



AUDIT AND ADVISORY SERVICES

Cost Sharing
Audit
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December 22, 2010

Prepared by:

Jennifer Jones
Auditor-in-Charge

Reviewed by:

Jeremy Lapidus
IT Audit Manager

Approved by:

Wanda Lynn Riley
Director



AUDIT AND ADVISORY SERVICES
(510) 642-8292

650 UNIVERSITY HALL
BERKELEY, CALIFORNIA 94720-1170

December 22, 2010

Frank Yeary
Interim Vice Chancellor
Administration

Graham Fleming
Vice Chancellor
Research

Vice Chancellors Yeary and Fleming:

Audit and Advisory Services (A&AS) completed the Cost Sharing audit included in our FY2010 audit plan. The audit was completed in accordance with the Institute of Internal Auditors, Inc. *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

The objective of this audit was to assess the effectiveness of campus and department controls that are designed to ensure that costs used to meet cost sharing commitments on awards are in accordance with federal, sponsor, and University requirements. Among active awards with end dates later than April 1, 2009, approximately 10% of award dollars had associated cost share commitments; cost share commitments from this population of awards totaled \$358 million on a related award base of \$341 million. Of the \$358 million in cost share, \$257 million was contributed by one award managed by Research Enterprise Services. Due to the high volume of activities and process changes for sponsored projects managed by Research Enterprise Services as fiscal contract and grant management responsibilities transfer in from various organized research units, these sponsored projects were excluded from the scope of this audit. A full audit of Research Enterprise Services is planned for FY2011.

Based on our testing, procedures and controls need strengthening in order to better ensure: (i) that voluntary cost sharing commitments are consistent with UC policies, and (ii) that processes for managing and monitoring cost share commitments are adequate to ensure compliance with federal, sponsor, and University requirements.

UC policy states that each campus must have "a centralized tracking system to capture committed cost sharing amounts"; however, no such central system for tracking cost share expenses exists. Current campus procedures and controls related to managing cost sharing commitments are manual and largely decentralized, with accountability for ensuring that cost share commitments and expenses comply with federal, sponsor, and UC requirements residing with each department and principal investigator. While there is central campus involvement in sharing information and policies related to cost sharing via their websites, in evaluating cost share commitments at the pre-award stage, and in supporting the final cost share reporting requirements, we identified potentially invalid or insufficiently documented cost share expenses

in 6 of the 25 awards sampled, and gaps in department familiarity with relevant regulations and policies and in department procedures for managing their cost share commitments. As well, effort reporting certifications related to cost share amounts were not always completed. We therefore believe that additional oversight and monitoring on the part of central campus units Sponsored Projects Office (SPO) and Extramural Funds Accounting (EFA) is warranted.

Specific opportunities to strengthen controls include: (i) the communication of relevant regulations and policies; (ii) the development and communication of best practices and tools for confirming, managing, and documenting cost share commitments to ensure compliance with federal, sponsor, and University requirements; (iii) the clarification of department versus SPO/EFA accountabilities related to cost share management; and (iv) increased central campus monitoring of cost share activity.

The Budget Office is developing a research administration funding model which will facilitate EFA's efforts to enhance monitoring of cost share reporting. Further, EFA will update cost sharing procedures and forms in order to provide additional guidance to departments on the tracking and documenting of cost share expenses, and to further clarify roles and responsibilities. As well, EFA will work with the specific departments identified through our audit work to have claimed potentially unallowable expenses as cost share in order to determine the most appropriate approach to correct and resolve the issues. Similarly, SPO management will enhance the guidance and tools provided to departments related to understanding, approving, and managing cost share commitments, and will also conduct internal trainings and evaluate opportunities to improve the consistency and clarity of the award information included in the Notice of Award form that is sent to departments as formal notification of award issuance.

The aforementioned observations are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the Sponsored Projects Office, Extramural Funds Accounting, and department staff for their cooperative efforts throughout the audit process.

Respectfully reported,

Wanda Lynn Riley
Director

cc: Associate Vice Chancellor and Controller John Ellis
Assistant Vice Chancellor Patrick Schlesinger
Assistant Vice Chancellor Teresa Costantinidis
Associate Vice Chancellor Erin Gore
Extramural Funds Accounting Director Lori Cripps
Sponsored Projects Office Director Pam Miller
Berkeley Art Museum Director Lawrence Rinder
Cal Performances Director Matias Tarnopolsky
Associate Chancellor Linda Morris Williams
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

**University of California, Berkeley
Audit and Advisory Services
Cost Sharing**

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OVERVIEW

Source and Purpose of the Audit

Audit and Advisory Services (A&AS) completed the Cost Sharing audit as part of the annual audit plan. The objective of this audit was to assess the effectiveness of campus and department controls that are designed to ensure that costs used to meet cost sharing commitments on awards are in accordance with federal, sponsor, and University requirements. Relevant federal regulations are outlined in Office of Management and Budget Circular (OMB) A-110; relevant University policies include the UC Contract and Grant Manual, Section 5 and the Berkeley campus Extramural Funds Accounting (EFA) Cost Sharing Policies and Procedures.

Scope of the Audit

The scope of the audit included an assessment of procedures and controls within the Sponsored Projects Office (SPO), EFA, and the departments in our sample. Our sample included 25 awards from a total of 24 departments and organized research units. Our sample was selected to include both federal and non-federal awards from a broad cross-section of units with varying amounts and frequencies of cost sharing activity, as well as a variety of sponsors and principal investigators. Within these units, we generally selected the grant with the most significant dollar value of cost sharing commitment that was active during some portion of the period April 1, 2009 through March 31, 2010. Due to the high volume of activities and process change for sponsored projects managed by Research Enterprise Services as fiscal contract and grant management responsibilities transfer in from various organized research units, these sponsored projects were excluded from the scope of this audit. A full audit of Research Enterprise Services is planned for Fiscal Year 2011.

Audit procedures were designed to assess whether campus and department procedures and controls are adequately designed and implemented to ensure that committed cost share expenses are properly authorized and are in compliance with A-110 and UC policies. However, to the extent that our testing resulted in the identification of compliance issues specific to the departments and awards in our sample, we have included these observations in our final report or have separately provided the relevant details to department and central campus management for their follow-up and resolution.

Background Information

Federal regulations relating to cost share are primarily outlined in OMB Circular A-110. These regulations establish that cost share amounts committed and claimed must be:

- Verifiable from recipient's records;
- Not included as contributions for any other sponsored or federally assisted project or program (cannot be used twice);
- Necessary and reasonable for proper and efficient accomplishment of project or program objectives;
- Not paid by the Federal Government under another award, except where authorized by federal statute to be used for cost sharing or matching;
- Not funded by income earned under the grant unless the terms allow;
- Included in the approved budget;
- Expended during the performance period; and
- Allowable under applicable cost principles (OMB Circular A-21).

As well, A-110 establishes that prior agency approval must be obtained to use unrecovered indirect costs as a source of cost sharing, and also outlines requirements for determining and documenting values associated with allowable donated goods and services. It is expected that federal and non-federal awards alike will be managed in compliance with A-110.

Relevant UC policies include the UC Contract and Grant (C&G) Manual, specifically Section 5, and the Berkeley campus EFA Cost Sharing Policies and Procedures. Both policy documents mirror the requirements outlined in A-110 and provide additional information on the topic to assist faculty and staff in further understanding the appropriate contexts for, and definitions, consequences, and other considerations related to cost sharing. Also outlined in the policies is the University's overall philosophy related to cost sharing, which is to "discourage" cost sharing above and beyond what is required by the sponsor.

We understand from discussions with EFA and SPO management that cost sharing activity has declined in recent years as a consequence of changes in sponsor policies, the increasing reductions in and pressures on campus resources, and central campus management's efforts to discourage voluntary cost sharing. Among active awards with end dates later than April 1, 2009, approximately 10% of award dollars had associated cost share commitments; cost share commitments from this population of awards totaled approximately \$358 million on a related award base of \$341 million. Of the \$358 million in cost share, \$257 million was contributed by one award managed by Research Enterprise Services.

Current campus procedures and controls related to managing cost sharing commitments are manual and largely decentralized, with accountability for ensuring that cost share expenses comply with federal, sponsor, and UC requirements residing with each principal investigator (PI). Each department establishes procedures and controls to support PIs in this effort according to the judgment and expertise of department administrative management.

Central campus department involvement in ensuring cost share expense compliance with federal and award requirements is limited, and includes SPO involvement at the pre-award stage and EFA involvement primarily at project close-out. At pre-award, SPO analysts review proposals to help ensure that cost share commitments identified are aligned with department intent and are properly authorized by the cost share resource owner; in accordance with the

C&G Manual policy statement that the University “discourages” voluntary cost sharing, SPO will also seek to ensure that such commitments are made only because the PI believes it is truly necessary to secure funding. At interim financial reporting (if required by the sponsor) and at project close-out, EFA obtains cost share expense data from departments to report to the sponsor; in addition to the cost share amounts being claimed, departments are also required to provide the relevant general ledger chart-strings where expenses are recorded, or in the case of third-party contributions, a certification from the third-party stating cost share expenses. EFA reviews the chart-strings and/or the third-party certifications to verify that they agree to the total expenses being claimed by the department; there are no other specific review procedures currently required of the EFA analysts to help ensure that expenses claimed appear aligned with federal, sponsor, or UC requirements.

The campus undertook an effort to develop and implement an application to facilitate the designation and tracking of cost share expenses that culminated in FY2009; however, due to unforeseen technical issues the system was not finally implemented. Such a system would have allowed for a consistent and transparent approach for managing and monitoring cost share commitments across departments, and would have provided assurance that cost share expenses were not claimed more than once. Currently, only total cost share commitment amounts are identified by award in the campus general ledger system (BFS); details related to the commitment, including the type of cost share, whether cost share commitments were made voluntarily or were mandatory, and amounts actually incurred and reported are not tracked.

Summary Conclusion

Based on our testing, procedures and controls need strengthening in order to better ensure: (i) that processes for managing and monitoring cost share commitments are adequate to ensure compliance with federal, sponsor, and University requirements, and (ii) that voluntary cost sharing commitments are consistent with UC policies.

Specifically, current campus procedures and controls related to managing cost sharing commitments are manual and largely decentralized, with accountability for ensuring that cost share expenses comply with federal, sponsor, and UC requirements residing with each department and principal investigator. While there is central campus involvement in sharing information and policies related to cost sharing via their websites, in evaluating cost share commitments at the pre-award stage, and in supporting the final cost share reporting requirements, we identified potentially invalid or insufficiently documented cost share expenses in at least 6 of the 25 awards sampled, and gaps in department familiarity with relevant regulations and policies and in department procedures for managing their cost share commitments. As well, effort reporting certifications related to cost share amounts were not always completed. We therefore believe that additional oversight and monitoring on the part of central campus units Sponsored Projects Office (SPO) and Extramural Funds Accounting (EFA) is warranted. Specific areas that we would recommend be strengthened include: (i) the communication of relevant regulations and policies, (ii) the development and communication of best practices and tools for confirming, managing, and documenting cost share commitments to ensure compliance with federal, sponsor, and University requirements, (iii) the

clarification of department versus SPO/EFA accountabilities related to cost share management, and (iv) increased central campus monitoring of cost share activity.

Our specific observations, along with management's responses, follow in descending order of significance.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Cost Sharing Tracking and Certification

Observation

UC policy states that each campus must have “a centralized tracking system to capture committed cost sharing amounts”; however, no such central system for tracking cost share expenses exists, creating a risk that cost sharing amounts may not be in compliance with A-110 in that they may not be properly certified as relevant to a sponsored project and/or that they might be claimed as cost share on more than one award.

Many departments manage these risks through, for example, recording charges to chart-strings specifically dedicated to cost sharing expenses on a particular project in order to segregate these expenses in the general ledger and through requiring PI approval on cost share expenses. However, these practices are not universally followed by departments, compromising the department’s ability to provide evidence that expenses claimed as cost share are relevant and unique to the project. Also, only one department queried had a clear process for ensuring that personnel participating on an award in a cost share capacity were not being over-shared across other awards.

Related to this, it was also noted that while federal regulations and the campus Effort Reporting policy require that “committed cost shared effort be certified”, of the 14 federal (full or partial) awards reviewed that had identified effort as part of committed cost share, cost share effort was certified on only three of these awards. Failure to certify cost share effort could put this cost share at-risk of being considered invalid by the sponsor. Another potential concern raised by this finding is related to those personnel who are contributing but not certifying cost share effort, and who are also submitting an effort report for work on funded dollars. The effort report must total 100%, and so in these instances where cost share effort is not represented in the effort report, the effort on the other projects/funds being certified may potentially be misstated.

Management Response and Corrective Action Plan

SPO Response

Information on effort reporting is found on the Research Administration and Compliance (RAC) web site: <http://rac.berkeley.edu/effortreporting.html>. This page also links to the EFA web site on this topic.

By August 1, 2010, SPO will include these links on its web page under the topic of cost sharing: <http://www.spo.berkeley.edu/Procedures/budget.html#costsharing>

EFA Response

EFA continues to place a high priority on the development and implementation of a cost share tracking system. However, at this time, Campus has chosen to fund other priorities (e.g. Upgrade to Berkeley Financial Systems), leaving no additional resources available to pursue this project at this time. The Controller's Office will continue to evaluate the cost benefit of automating the Cost Share reporting process versus continuing with the manual process in relation to other system requests of the campus, and the cost of implementing and maintaining an automated cost share system.

EFA believes it has clear, documented departmental procedures posted on its website that include links to other relevant policies – with specific reference to OMB A-21 and A-110. In an attempt to further clarify departmental roles and responsibilities, EFA will revise the existing cost share procedures to provide additional guidance on the tracking of cost share expenses and the certification of effort when it is cost shared. These procedures will be posted on the EFA website by January 31, 2011.

Invalid Cost Share Expenses

Observation

We identified potential issues with the expenses claimed as cost sharing in at least six sampled cost sharing reports submitted to EFA. Specifically, these reports included expenses claimed as cost share that could not be demonstrated to have been in direct support of the funded project objectives and/or expenses claimed as cost share that did not appear allowable under A-21 or the specific grant. These errors were not identified by EFA prior to submission of cost sharing data to the sponsoring agency.

Currently, we understand that EFA primarily relies on the departments to ensure compliance with A-21 and A-110 in cost sharing; however, based on our discussions with the departmental personnel responsible for reporting cost sharing data, we understand that they in turn place reliance on EFA to identify potential issues and to provide guidance. UC policy states that "Campus Accounting Officers, department heads, and other appropriate campus administrative offices are responsible for making sure that allowable contributions are evaluated and documented in accordance with the provisions of this section", whereas "Principal Investigators and unit business offices are responsible for ensuring that the University's cost sharing commitment is fulfilled, for providing the required information for the cost sharing contribution report, and for maintaining information and records that support cost sharing certifications".

Given the prevalence of mistakes in the reports reviewed, we believe there is need to clarify department versus central campus roles, and strengthen controls and guidelines at the campus-level, related to ensuring and demonstrating the compliance of cost share expenses claimed with A-21 and A-110.

For the specific awards with cost share amounts claimed that were noted to include expenses that did not appear to be allowable, we have communicated these items to department management and to

EFA, and have recommended that they jointly determine the most appropriate approach for remediating the issue. Two of these six instances are included in this report, as the exceptions noted were more significant in that there appeared to be a greater likelihood that, given the errors noted, the cost share commitment may not have been fulfilled.

Management Response and Corrective Action Plan

SPO Response

SPO has modified its “Cost Sharing Basics” guidance on preparing proposal budgets to include suggestions for evaluating cost share commitments for chairs, directors and deans. This guidance expands upon what is meant by allocable and allowable costs for cost sharing and links to a comprehensive overview of allowable costs under A-21: <http://www.spo.berkeley.edu/procedures/costsharing.html>

EFA Response

EFA believes it has clear, documented departmental procedures posted on its website that include links to other relevant policies – with specific reference to OMB A-21 and A-110. In an attempt to further clarify departmental roles and responsibilities, EFA will revise the existing cost share procedures to provide additional guidance on compliance with OMB A-21 and A-110. These procedures will be posted on the EFA website by January 31, 2011.

As part of the revision of the existing cost share procedures, EFA will also revise the Cost Share Form and instructions to include references to OMB A-21 and A-110 requirements. The Cost Share Form will also provide a clearer indication to the PI that they are certifying that the costs being shared conform to OMB A-21 and A-110. These actions will be completed by January 31, 2011.

As stated in the UC Berkeley Policy - Cost Principles for Sponsored Agreements (Contracts and Grants), “Principal Investigators (PIs) are responsible for the management and administration of their awards including all expenditures of project funds”. The policy also states that PIs are responsible for reviewing costs charged to sponsored awards for compliance with sponsor and University policy. It is the responsibility of the PI and the administering department to ensure compliance with the terms and conditions of the award

EFA will work with the department management of the specific awards to determine the most appropriate approach to remedy the issue.

Finally, the Budget Office is developing a research administration funding model which will enable an organizational structure that will support not only the day to day operation needs of post award management, but which will also support a more robust monitoring unit. Based on the expected funding model completion date of April 1, 2011, enhanced cost share monitoring procedures will be in place by October 1, 2011.

Cost Sharing Commitment Discrepancies

Observation

We noted various types of discrepancies related to the cost sharing commitments made as follows:

- For three of 25 awards reviewed, we noted discrepancies between the amounts and/or types of the cost sharing commitment outlined in COEUS/BFS versus what the department interpreted their commitment to be. In two of these instances, the SPO award notice had the incorrect amount listed. Such discrepancies create the risk that departments will not manage cost sharing to the correct commitment level and/or raise concerns about the integrity of our sponsored project records.
- As well, while we found that commitment letters were on file for the cost sharing commitments in our sample with only a few exceptions, we also found that these letters, including those from third-parties, were not always specific as to the amounts or sources of cost share being committed and/or that details differed from the information outlined in the final award. Such discrepancies increase the risk of misunderstanding with third-parties or other campus units about their commitment level, potentially giving rise to shortfalls that may not be easily funded.
- Finally, we also noted instances where the type of cost sharing actually contributed by departments differed from what was included in the proposal budget without evidence of communication to the sponsor regarding the change. In such instances, there is a potential risk that the sponsor might not accept the substituted form of cost sharing as a valid contribution.

Management Response and Corrective Action Plan

SPO will conduct internal staff training sessions to help Research Analysts analyze award documents to determine the sponsor's specific requirements relative to cost share, identify the type and amount of commitments made, and provide information about these commitments on the NOA in a consistent manner.

Action Step: By October 1, 2010, SPO will develop guidance on the SPO webpage for PIs and departments on how to read and understand the requirements of their award documents including cost share commitments. .

Action Step: By November 1, 2010, SPO will post on its webpage one or more cost sharing management templates currently being used by University departments which other departments can then use as is or adapt for their specific needs.

Voluntary Cost Sharing

Observation

The UC Contract and Grant Manual, Section 5-320, states that “voluntary cost sharing is discouraged under the University’s policy requiring full cost recovery for work conducted under extramural awards”; however, in 7 of the 25 awards in our sample, cost sharing commitments were made that were either not mandatory or were in excess of the amount required by the sponsor. In three of these seven instances, the cost share amount being contributed significantly exceeded the award amount. For example, one of these awards was for \$20,000 and the amount committed as cost share was for \$2 million; a second award was for \$40,000 and the amount committed as cost share was \$935,000. For an additional two awards, it could not be readily verified whether cost share was a requirement on the award because, according to management, the cost share requirement was communicated verbally by the sponsor program officer. Excessive cost sharing creates additional administrative burden and compliance risk for the campus, constrains the use of unrestricted resources, and by increasing the organized research direct cost base results in a decrease of the campus facilities and administration (F&A) rate.

SPO and EFA management actively discourage voluntary cost sharing through feedback provided to departments at the time of SPO’s proposal review, as well as through information sessions and reference to cost sharing commitment impacts in campus policies and procedures. The decision to cost share, however, resides with the department chair and/or dean. Based on our discussions with department personnel, and based on the continuing prevalence of voluntary cost share commitments, we believe there is further opportunity for the campus to provide additional information to assist departments and PIs in assessing the reasonableness of their cost share commitments and to help support the consistency and adequacy of management reviews over cost share decisions. Such information might include summaries of each department’s voluntary cost sharing activity, clarification of sponsoring agency cost sharing requirements, and suggested criteria for evaluating cost share requests.

Management Response and Corrective Action Plan

SPO will continue to encourage its research analysts to question voluntary cost share as well as “over-matching” and to consult with SPO managers about the justification provided.

SPO RAs also will continue to review the cost sharing requirements and rules described in the funding agency’s guidelines at the proposal stage and provide help to departments and PIs in interpreting this guidance as it relates to a particular proposal.

SPO has modified its “Cost Sharing Basics” guidance on preparing proposal budgets to include suggestions for evaluating cost share commitments for chairs, directors and deans. This guidance expands upon what is meant by allocable and allowable costs for cost sharing and links to a comprehensive overview of allowable costs under A-21: <http://www.spo.berkeley.edu/procedures/costsharing.html>

Action Step: To help department chairs, directors and deans determine what type and level of cost share is being offered in a particular proposal, by August 1, 2010 SPO will modify the PRF to indicate if the cost sharing being proposed is mandatory or voluntary.

Cost Share Monitoring and Reporting Requirements

Observation

Currently, the assigned EFA analyst and the departments manually track reporting requirements based on their knowledge of the award. In at least four instances, we identified that the departments were not aware of the requirement to report cost share information, and so were not prepared to validate and provide the information required to meet reporting deadlines when EFA requested reporting. Further, based on our discussions with department personnel, they rely on EFA to notify them when they need information for financial reports, but based on discussions with EFA, primary accountability should reside with departments.

We also found that not all of the departments in our sample were routinely monitoring cost sharing status throughout the course of the project; as a result, there is a risk that shortfalls in cost sharing may not be identified on a timely enough basis for corrective action to occur.

Management Response and Corrective Action Plan

SPO Response

SPO's records team personnel and RAs will work together to determine how the Notice of Award can be enhanced to provide more consistent and clear information about committed cost share. This may take the form of information provided by the RA in the comment section of the award notice or messages automatically generated by COEUS. The details of the actions to be taken will be determined and executed by October 1, 2010. Also, it is anticipated that when the Quali Coeus system becomes active over the next few years PIs and departments will have direct access to proposal and award data and will be able to track cost share commitments more straightforwardly.

EFA Response

EFA believes it has clear, documented departmental procedures posted on its website that include information on the responsibilities for meeting reporting requirements and deadlines. EFA will remind departmental personnel of these responsibilities by January 31, 2011. EFA monitors departments to ensure all cost share reports are prepared for awards where reports are required to be submitted to the sponsor during the close-out process.

As well, the Budget Office is developing a research administration funding model which will enable an organizational structure that will support not only the day to day operation needs of post award management, but which will also support a more robust monitoring unit. Based on the expected funding model completion date of April 1, 2011, enhanced cost share monitoring procedures will be in place by October 1, 2011.

PI and Department Research Administrator Awareness Development

Observation

Through our interactions with department personnel responsible for post-award administration, we identified that personnel possess a wide range of familiarity with federal regulations and the concept of cost sharing. Currently, there are no minimum training or experience requirements established for personnel who administer sponsored project activities, creating a risk that personnel may not be adequately prepared to identify and mitigate the compliance and operational risks associated with award management.

Both EFA and SPO share information regarding sponsored project management and requirements with departments, including PIs, through various forums, including the Financial Management Certificate Program (FMCP) and regular presentations delivered at RAC Forum meetings. However, the information shared as part of these forums is topical, rather than forming part of a comprehensive training curriculum. As well, FMCP is a program delivered to a broader audience than just those personnel involved in sponsored project administration, and therefore, content is targeted accordingly.

Management Response and Corrective Action Plan

SPO Response

SPO (as well as EFA) will continue to provide information on how to treat cost share at the pre-award (SPO) and post award (EFA) stages on each office's respective web site. SPO and EFA will continually update and improve this information over time based on changes in rules and regulations.

Action Step: SPO has obtained a cost sharing training video from the National Council of Research Administrators (NCURA), and this currently is available to departments for review. SPO will announce the availability of this training video at the first RAC Forum in the fall and via future SPO announcements.

Action Step: SPO also has provided information related to cost sharing at the RAC Forum to those departmental representatives in attendance. A PowerPoint presentation on this topic will be posted on the SPO web site by September 1, 2010.

EFA Response

EFA will continue to strengthen awareness of cost share requirements by updating and revising the existing cost share procedure, form, and instructions. The updated procedure, form and instructions will be posted on the EFA website by January 31, 2011. EFA will continue to partner with SPO to provide additional training opportunities to department personnel.

To develop and implement a comprehensive pre- and post-award educational program would require additional resources from campus. However, at this time, Campus has chosen to fund other priorities (i.e. OE), leaving no additional resources available to pursue this project.

SUMMARY OF DEPARTMENT-SPECIFIC OBSERVATIONS & MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Cal Performances

Observation

We identified that expenses claimed against the cost share commitment for the sponsored project in our sample (a series of artistic programs) included charges that were not necessarily directly related to the sponsored programs, but rather were assignable to other artistic programs or broader organizational activities. Cost share expenses committed and claimed totaled \$1,988,499. We understand that, with the exception of career and production crew personnel, whose labor represents a significant source of direct expense, expenses are tracked in the general ledger according to artistic program; however, because of a miscommunication about the requirements for cost share commitments, Cal Performances management reported cost share using a broader pool of organizational expenses, including those associated with the sponsored programs.

Further, we also identified cost share expenses totaling approximately \$356,000 that were recorded to the general ledger account for advertising expenses that are not chargeable on federal awards; to be accepted by the sponsor, cost share expenses must be in accordance with A-21. Per Cal Performances management, many of these expenses are potentially allowable, but were inadvertently coded to the "federal non-chargeable" advertising general ledger account.

Management Response and Corrective Action Plan

In consultation with Extramural Funds Accounting staff, Cal Performances will amend our cost share report for this sponsored project under allocation guidelines set forth under OMB Circular A-21, Section C.4. Furthermore, Cal Performances will work EFA staff to establish acceptable procedures, including effort reporting certification, for future sponsored projects with a cost share component. These actions are expected to be completed by January 1, 2011.

Please note:

- 1) Cal Performances' funding model relies almost entirely on ticket sales and ancillary income, donations, endowment income and campus support. We typically receive annually a small single federal grant from the National Endowment for the Arts, representing less than 0.14% of our organization budget (NEA funding represented 1% of total project costs). Since no other funders require cost sharing in their grant terms and conditions, the risk that sponsored project costs could be shared across multiple awards is negligible.

- 2) Cal Performances supports and encourages the campus to move forward with implementation of a payroll electronic time capture and labor distribution system. Currently, Cal Performances relies on manual timesheets for capturing this information. Compilation of project-specific costs and data entry into different systems is both laborious and time consuming.

- 3) Cal Performances believes that event promotion costs are fundamental to the performance of our sponsored agreement under the premise that advocating to, and performing before, an audience is consistent with Cal Performances' mission. .
- 4) Cal Performances will code event advertising expenses as appropriate using both BFS account codes: 56610, Federal – chargeable & 56611, Federal – unchargeable. Our internal records indicate account 56611 which we had used exclusively for these promotional costs had been previously labeled “Advertising – public relations and promos”.

Berkeley Art Museum

Observation

We identified that expenses claimed against the cost share commitment for the sponsored exhibition in our sample included charges that, based on their general ledger project coding, appeared to have been incurred in connection with activities that were unrelated to the exhibition. Cost share expenses committed and claimed totaled \$934,870; Berkeley Art Museum (BAM/PFA) staff recorded cost share expenses claimed on the award to 24 separate general ledger chart-strings (general ledger account, fund, and organization code combinations). We reviewed the general ledger detail for two expense chart-strings identified by management as containing cost share expenses related to the award, and of the approximately \$130,000 of expenses recorded, approximately \$125,000 were coded to projects other than the project in question; the remaining \$5,000 was not coded to any project in particular. Under OMB Circular A-110, Section .23, one central criterion for federal sponsor acceptance of cost sharing expenses is that such expenses “are verifiable from the recipient's records” and that they “are necessary and reasonable for proper and efficient accomplishment of project or program objectives”. The inclusion of expenses coded in the general ledger to other projects suggests at a minimum that these expenses in particular did not achieve these criteria, and also raises the question as to the validity of other expenses included in the total amount of cost share claimed.

Further, we also identified cost share expenses totaling approximately \$50,000 that were recorded to the general ledger account for advertising expenses that are not chargeable on federal awards; to be accepted by the sponsor, cost share expenses must be in accordance with A-21.

Management Response and Corrective Action Plan

To provide more contextual information to this report regarding the full scope of the project in relation to the grant: It was initially envisioned as being co-curated/sponsored by 5 organizations, 4 museums and the RARE Art Project Foundation. As the project progressed, only two museums opted to go forward with the exhibition, the BAM/PFA and the San Diego Museum of Contemporary Art. The basic approach was to bring 10 of the world's leading contemporary artists to 10 of the world's most significant bio-cultural area (UNESCO World Heritage Sites) and provide them the opportunity to work with communities at the sites, most often in extremely remote areas, to create works of art that respond to issues that threaten their sustainability and then to assemble the resulting works into a touring exhibition. It also was to include a project web site, catalog, public education programs with the artists and community members, and a documentary film.

The Art Museum has a very complex budget process and tracking system required to meet campus policy. At any given time, we have between 130 -150 active funds, approximately 60 org codes and around 30 flex codes. The flex codes are updated each year depending on the specific exhibition programs being planned and implemented, but most of our core operating and permanent staffing costs required for programming are tracked using org codes without flex codes added.

This was an unusual situation in that the cost share amount was higher than any other grant of this amount that we have received. The BAM/PFA Director and CAO have been informed regarding the Observation from UCB Internal Audit. After discussion with them and EFA, it was determined that a reasonable corrective action plan would be for the Director of Business Services to review all of the costs for this project and work with EFA to resolve the matter. Based on this corrective action, we believe going forward that we need to develop a departmental process for tracking cost share expenses that provide greater clarity and accountability. This will require working closely with the grants officers and curators on procedures to develop project budgets that have realistic cost share guidelines and tracking mechanisms. Based on the enormous amount of data to review, we anticipate completing corrective measures by early January 2011.