$480,000, respectively.

#### **Citation**

National Institutes of Health Grant Policy Statement Section 16.7.4 and 18.4.5

#### **Criteria**

OMB Circular A-133, which applies to the NIH award funding the foreign subrecipients identified above, exempts foreign subrecipients from its requirements. However, NIH requires awardees to ensure that foreign subrecipients expending more than the threshold outlined in NIH Grant Policy Statement 16.7.4 during the fiscal year audited, have an A-133 audit or a program specific audit.

#### **Questioned Costs**

None

#### **Cause**

The process for monitoring subrecipient compliance with audit requirements rests with the Institute's Procurement Services. Procurement Services' process did not include the monitoring of foreign subrecipients' compliance with NIH audit requirements.

#### **Effect**

Foreign subrecipients that are required to have a compliance audit of US federal funds expended are not monitored by the Institute to ensure compliance with this requirement as intended by the awarding agency.

**California Institute of Technology**  
**Independent Auditor's Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2015**

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**Recommendation**

We recommend that the Institute establish a formal process for evaluating the specific audit requirements of all federal agencies for foreign subrecipients and for ensuring conformance by foreign subrecipients to such requirements.

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

Management's views and corrective action plan are 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, 2015**

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**Condition**

Finding 2014-001: In testing the Institute's compliance with the National Institutes of Health ("NIH") salary limitation, PwC sampled \$2.9 million of salaries and related costs stemming from seven NIH awards. Total expenditures for PwC's sample of NIH awards were \$17.4 million. They 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 their testing of other labor transactions, they identified one additional NIH award that was overcharged by \$36. Both awards were active as of September 30, 2014.

**Current Status**

The Institute issued the National Institutes of Health Salary Cap policy effective January 2016. In addition, the Institute updated its internal controls documentation to ensure that roles and responsibilities of each department were clearly stated as well as provide a threshold to define immaterial amounts. The Institute's Post Award Administration (PAA) office provided refresher training to grant managers in order to ensure that they fully understand how to utilize the tools that are available to them. Additionally, the Institute's PAA provided semi-annual NIH Salary Cap reports to grant managers during fiscal year 2015. The Institute's PAA and academic divisions continue to work together to identify any overcharges of salary to NIH awards and adjust salaries accordingly.



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May 20, 2016

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 2015

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, 2015.

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

Sincerely,

A handwritten signature in black ink that reads "Sharon E. Patterson". The signature is written in a cursive style with a long, sweeping underline.

Sharon E. Patterson  
Associate Vice President for Finance and Treasurer

Enclosure

Fiscal Year 2015

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
2015-001	<p>In testing the Institute's conformity with the compliance requirements for certain non-salary direct costs, we selected 21 charges, comprising \$1.8 million of costs stemming from 20 federally funded awards. Total expenditures for these cost types, for these awards, was \$20.3 million. We noted one charge for a new service center in the amount of \$41,848. The service center charges were based on budgeted hours rather than actual hours and therefore were not determined on a basis generally consistent with charges from other service centers. The Institute's policies and procedures do not indicate that rates are required to be based on actual hours rather than budgeted hours. However, the Institute assumes that charges will be based on actual hours unless otherwise noted by the service center. The service center provides curation and archive services, and primarily services non-federal awards for the Institute. This was the only Institute federal award to which the service center charged costs.</p> <p>The service center noted above was also included in a sample of five service centers tested from a population of 30. We noted no errors in our testing as all centers were using break even rates.</p>	<p>In general, the Institute's Service Centers use actual hours to charge out to federal awards. In this case, the Service Center used budgeted hours. The Institute will update the Service Centers policy to include guidance on acceptable methodologies for determining charges to federal awards for center services and will provide training on this topic. In addition, new service centers will be required to provide their methodology and related procedures for determining charges for services prior to the authorization of the service center.</p>	<p>Virginia Baker          Senior Director, Cost Studies and Property Services          Office of Financial Services  <a href="mailto:virginia.baker@caltech.edu">virginia.baker@caltech.edu</a></p>	9/30/2016
2015-002	<p>In testing the Institute's compliance with the monitoring of subrecipient requirements, we sampled 30 subrecipient agreements out of a total population of 155. We identified two subawards with foreign entities, for which the Institute did not perform the appropriate monitoring procedures as it did not evaluate whether the entities were subject to audit requirements for federal expenditures. In both cases, the Institute did not engage in discussions to understand whether these subrecipients had sufficient</p>	<p>The Institute is in the process of issuing a new subaward policy and associated procedures that will address compliance with Sponsor audit requirements, including foreign subrecipients. Foreign subrecipients reporting they do not receive annual A-133 or equivalent audits will be required to complete a Subrecipient Audit Questionnaire annually. Foreign subrecipients reporting they do receive annual A-133 or</p>	<p>Tina Lowenthal          Director of Procurement Purchasing Services  <a href="mailto:Tina.lowenthal@caltech.edu">Tina.lowenthal@caltech.edu</a></p>	9/30/2016

	<p>federal expenditures in the subrecipients' fiscal year to make them subject to either an A-133 audit or audit under <i>Government Auditing Standards</i>. In both cases, as part of its award monitoring procedures, the Institute did review and approve the invoices and associated costs, which provided evidence that the costs incurred were appropriate. The expenditures included in the accompanying schedule of expenditures of federal awards for these two subawards are \$512,000 and \$480,000, respectively.</p>	<p>equivalent audits will be required to certify annually.</p>		
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