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Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPLIANCE AND AUDIT:

DISCUSSION ITEM

For Meeting of March 13, 2013

SUMMARY OF RESULTS OF THE UNIVERSITY'S 2012 A-133 AUDIT

The University's 2012 A-133 report is completed and a copy of the report is attached. Highlights from the University's A-133 audit are:

- The objective was for PricewaterhouseCoopers (PwC) to perform an audit of the University's financial statements in accordance with Government Auditing Standards. Items subject to compliance testing for purposes of the audit requirements under OMB Circular A-133 are direct and indirect charges related to research and development and other awards and student financial aid expenditures and outstanding loans.
- Total federal awards expenditures were $4.2 billion
- Three programs were audited as "Major Programs" in 2012, compared to five audited by PwC in 2011
- Eight campus locations in-scope for 2012 A-133 testing (four for student financial aid and four for research and development)

The three programs that were audited by PwC in 2012 included:

- Research & Development (R&D) Cluster - $3.6 billion
- Student Financial Aid (SFA) Cluster - $364 million (plus $1.4 billion in student loans authorized or advanced)
- California Department of Social Services – Food Stamp Nutrition Education Program – $4.5 million

There were nine findings in the 2012 A-133 report:

Findings:	**Management's Responses:**
1. Conduct a Biennial Physical Inventory (R&D)	
– At two of the locations, PwC noted that a physical inventory of equipment	– At the first campus, a new property information system was implemented

purchased with federal funds had not been performed in the past two years, as required under federal regulations. – No questioned costs were identified.	in 2011 and the campus has been working to complete a full physical inventory using its new system and expects this to be fully accomplished by the Spring of 2013. Thereafter, campus will ensure that biennial physical inventory requirements are met on an ongoing basis. – At the second campus, communications will be enhanced to ensure leadership understands the importance of timely completion of physical inventories and best practices for recording it in the system. Ongoing monitoring will be performed to ensure timely completion of inventories.
2. Compliance with Davis-Bacon Act (R&D)	
– PwC tested 45 certified payroll records and related contractor employee wage rates to determine compliance with the Davis Bacon Act (the "Act"). There were six instances of non-compliance with the Act where contractors paid an amount lower than the minimum prevailing wage required by the Department of Labor. There were two campuses where this finding occurred. Additionally, there was one instance of non-compliance related to the non-submission of certified payroll records. – Questioned costs are approximately $22,000.	– At the first campus, a full audit of contractor costs was completed in January 2013 and the campus has instituted a full Labor Compliance Program ("LCP") to ensure future compliance with the Act. – At the second campus, the contractor and the Labor Compliance Officer were notified of the issue and campus has hired a consultant to audit the current Davis Bacon projects. Federal wage rates are also going to be entered in the University's automated Labor Compliance Program Tracker web application to track and ensure future compliance.
3. Transparency Act Reporting Requirements (R&D)	
– PwC tested 41 subawards to validate compliance with the Federal Funding Accountability and Transparency Act ("FFATA") reporting requirements, with which one campus was not in compliance; four reports had not been	– FFATA reporting and compliance requirements were communicated to the staff and a new monthly report of all executed subawards is now being generated and checked against FSRS.gov to verify and ensure that

submitted into the FFATA Subaward Reporting System (FSRS). – No questioned costs were identified.	FFATA required reports have been completed. Follow-up is performed on any non-compliant reports.
4. Cost Transfers (R&D and Other Award)	
– PwC selected 170 cost transfers for testing, noting six instances at one campus in which the transfers were completed outside of the University's policy, which is 120 days from the close of the month in which the original charge was posted to the ledger. PwC noted these late transfers occurred on average after 187 days (67 days past due). – No questioned costs were identified.	– The campus is enhancing its financial systems to ensure the 120 day policy limit is properly applied, preventing late transfers onto federal funds. This system enhancement is scheduled to be completed by May 2013. In addition, communications will be delivered to cost transfer initiators and approvers to ensure there is a clear understanding of the requirements and their importance.
5. Subrecipient Monitoring (R&D)	
– 86 subrecipients were tested for proper monitoring. There was one campus at which the proper monitoring procedures had not been performed for two out of seven subrecipients tested. For one subrecipient, the A-133 audit was in progress and the audit report had not yet been received. The other subrecipient was an advanced-award recipient. It was discovered that the entire population of advanced federal award subrecipients ($2.5 million) was not included in the campus monitoring process which covered only reimbursement subrecipients. (The total amount passed through to reimbursement subrecipients was $50.8 million at that campus.) – No questioned costs were identified.	– Changes have been made in the monitoring process to include advance funded subawards in the population for subrecipient monitoring. Additionally, beginning in 2013, an annual review of subrecipient monitoring processes will be performed to ensure that any changes to other business processes are evaluated to determine any potential impact to the subrecipient monitoring process.
6. Timeliness of Travel Costs (R&D and Other Award)	
– Out of 25 travel costs tested, there was one campus where five out of the six	– Communications will be enhanced to ensure leadership understands the

samples tested were not in compliance with the campus policy to submit expenses within 21 days from the date incurred. The amounts included in these expense reports ranged from $266 to $14,650 with an average of 69 days between the date the expense was incurred to the date the expense report was submitted and recorded as an award expenditure in the campus general ledger. – No questioned costs were identified.	importance of timely submission of expense reports in line with the University's travel policy and additional training will be rolled out by the end of 2013. Ongoing compliance will also be monitored.
7. Timely Return of Title IV Funds (SFA)	
– At one campus, Title IV funds for six students (out of 19 selected for testing, which was 100% of the population of students who withdrew before beginning attendance at this campus) were returned on average 115 days after the student withdrew from the University, which is not within the required timeframe of 30 days. – At another campus, an issue was identified for one student (out of 25 tested) who withdrew from the University after beginning attendance where Title IV funds were returned 79 days after the student withdrew from the University, which is not within the required timeframe of 45 days. – Questioned costs are approximately $54,000.	– At the first campus, the resulting error was identified as an issue with the campus' system and was subsequently fixed. A thorough review was performed and any discrepancies were adjusted. In addition, a monthly review of the cumulative report of students leaving the University began in February 2013 to ensure all records are captured and addressed in a timely manner. – At the second campus, beginning in September 2012, a weekly cumulative report was run to capture all students who are no longer actively enrolled to ensure Title IV funds are returned in a timely manner. At the end of the financial aid year, a full assessment of the refunds will be completed to ensure there are no other students for whom the aid has not been refunded appropriately.
8. Student Loan Repayment Exit Interviews (SFA)	
– As part of our testing, 106 students who ceased to study at the institution during the period under audit were selected for testing and there were two students for	– The affected campus has replaced the interface from the student aid management system and the student information system, and implemented

whom an exit interview was not conducted. Upon further investigation, at one campus, there were approximately 900 students who had entered into repayment during the period in question, of whom 77 students did not complete exit interviews. – No questioned costs were identified.	controls to ensure such errors do not reoccur. The new system put in place by Administrative Computing and Telecommunication automatically applies long-term loan documentation (LCOD) holds for students who have failed to complete their exit interview.
9. Student Eligibility, Satisfactory Academic Progress (SFA)	
– PwC tested student eligibility for 160 students. At one campus, out of 40 students tested, there was one student not meeting satisfactory academic progress ("SAP") requirements for continuing to receive financial aid and no appeal was requested or approved. Upon further investigation by management, it was determined that the error population was limited to Spring 2010 admits with transfer units and one more student was also found to be out of compliance with the SAP requirements. – Questioned costs totaled $26,307.	– This was a one-time issue related to the transition to a new financial aid system and limited to students who entered in the Spring 2010 semester. Thus, this is an isolated incident that will not recur. Federal student aid funds for these two student cases have been returned to the government. The computer program that measures Satisfactory Academic Progress will be tested annually as part of the start of each award year to ensure accuracy and prevent future measurement issues.

Management has implemented procedures to address all findings from 2011. All findings, except for the finding to Conduct a Biennial Physical Inventory, were remediated. The remediation plan for Conduct a Biennial Physical Inventory was still in process, therefore the finding was repeated in 2012.

(Attachment)