

# Grant Management:

## Internal Control and Compliance Audit

Office of Internal Auditing

March 10, 2015



**Minnesota**  
STATE COLLEGES  
& UNIVERSITIES

Reference Number 2015-04

**Report Classification: Public**



Minnesota  
STATE COLLEGES  
& UNIVERSITIES

# Grant Management Internal Control and Compliance Audit

Office of Internal Auditing  
Reference Number 2015-04

Public Release Date – March 10, 2015

Members of the MnSCU Board of Trustees  
Chancellor Steven J. Rosenstone  
College and University Presidents

This report presents the results of our internal control and compliance audit of grant management. It contains 5 findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for Professional Practice of Internal Auditing*.

The results of the audit were discussed with the system office and chief financial officers for the seven institutions included in our review on March 2, 2015.

We appreciate the excellent cooperation and assistance that we received from employees at the colleges, universities, and system office.

Beth Buse, CPA, CIA, CISA  
Executive Director

## Executive Summary

- Colleges and universities have authority to apply for and obtain state, federal, and private grants.
- Institutions and the system office received \$95 million in non-student financial aid grant revenues in fiscal year 2014.
- Institutions have indicated they have been seeking additional grants to offset costs for equipment, research, curriculum changes, meet employer training needs, and build additional partnerships with employers.
- Each institution is responsible for developing policies and procedures to ensure they comply with numerous grant requirements.

## Findings

- There is minimal guidance addressing grant management practices (Finding 1).
- Some institution did not have procedures to ensure they complied with time and effort requirements for federal grants (Finding 2).
- Some institutions did not have procedures to ensure they complied with federal conflict of interest requirements. (Finding 3).
- Some grant agreements were not reviewed by general counsel prior to contract execution and two grants exceeding \$3 million were not approved by the Board (Finding 4).
- Delegations of authority were not always in place for those that applied for and signed grant agreements (Finding 5).

## Long Term Considerations for System Leaders

- College, university, and system office leaders should consider alternative models for managing grants.

CONTENTS	PAGE
I. Background	2
II. Audit Objectives, Scope, Methodology and Conclusion	5
III. Findings and Recommendations	6
IV. Long Term Considerations for System Leaders	10
V. Management's Response	11

*The audit was performed by Carolyn Gabel, Craig Fautsch,  
Indra Mohabir, and Melissa Primus*

## Section I: Background

### Overview

Colleges, universities, and the system office (“institutions”) are authorized to apply for and obtain grants. Grants can be awarded for a variety of reasons including academic research, curriculum development, equipment purchases, meet employer training needs and build community partnerships. A common term in education to describe grant participation is “sponsored programs.” Some institutions have a few grants at a given time while others may have many.

Sponsored program funding comes from private, federal, state, or local government entities. As shown in Table 1, during fiscal year 2014 institutions received almost \$95 million in private, state, and federal grant revenue (excluding federal and state student financial aid). This was an increase of almost \$7 million from fiscal year 2013. Federal grants comprised slightly more than 60% of the grant revenue for both fiscal years 2013 and 2014. Table 2 lists the most common federal agencies where institutions have obtained grants.

**Table 1**  
**Grant Revenue for Fiscal Year 2014**  
**(In Thousands)**

Institution	Federal (1)	State (1)	Private	Total (2)
Alexandria Technical & Community College	\$183	\$294	\$134	<b>\$611</b>
Anoka Ramsey Community College	2,000	570	45	<b>2,615</b>
Anoka Technical College	(3)	0	2	<b>(1)</b>
Bemidji State University	1,926	44	2,470	<b>4,439</b>
Central Lakes College	3,906	420	119	<b>4,445</b>
Century College	2,279	442	398	<b>3,119</b>
Dakota County Technical College	2,001	353	289	<b>2,643</b>
Fond du Lac Tribal & Community College	2,757	107	147	<b>3,010</b>
Hennepin Technical College	2,832	114	335	<b>3,282</b>
Hibbing Community College	795	988	28	<b>1,812</b>
Inver Hills Community College	492	127	359	<b>978</b>
Itasca Community College	1,170	311	1,056	<b>2,536</b>
Lake Superior College	631	88	42	<b>760</b>
Mesabi Community & Technical College	899	159	(3)	<b>1,055</b>
Metropolitan State University	565	1,401	745	<b>2,712</b>
Minneapolis Community & Technical College	3,546	254	326	<b>4,126</b>
Minnesota State College - Southeast Technical	1,303	18	1	<b>1,322</b>
Minnesota State Community & Technical College	638	53	666	<b>1,357</b>
Minnesota State University Moorhead	152	150	2,250	<b>2,552</b>
Minnesota State University, Mankato	2,171	1,457	2,281	<b>5,909</b>
Minnesota West Community & Technical College	308	546	18	<b>872</b>
Normandale Community College	991	80	70	<b>1,141</b>
North Hennepin Community College	639	(1)	58	<b>697</b>
Northland Community & Technical College	3,202	189	298	<b>3,689</b>
Northwest Technical College, Bemidji	166	125	740	<b>1,030</b>
Pine Technical College	3,718	2,073	39	<b>5,830</b>
Rainy River Community College	174	57	17	<b>248</b>

Institution	Federal (1)	State (1)	Private	Total (2)
Ridgewater College	551	140	18	<b>709</b>
Riverland Community College	703	12	97	<b>812</b>
Rochester Community & Technical College	1,915	349	305	<b>2,568</b>
Saint Paul College	694	137	314	<b>1,146</b>
South Central College	820	-	97	<b>917</b>
Southwest Minnesota State University	441	112	1,370	<b>1,923</b>
St. Cloud State University	1,555	595	3,426	<b>5,575</b>
St. Cloud Technical & Community College	2,311	160	77	<b>2,548</b>
System Office	8,741	1,367	881	<b>10,989</b>
Vermilion Community College	346	348	134	<b>828</b>
Winona State University	715	586	2,739	<b>4,040</b>
<b>Totals</b>	<b>\$58,233</b>	<b>\$14,225</b>	<b>\$22,386</b>	<b>\$94,843</b>
<b>Total Percentage</b>	<b>61%</b>	<b>15%</b>	<b>24%</b>	

Notes: (1) Revenue excludes federal and state student financial aid totaling \$375 million in fiscal year 2014. In addition, it excludes contractual sponsored programs.  
 (2) Differences due to rounding.

Shading represents the five institutions with the largest revenues in each column.

Source: Supplement to the Annual Financial Report for the years ended June 30, 2014 and 2013.

**Table 2**  
**Federal Agencies MnSCU has Obtained Grants**

Federal Agency	# of Institutions
Department of Education (non-financial aid)	37
Department of Labor	25
National Science Foundation	22
Department of Health and Human Services	15
Department of Transportation	12
Department of Agriculture	11
National Aeronautics and Space Administration	9
Small Business Administration	7
Department of Defense	5
Department of Energy	4

Source: ISRS Accounting Data (Open grants from fiscal year 2012 through February 2015)

Common sources of state grants include the Minnesota Department of Employment and Economic Development, the Iron Range Resources and Rehabilitation Board, and the Department of Health and Human Services. Examples of private grants include the Bush Foundation, Bremer Foundation, and the Blandin Foundation.

## Roles and Responsibilities

Each institution is responsible for managing their own grants. The grant process is comprised of primarily two cycles: pre-award and post award. The pre-award process involves proposal development, review, approval, and submission. The post-award process includes administration of grant activities through the close-out of the grant. Most institutions do not have a grant office or a dedicated grant accountant to support grant activities. A few, including Minnesota State University, Mankato and St. Cloud State University, have a grants office (sponsored programs) that supports faculty and staff from the pre-award through the post-award stages.

A significant responsibility of grant management is ensuring compliance with grant provisions. Grants, especially federal grants, can have many compliance-related requirements. The federal Office of Management and Budget (OMB) has issued three government-wide circulars to ensure proper stewardship of federal research funds for higher education institutions:

- OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- OMB Circular A-21 Cost Principles for Higher Educational Institutions
- OMB Circular A-133 Audits of State, Local Governments and Non-profit Organizations

Minimally, institutions that receive federal grants would be required to follow the three OMB circulars listed above. Specific federal agencies may have additional requirements. For example, the National Institute of Health (NIH) and National Science Foundation (NSF) have each issued policy guides<sup>1</sup> to provide prescriptive guidance related to their grants. Finally, additional requirements may be included in individual grant agreements.

Examples of federal grant requirements include:

- Time and effort reporting and certification,
- Reporting deviations from budget and program plans to the grantor (some may require prior or written approval),
- Maintaining written standards of conduct for employees that administer contracts,
- Cost principles to determine if a grant expense is allowable or unallowable,
- Ethical and responsible research activities involving human and animal subjects, and
- Varying financial and performance reporting requirements.

Managing and complying with grant provisions can be further complicated by a recent trend of multiple institutions partnering to receive grant funds.

On December 26, 2013, OMB issued final guidance, known as the “Super Circular” or “Omni Circular.” This new circular supersedes eight existing OMB Circulars including the three circulars related to higher education federal research funds. The new guidance is effective for entities with fiscal years beginning on or after December 26, 2014.

Grants obtained from state agencies or private funds do not need to follow the above OMB requirements. State grants have requirements related to purchasing, conflict of interest,

<sup>1</sup> The National Institute of Health issues NIH Grants Policy Statements and The National Science Foundation issues NSF Proposal and Award Policies and Procedures Guides.

reporting, and auditing. However, private grants may simply require the grantee to spend the funds within a specified timeframe and submit a report to the grantor.

Sponsored research or sponsored programs may also be funded via a negotiated contractual arrangement rather than a grant agreement. For example, a private corporation may contract with a university to conduct specific research or a local government may contract with a college to conduct a survey. If funding for the activity originates from a federal or state grant, the college or university would be required to follow applicable grant requirements.

## Section II: Audit Objectives, Scope, Methodology, and Conclusion

### Objectives

The objectives for this audit were to answer the following questions:

- Were college and university internal controls adequate to ensure:
  - The grant pre-award process included proper reviews and approvals,
  - The grant post-award process included oversight to ensure grants are properly managed and comply with required grant provisions.
- Do opportunities exist for management to improve grant management activities to make them more effective and efficient?

### Scope and Methodology

We selected seven institutions to review current internal controls over grant activity. The areas of focus included:

- The process for vetting and accepting grants,
- Reviewing policies and procedures for key areas of post-award administration of federal grants such as time and effort reporting, conflict of interest, cost sharing, sub-recipient monitoring, and fiscal administration,
- Training provided to faculty or staff involved in administering grants,
- Compliance requirements related to conflict of interest, time and effort reporting, sub-recipient monitoring, and indirect costs.

*We did not test individual grant activities for compliance with grant provisions, such as financial reporting, grant purchases, and meeting grant objectives.*

We surveyed each institution to identify current internal controls. We reviewed relevant documentation including MnSCU system policies, procedures, and guidelines and any institution specific policies and procedures. We obtained and analyzed grant data. Finally, we selected one grant per institution and reviewed supporting documentation.

## Conclusions

- Colleges, universities, and the system office are applying for and receiving a variety of grants, including state, federal, and private grants.
- Grant requirements vary by the type of grant received. Specifically, federal grant compliance requirements are more uniform, numerous and complex, state grants have some uniform compliance requirements, and private grants requirements are based on the individual grantor.
- Most institutions do not have dedicated resources (grant office or grant accountant) focused on the management of grants.
- Finding 1 focuses on the lack of guidance over management of grants.
- Findings 2 and 3 describe concerns with two federal grant compliance requirements
- Findings 4 and 5 describe compliance concerns with board policy and system procedure.
- Section IV discusses a long term consideration for college, university, and system office leaders for management grants in the future.

## Section III – Audit Findings and Recommendations

### 1. There is minimal guidance addressing grant management practices.

#### System Guidance

There are no system procedures or guidelines related to grant management practices such as the grant approval process, financial conflict of interest, cost sharing, and training for faculty and staff that work on grants. There is one board policy related to grants:

Board Policy 7.7 Gifts and Grants Acceptance discusses that institutions are authorized to accept grants and only a President or designee can submit a request for a grant.

Other board policies and procedures exist for areas applicable to grants including delegations of authority, travel expense, contracts and procurement, and purchasing cards.

In addition, Board Policy 7.7 requires grants over \$50,000 to be reported to the Board. However, this reporting is not done.

#### College and University Guidance

Given limited system guidance, institutions must develop their own grant-related policies and procedures. When asked what policies and procedures were followed, two universities cited their own grant policies and procedures where the other institutions cited their general purchasing policies and procedures or MnSCU general policies and procedures. Some institutions also cited federal grant policies and guidance or federal circulars.

While federal grant policies and circulars often provide general guidance, they also require institutions to have their own written procedures. For example, OMB Circular A-110 requires that recipients shall provide written procedures related to 1) code of conduct, 2) minimizing the time lapse related to transfer of funds, 3) determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable

Federal cost principles and terms and conditions of the award, and 4) written procurement procedures.

While two universities had developed relatively comprehensive grant policies and procedures specifically, it was noted they still lacked some details. For example, OMB Circular A-110 requires institutions provide written procurement standards that address 1) purchasing unnecessary items, 2) analyzing lease versus purchasing (when appropriate), and 3) including six minimum requirements related to solicitation for goods and services. We did not see these items addressed in their policies and procedures.

Finally, we noted no system or institution guidance on vetting and applying for grants. While institutions generally included positions such as department chairs, deans, provosts, and finance positions to review the grant requirements and proposals, most did not routinely include legal counsel or information technology (IT) in their reviews. During planning work for this audit, we discussed a grant that had been awarded to an institution, without review by IT, that later needed to be declined because it would have involved an institution-funded IT investment of over \$200,000 to meet the grant requirements.

### ***Recommendations***

- *College, university, and system leaders should consider what guidance is needed related to grant management practices. Areas for consideration should include:*
  - *Whether guidance should be at the system or institution level,*
  - *Grant application and award process, and*
  - *Post award process including responsibilities to meet required grant provisions.*
- *The Finance Division should ensure grant reporting is completed to the Board of Trustees as required by Board Policy 7.7 Gifts and Grants or recommend revisions to reporting requirements within the policy.*

## **2. Some institutions did not have procedures to ensure they complied with time and effort requirements for federal grants.**

Federal regulations<sup>2</sup> require institutions to certify time and effort for employees that work on a grant. Time and effort reports must be prepared for all employees that work on the grant and be signed by someone with first-hand knowledge to certify the work was performed. We discussed time and effort reporting with each institution in our sample and reviewed six federal grants. We identified issues at four of the six institutions:

- Reports were not signed certifying work was performed (*two institutions*).
- Reporting was not performed for faculty or staff that worked full-time on a grant because staff did not think the reports were needed when employees worked full-time on a grant (*two institutions*).

<sup>2</sup> OMB Circular A-21 discusses time and effort requirements.



- Reports were not prepared as often as required for hourly-paid employees (*one institution*).
- Reports did not properly include all time worked on the grant for two hourly-paid employees (*one institution*).

### ***Recommendation***

- *Institutions should have procedures to ensure they comply with federal time and effort requirements including:*
  - *certifying time and effort reports for all employees that work on federal grants, and*
  - *verifying time and effort reports are complete and include all time for the reporting period.*

### **3. Some institutions did not have procedures to ensure they complied with federal conflict of interest requirements.**

Five institutions rely on Procedure 1C.0.1 Employee Code of Conduct and Ethics for their conflict of interest procedures for federal grants. However, the procedure was not designed to meet federal grant requirements and in some ways does not contain required provisions.

Conflict of interest requirements vary depending on the type of federal grant. OMB circular A-21 requires that institutions maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts or sub-agreements and include disciplinary actions for violations. National Science Foundation (NSF) and National Institution of Health (NIH) have additional and more prescriptive requirements. NSF and NIH requires the following:

- The institution must have a policy to disclose significant financial interests by the investigator and co-investigator (principal researchers) and their immediate family that would appear to be affected by the research or activities funded.
- The institution must ensure all investigators have provided the disclosures before the grant proposal is submitted.
- The institution must update disclosures annually or more frequently if new reportable significant financial interests change.
- The institution's policy must designate one or more persons to review the disclosures and determine needed conditions or restrictions.
- The institution's policy must also provide sanctions to enforce the policy and procedures to inform grantors if grantee is unable to manage the conflict.
- Institution must ensure investigators complete conflict of interest training prior to beginning research and at least every four years thereafter (NIH requirement only).

We noted that one institution met the requirements of OMB Circular A-110 and the additional provisions for NSF and NIH grants. This institution follows the same conflict of interest procedures for all grants, regardless of funding source. Five institutions that received

NSF grants did not have sufficient procedures. Although not required, one institution required annual code of conduct training.

### ***Recommendation***

- *Institutions should have procedures to ensure they comply with conflict of interest requirements including developing written conflict of interest standards and include disciplinary actions for violations.*

#### **4. Some grant agreements were not reviewed by system legal counsel prior to contract execution and two grants exceeding \$3 million were not approved by the Board of Trustees.**

Board Policy 5.14 Contracts and Procurements requires that contracts, including grant agreements, not prepared on MnSCU templates be reviewed and approved in advance by general counsel or the attorney general's office. Six grants were not properly reviewed and approved in advance, as required.

Grant agreements are considered legally binding contractual agreements; however, many colleges and universities indicated they did not think the contract templates applied to grant agreements. Discussions with staff from the Office of General Counsel and the Finance Division confirmed that the requirements of Board Policy 5.14 Contracts and Procurement apply to grants. Board Policy 5.14 was recently updated (November 2014) to make this clear.

Board Policy 5.14 previously required contracts, including grants, exceeding \$3 million be approved by the board. Two federal grants reviewed exceeded \$3 million and were not reviewed by the board. Both institutions indicated they were not aware of the past requirement. Subsequently, the policy was changed to no longer require state and federal grants exceeding \$3 million be approved by the board. Private grants still have the requirement.

### ***Recommendations***

- *Before signing, institutions should ensure they obtain prior approval by general counsel or the attorney general's office if grant agreements are not prepared on MnSCU templates.*
- *Institutions should ensure they seek prior approval from the Board of Trustees for private grants exceeding \$3 million.*

## **5. Delegations of authority were not always in place for employees that applied for grants and signed grant agreements.**

System Procedure 1A.2.2 Delegation of Authority requires employees submitting grant proposals and signing grant agreements to be delegated the authority by college and university presidents. Appropriate delegations were not in place for two of the seven grants reviewed. At two institutions, the employees that submitted the grant proposals did not have delegated authority for grants. At one of the institutions, the employee that signed the grant agreement did not have delegated authority for contracts.

### ***Recommendation***

- *Institutions should ensure that employees applying for grants and signing grant agreements have been delegated the appropriate authority.*
- *As recommended in the purchasing card audit, the system office should consider collaborating with colleges and universities to evaluate developing a system to more effectively and efficiently manage Delegations of Authority. A new ISRS module or other automated system could be used to initiate or change delegations, route them for approvals, periodically review and recertify delegation, and provide other reporting capabilities.*

## **Section IV – Long Term Considerations for Leaders**

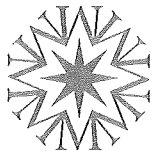
***College, university, and system office leaders should consider alternative models for managing grants by leveraging the knowledge of larger institutions with more mature processes.***

Grants are complex, contain numerous requirements, and are a growing source of funding for institutions. Each institution is responsible for managing grants on their own and often have limited knowledgeable staff. Two universities, Minnesota State University, Mankato and St. Cloud State University (SCSU) have more mature grants management processes. They both have research and sponsored programs departments dedicated to supporting employees during the pre-award and post-award process for sponsored programs. Both have developed policies and procedures related to the grants process. Smaller colleges and universities rely on staff who have other responsibilities to take on grant management activities and are relying on other policies and procedures that may not meet grant requirements.

During meetings with colleges and universities, we asked whom institutions turn to when they have questions related to grants. Most indicated they contacted the granting agency and some indicated they would seek information from their counterparts at other MnSCU colleges and universities. MSU, Mankato and SCSU also indicated they belong to a professional organization for college and university research administrators and it has been a valuable resource. Leaders should consider adding tools for sharing information among each other including email lists, websites and software such as SharePoint, for institutions to ask questions or provide tips related to grant management.

**Section V – Management’s Response**

Management response follows:



Minnesota  
STATE COLLEGES  
& UNIVERSITIES

30 7<sup>th</sup> ST. E., Ste 350  
ST. PAUL, MN 55105-7804

ph 651-201-1800  
fx 651-297-5550  
www.mnscu.edu

March 10, 2015

Board of Trustees  
Chancellor Steven Rosenstone  
Minnesota State Colleges and Universities

The Office of the Internal Auditing has completed an internal control and compliance audit of college and university grant management. This was undertaken as an approach to auditing particular business cycles across all colleges and universities. We view the completed audit as a helpful contribution of our understanding of the system and the campus control environment. The audit identified some instances of internal control deficiencies and a few examples of noncompliance were noted." (Page 6 of report)

Management of the system office and the colleges and universities have already undertaken remedies for some of these findings. Additional follow up work will continue in the upcoming months. Additionally, a work group of campus business and grant managers will be formed to look at some of the process improvements and best practice suggestions identified in the report. The comments concerning the system guidance in board policy 7.7 Gifts and Grants Acceptance are already being worked on as part of our five year cycle review of all policies and procedures.

The auditor's overall conclusion of confidence in the control environment serves as assurance to the Board of Trustees, Chancellor Rosenstone and the public that care and stewardship are exercised in all areas as it relates to grant management across the system.

Warm regards,

Laura M. King  
Vice Chancellor - CFO