State Auditor's Office

John Keel, CPA
State Auditor

A Report on

State of Texas Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2011

February 2012

Report No. 12-018

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SAO Report No. 12-018
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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster of federal programs in fiscal year 2011.

The Research and Development Cluster of Federal Programs

The Research and Development Cluster of federal programs is a group of federal programs through which entities receive grants, cooperative agreements, and contracts for a variety of research and development projects. Federal agencies award Research and Development Cluster funds to non-federal entities on the basis of applications or proposals submitted.

Research is directed toward greater scientific knowledge or understanding of a subject, while development is the use of research toward the production of useful materials, devices, systems, or methods.

As a condition of receiving federal funding, U.S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least $500,000 in federal awards in a fiscal year to obtain annual Single Audits. Those audits test compliance with federal requirements in 14 areas, such as allowable costs, procurement, reporting, and monitoring of non-state entities to which the State passes federal funds. The requirements for 1 of those 14 areas vary by federal program and outline special tests that auditors are required to perform, such as requirements related to identification of key personnel who work on each federal award. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than $86,555,601 in federal funds during fiscal year 2011 and (2) other selected federal programs.

From September 1, 2010, through August 31, 2011, the State of Texas expended $57.5 billion in federal funds for federal programs and clusters of federal programs. The State Auditor's Office audited compliance with requirements for the Research and Development Cluster of federal programs at six higher education institutions and one agency. Those entities spent $906,559,437 in federal Research and Development funds during fiscal year 2011.

This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133.

For more information regarding this report, please contact James Timberlake, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

Auditors identified 19 findings for the Research and Development Cluster of federal programs, including 1 finding classified as a material weakness and non-compliance, 15 findings classified as significant deficiencies and non-compliance, and 3 findings classified as significant deficiencies. Auditors did not identify any Research and Development findings classified as material non-compliance (see text box for definitions of finding classifications).

Finding Classifications

Control weaknesses are classified as either significant deficiencies or material weaknesses:

- A **significant deficiency** indicates control weaknesses, but those weaknesses would not likely result in material non-compliance.
- A **material weakness** indicates significant control weaknesses that could potentially result in material non-compliance with the compliance area.

Similarly, compliance findings are classified as either non-compliance or material non-compliance, where material non-compliance indicates a more serious reportable issue.

Key Points

The agency and higher education institutions audited did not always comply with federal requirements related to allowable activities and allowable costs.

Specifically:

- One agency and one higher education institution did not always have adequate supporting documentation for their payroll expenditures.
- One agency and one higher education institution incorrectly included certain expenditures in their indirect cost bases that they should have excluded when calculating indirect costs charged to federal awards.
- One higher education institution did not always ensure that federally funded expenditures were allowable.
- Two higher education institutions did not always periodically review and adjust rates charged to federal awards for performing specialized services internally.
- One higher education institution did not always comply with federal salary limits when it charged salaries to federal awards.

The higher education institutions audited did not always comply with state and federal requirements regarding equipment purchased with federal funds.

Four higher education institutions did not always adhere to state and federal equipment requirements or with the procedures they had established to facilitate compliance with those requirements. Specifically, those four higher education institutions did not always maintain adequate property records for inventoried equipment and equipment that they had disposed of during fiscal year 2011. In addition, two of those four higher education institutions did not always adequately safeguard and maintain equipment; those higher education institutions were unable to locate 11 pieces of equipment during the audit period.

One agency and two higher education institutions audited did not always comply with American Recovery and Reinvestment Act (Recovery Act) requirements.

Recipients of Recovery Act funds must comply with federal requirements in areas such as reporting, procurement, and monitoring of awards passed through to non-state entities; those requirements are in addition to the federal requirements applicable to all types of federal awards. Auditors identified three findings related to requirements for Recovery Act funds. Specifically:

- One agency and one higher education institution did not notify non-state entities to which they passed Recovery Act funds about all required information when they awarded funds and/or when they disbursed funds to the non-state entities. In addition, one higher education institution disbursed Recovery Act funds to a non-state entity without having a signed agreement with that non-state entity.
- One higher education institution did not always include a required "Buy American" provision in its construction contracts.

The higher education institutions audited did not always comply with state and federal procurement and suspension and debarment requirements.

One higher education institution did not always adhere to state and federal procurement requirements, including requirements associated with competitive bidding and limited competition. Additionally, that higher education institution and one agency did not always ensure that their vendors or subrecipients were not suspended or debarred from federal procurements prior to purchasing from those vendors or providing funds to those subrecipients.

Auditors identified weaknesses in controls over information technology systems related to the Research and Development Cluster of federal programs.

At four higher education institutions, auditors identified control weaknesses related to securing information technology systems code and data. Those control weaknesses affected multiple compliance areas at each of those four higher education institutions. Specifically, at two higher education institutions, users had access to financial accounting systems or time and effort reporting systems that exceeded their business needs. The other two higher education institutions did not have adequate segregation of duties related to code development and moving code into the production environment; this could result in unauthorized changes to systems.

Auditors followed up on higher education institutions' corrective action plans for 26 audit findings from prior fiscal years.

Higher education institutions fully implemented corrective action plans for 15 (58 percent) of those 26 findings and partially implemented corrective action plans for the remaining 11 (42 percent) of those 26 findings.

Summary of Management's Response

Management generally concurred with the audit findings. Specific management responses and corrective action plans are presented immediately following each finding in this report.

Summary of Information Technology Review

The audit work included a review of general and application controls for key information technology systems related to the Research and Development Cluster of federal programs at the agency and higher education institutions audited. As discussed above, auditors identified issues related to securing information technology systems code and data.

Summary of Objectives, Scope, and Methodology

With respect to the Research and Development Cluster of federal programs, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster of federal programs.

The audit scope covered federal funds that the State spent for the Research and Development Cluster of federal programs from September 1, 2010, through August 31, 2011. The audit work included control and compliance tests at one agency and six higher education institutions across the State.

The audit methodology included developing an understanding of controls over each compliance area that was material to the Research and Development Cluster of federal programs at each agency and higher education institution audited. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data provided by each agency and higher education institution audited and determined that the data provided was reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster of federal programs.

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State of Texas Compliance with Federal Requirements for Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2011

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Report on Compliance with Requirements that Could Have a Direct and Material Effect on the Research and Development Cluster and on Internal Control Over Compliance in Accordance with U.S. Office of Management and Budget Circular A-133
Independent Auditor's Report

Compliance

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its Research and Development Cluster for the year ended August 31, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Research and Development Cluster is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2011. As such, the Research and Development Cluster was selected as a major program based on the State of Texas as a whole for the year ended August 31, 2011. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.

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In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items:

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Texas AgriLife Research	Research and Development Cluster	Allowable Costs/Cost Principles	12-127
	Research and Development Cluster - ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	12-130
University of Texas at Arlington	Research and Development Cluster	Activities Allowed or Unallowed	12-162
		Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
	Research and Development Cluster - ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	12-163
University of Texas at Austin	Research and Development Cluster	Activities Allowed or Unallowed	12-169
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
		Reporting	
		Special Tests and Provisions – Awards with ARRA Funding	
		Special Tests and Provisions – Key Personnel	
		Special Tests and Provisions – Indirect Cost Limitation	
	Research and Development Cluster	Equipment and Real Property Management	12-170
University of Texas Health Science Center at San Antonio	Research and Development Cluster - ARRA	Davis-Bacon Act	12-171
	Research and Development Cluster	Equipment and Real Property Management	12-172
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Reporting	
		Special Tests and Provisions – Key Personnel	
		Special Tests and Provisions – Indirect Cost Limitation	
	Research and Development Cluster - ARRA	Procurement and Suspension and Debarment	12-173
University of Texas Health Science Center at Tyler	Research and Development Cluster	Allowable Costs/Cost Principles	12-174
		Cash Management	12-175
		Period of Availability of Federal Funds	12-176
		Procurement and Suspension and Debarment	12-177
University of Texas Medical Branch at Galveston	Research and Development Cluster	Reporting	12-179

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
University of Texas Southwestern Medical Center at Dallas	Research and Development Cluster	Equipment and Real Property Management	12-186
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
		Special Tests and Provisions – Key Personnel	
		Special Tests and Provisions – Indirect Cost Limitation	
		Special Tests and Provisions – R1 – Separate Accountability for ARRA Funding	
		Special Tests and Provisions – R2 – Presentation on the Schedule of Expenditures of Federal Awards and Data Collection Form	
		Reporting	12-187

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the Research and Development Cluster. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the Research and Development Cluster in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we considered to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control over compliance which

are described in the accompanying Schedule of Findings and Questioned Cost to be material weaknesses:

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
University of Texas Health Science Center at Tyler	Research and Development Cluster	Procurement and Suspension and Debarment	12-177

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control over compliance which are described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies:

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Texas AgriLife Research	Research and Development Cluster	Allowable Costs/Cost Principles	12-127
		Cash Management	12-128
		Period of Availability of Federal Funds	12-129
	Research and Development Cluster - ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	12-130
University of Texas at Arlington	Research and Development Cluster	Activities Allowed or Unallowed	12-162
		Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
	Research and Development Cluster - ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	12-163
University of Texas at Austin	Research and Development Cluster	Activities Allowed or Unallowed	12-169
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
		Reporting	
		Special Tests and Provisions – Awards with ARRA Funding	
		Special Tests and Provisions – Key Personnel	
		Special Tests and Provisions – Indirect Cost Limitation	
	Research and Development Cluster	Equipment and Real Property Management	12-170
University of Texas Health Science Center at San Antonio	Research and Development Cluster - ARRA	Davis-Bacon Act	12-171

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
	Research and Development Cluster	Equipment and Real Property Management	12-172
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Reporting	
		Special Tests and Provisions – Key Personnel	
		Special Tests and Provisions – Indirect Cost Limitation	
	Research and Development Cluster - ARRA	Procurement and Suspension and Debarment	12-173
University of Texas Health Science Center at Tyler	Research and Development Cluster	Allowable Costs/Cost Principles	12-174
		Cash Management	12-175
		Period of Availability of Federal Funds	12-176
University of Texas Medical Branch at Galveston	Research and Development Cluster	Equipment and Real Property Management	12-178
		Reporting	12-179
University of Texas Southwestern Medical Center at Dallas	Research and Development Cluster	Equipment and Real Property Management	12-186
		Activities Allowed or Unallowed	
		Allowable Costs/Cost Principles	
		Cash Management	
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Schedule of Program Expenditures

The accompanying Schedule of Program Expenditures for the Research and Development Cluster (Schedule) of the State for the year ended August 31, 2011, is presented for purposes of additional analysis. This information is the responsibility of the State's management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of the Governor, the Members of the Texas Legislature, the Legislative Audit Committee, the management of the State, KPMG LLP, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA
State Auditor

February 21, 2012

Schedule of Program Expenditures for The Research and Development Cluster For the State of Texas For the Year Ended August 31, 2011

Schedule of Program Expenditures			
Agency or Higher Education Institution Audited	**Pass-through to Non-state Entity**	**Direct Expenditures**	**Totals**
Texas AgriLife Research			
Other Than American Recovery and Reinvestment Act	$ 7,085,581	$ 50,302,211	$ 57,387,792
American Recovery and Reinvestment Act	100,911	3,303,217	3,404,128
University of Texas at Arlington			
Other Than American Recovery and Reinvestment Act	1,963,955	23,246,720	25,210,675
American Recovery and Reinvestment Act	0	1,745,714	1,745,714
University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	19,355,437	299,157,219	318,512,656
American Recovery and Reinvestment Act	1,565,317	26,371,956	27,937,273
University of Texas Health Science Center at San Antonio			
Other Than American Recovery and Reinvestment Act	9,873,652	93,610,356	103,484,008
American Recovery and Reinvestment Act	572,117	18,241,848	18,813,965
University of Texas Health Science Center at Tyler			
Other Than American Recovery and Reinvestment Act	650,181	4,878,563	5,528,744
American Recovery and Reinvestment Act	0	953,581	953,581
University of Texas Medical Branch at Galveston			
Other Than American Recovery and Reinvestment Act	7,924,631	106,254,245	114,178,876
American Recovery and Reinvestment Act	959,179	7,518,622	8,477,801
University of Texas Southwestern Medical Center at Dallas			
Other Than American Recovery and Reinvestment Act	10,761,679	184,338,725	195,100,404
American Recovery and Reinvestment Act	1,337,608	24,486,212	25,823,820
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	$ 57,615,116	$ 761,788,039	$819,403,155
Total Audited Research and Development American Recovery and Reinvestment Act	$ 4,535,132	$ 82,621,150	$ 87,156,282
Total Audited	$62,150,248	$844,409,189	$906,559,437

Note: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled $781,569,975 for the year ended August 31, 2011. Of that amount, $85,743,439 was American Recovery and Reinvestment Act expenditures.

Schedule of Findings and Questioned Costs

State of Texas Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2011

Section 1:

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Cluster	Research and Development (with ARRA)

Dollar threshold used to distinguish between type A and type B programs: $86,555,601

Auditee qualified as low-risk auditee? No

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2011*.

Section 3:

Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by Office of Management and Budget Circular A-133, Section 510(a).

Texas AgriLife Research

Reference No. 12-127

Allowable Costs/Cost Principles

Research and Development Cluster
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 159,616

National Institutes of Health
U.S. Agency for International Development
U.S. Department of Agriculture
U.S. Department of Commerce
U.S. Department of Defense
U.S. Department of Homeland Security

After-the-fact Confirmation of Payroll

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed (Title 2, Code of Federal Regulations, Section 220, Appendix A (J)(10)).

Texas AgriLife Research (AgriLife), which is a member of the Texas A&M University System (System), follows System policies. System policy 15.01.01 "Administration of Sponsored Agreements – Research and Other" requires that the effort reporting system be based on after-the-fact confirmation and that the data derived from payroll files be checked for accuracy. Further, the policy requires that the certification process include the payroll corrections made during the reporting period.

For 1 (3 percent) of 35 payroll transactions tested, AgriLife's payroll distribution was not supported by the employee's after-the-fact confirmation of effort. For that transaction, AgriLife processed adjustments to the employee's payroll to correct the amount of payroll charged to the federal award. However, when AgriLife made those adjustments it did not enter information for a key field into the effort reporting system; therefore, the effort reporting system was not able to apply the adjustments to the employee's time and effort. As a result, the effort certified did not support the amount that AgriLife charged to the federal award. However, the amount that AgriLife charged to the federal award was supported by the adjustments; therefore, this did not result in questioned costs.

The issue above affected the following award:

CFDA	Award Number	Award Year
93.865	1R01HD058969-01A2	April 15, 2010 to February 28, 2015

Indirect Costs

Facilities and administration (F&A) costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, fellowships, and the portion of each subgrant and subcontract in excess of $25,000 shall be excluded from modified total direct costs (Title 2, Code of Federal Regulations, Section 220, Appendix A (G)(2)).

During fiscal year 2011, AgriLife charged indirect costs using a modified total direct cost base that incorrectly included subaward costs after the first $25,000 for each of 10 subawards. This resulted in AgriLife charging a total of $159,616 in indirect costs to 8 prime awards.

AgriLife's accounting system automatically calculates indirect costs using the indirect cost rate entered in an automated system during the grant project setup phase. The automated system has indirect cost tables that exclude specific object codes from indirect cost calculations. However, during fiscal year 2011, the modified total direct cost table did not exclude the object codes for subaward costs after the first $25,000 of each subaward.

Because the modified total direct cost calculation was not set up properly, contracts and grants staff had to manually adjust invoices to remove improper indirect costs before requesting reimbursement from the sponsor. AgriLife was not able to provide documentation showing that it adjusted invoices to remove improper indirect cost charges for certain awards.

The issue discussed above affected the following awards:

CFDA	Agency	Award Number	Award Period	Questioned Cost
10.217	U.S. Department of Agriculture	2009-38411-19768	September 1, 2009 to August 31, 2012	$29,046
10.310	U.S. Department of Agriculture	2009-65104-05959	September 1, 2009 to August 31, 2012	$32,691
10.310	U.S. Department of Agriculture	2010-65207-20616	February 15, 2010 to February 14, 2013	$15,881
11.417	U.S. Department of Commerce	NA08OAR4170842	June 1, 2008 to May 31, 2012	$20,648
12.800	U.S. Department of Defense	FA8650-08-C-5911	October 21, 2010 to July 31, 2011	$10,452
93.855	National Institutes of Health	5P01AI068135-04	March 1, 2006 to March 31, 2012	$22,981
97.061	U.S. Department of Homeland Security	2007-ST-061-000002	October 1, 2007 to June 30, 2011	$26,939
98.001	U.S. Agency for International Development	696-A-00-06-00157-00	September 1, 2006 to March 28, 2012	$978

Recommendations:

AgriLife should:

- Ensure that after-the-fact confirmation activity reports accurately reflect employee effort and payroll costs it charges to federal grants.
- Implement a process to exclude subgrants and subcontracts payments in excess of $25,000 from its calculation of modified total direct costs when calculating indirect costs.

Management Response and Corrective Action Plan:

After-the-fact Confirmation of Payroll

The After-the-Fact Confirmation of Payroll (Time and Effort) is an automated system that was developed through a joint effort of all the Texas A&M System members. The system is set to automatically require a reconfirmation of

time and effort when changes are made. This instance pointed out that there is an oversight in the system in that recharges could be made without reentering the Position Identification Number that the charge was originally made to. This oversight has been corrected in the Time and Effort System.

Corrections to charges should require a recertification of Time and Effort and the system has been corrected to force this to happen.

Implementation Date: Complete

Responsible Persons: Michael McCasland, AgriLife Research; Diane Gilliland, OSRS

Indirect Costs

Indirect Costs on sub-awardees are checked at the time the sub award and the award are closed and final close out documents are submitted to the sponsor. Since the System had already identified the object class code as being exempt from indirect, there was a misunderstanding on our part about the need to add the code to our MTDC table. The total charged to the sponsor of all the award is never charged more than face value of the award. The only way to charge the sponsor more than the allotted amount for IDC on the sub award would be to undercharge for the direct expenses on an award. All awards are balanced back to the award amount at time of close out.

In addition, since the AgriLife Contracts and Grants Office has been merged into the Office of Sponsored Research Services for the Texas A&M University System effective September 1, 2011, all procedures are being reviewed and best practices are being established. These will be finalized by December 31, 2012.

Implementation Date: December 31, 2012

Responsible Persons: Michael McCasland, AgriLife Research; Diane Gilliland, OSRS

Reference No. 12-128

Cash Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Questioned Cost: $ 0

Federal agencies that award R&D funds

Texas AgriLife Research (AgriLife) does not have sufficient controls over its cash draw process to enable it to track and monitor all funds that it draws down from federal agencies. AgriLife's Fiscal Services Division and AgriLife's Office of Sponsored Research Services Division both process cash draws. Without a centralized process for making cash draws, AgriLife cannot accurately and completely track and monitor the funds that those two divisions draw down, which could result in AgriLife not managing its federal awards in compliance with requirements.

As a result of this issue, AgriLife was unable to provide auditors with a complete population of cash draws associated with the Research and Development Cluster of federal programs. Auditors compared a sample of the cash draw population that AgriLife provided to federal draw system reports and identified:

- One draw in the population that AgriLife provided to auditors that was not in the federal draw system reports.

- Eleven draws in the federal draw system reports that were not in the population that AgriLife provided to auditors. The total of those 11 draws was $1,332,343.

Auditors judgmentally selected six of the eleven draws that were not in the population that AgriLife provided and verified that they were adequately supported and drawn in accordance with cash management compliance requirements. The total of those six draws was $1,078,786.

Recommendation:

AgriLife should establish and implement controls to enable it to accurately and completely track and monitor funds that it draws down.

Management Response and Corrective Action Plan:

The AgriLife Contracts and Grants Office was merged into the Office of Sponsored Research Services for the Texas A&M University System effective September 1, 2011, all procedures are being reviewed and best practices are being established. These will be finalized by December 31, 2012.

Implementation Date: December 31, 2012

Responsible Persons: Michael McCasland, AgriLife Research; Diane Gilliland, OSRS

Reference No. 12-129
Period of Availability of Federal Funds

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency

Questioned Cost: $ 0

Federal agencies that award R&D funds

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, Code of Federal Regulations, Section 215.71).

Texas AgriLife Research's (AgriLife) contracts and grants procedures require AgriLife's contracts and grants office to review grant expenditures to ensure they do not occur after the grant funding period has ended. In addition, contracts and grants office staff are responsible for submitting closeout paperwork to sponsors, closing grant accounts in AgriLife's accounting system, and processing cost overruns or disallowed expenses against unit accounts within the 90-day closeout period.

AgriLife does not have a process to close grant accounts in the accounting system within the required 90-day closeout period. While AgriLife has written policies and procedures that set project closeout requirements, it does not adhere to those policies and procedures. Before grant accounts can be closed in the accounting system, contracts and grants office staff must process any cost overruns on the accounts. However, auditors identified multiple instances in which AgriLife did not process cost overruns within the required 90-day closeout period. AgriLife processed cost overruns between 178 days to more than 12 years following the end of the grant budget period. The average length of time between the end of the grant budget period and AgriLife's processing of cost overruns was 5 years.

Auditors did not identify any compliance errors related to period of availability of federal funds. However, not closing grant accounts in the accounting system in a timely manner could lead to obligations being incurred outside of the funding period. AgriLife relies on contracts and grants office staff to review monthly expenditure reports and identify charges outside of the funding period to ensure that those charges are not paid for with federal funds. If staff do not identify charges outside of the funding period, federal funds could be improperly spent, which could affect AgriLife's ability to obtain future grant funding.

Recommendation:

AgriLife should establish and implement a process to ensure that it closes grant accounts in its accounting system within the required 90-day closeout period.

Management Response and Corrective Action Plan:

The referenced procedure was written in 2003. In the ensuing years, the staffing of the AgriLife Contracts and Grants Office did not kept pace with the growth in contracts and grants or in the increased reporting requirements from the Federal government, even though an internal study indicated the office was understaffed by half.

Since the AgriLife Contracts and Grants Office has been merged into the Office of Sponsored Research Services for the Texas A&M University System effective September 1, 2011. All procedures are being reviewed and best practices are being established. These will be finalized by December 31, 2012.

Implementation Date: December 31, 2012

Responsible Persons: Michael McCasland, AgriLife Research; Diane Gilliland, OSRS

Reference No. 12-130

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA
Award year – January 28, 2010 to December 31, 2012
Award number – CFDA 81.087 DE-EE0003046 (ARRA), subaward number 28302-P
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Energy

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of subaward and at the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Texas AgriLife Research (AgriLife) did not identify Recovery Act information when it disbursed Recovery Act funds to the only entity to which it made a subaward of those funds. This occurred because AgriLife did not have a process to perform that identification. Not identifying this information could result in inaccurate reporting of Recovery Act funds by an entity that receives a subaward. For fiscal year 2011, this affected subaward expenditures totaling $100,911. AgriLife was a subrecipient of Recovery Act funds (through subaward 28302-P) from the Donald Danforth Plant Science Center (which had originally received the Recovery Act funds through prime award number DE-EE0003046).

Recommendation:

AgriLife should develop and implement a process to inform entities to which it makes subawards of required Recovery Act information when it disburses funds to those entities.

Management Response and Corrective Action Plan:

Research and Development Cluster – ARRA

These funds were clearly identified at the time the sub award was initiated and approved by both the sub awardee and Texas AgriLife Research. The account was set up at AgriLife and disbursements were made from this account. A review of the requirements for the ARRA reporting are unclear as to whether the ARRA designation needed to be made each and every time a payment was made or whether the award needed to be identified at the time the award (disbursement account) was established. A review of the meaning of disbursement in Webster does not indicate that a disbursement means each and every instance of a payment if the total amount is identified as disbursed at the time the award documents are finalized.

In addition, individually marking each check would require manual intervention into the disbursements process delaying the process of paying the subcontractor. The accounting system used by Texas AgriLife does not accommodate this type of specific notation.

Since the AgriLife Contracts and Grants Office has been merged into the Office of Sponsored Research Services for the Texas A&M University System effective September 1, 2011. All procedures are being reviewed and best practices are being established. These will be finalized by December 31, 2012.

Implementation Date: December 31, 2012

Responsible Persons: Michael McCasland, AgriLife Research; Diane Gilliland, OSRS

University of Texas at Arlington

Reference No. 12-162
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Award years – September 1, 2010 to August 31, 2011 and August 15, 2008 to November 30, 2011
Award numbers – CFDA 11.611 70NANB5H1005 and 70NANB10H304, and CFDA 81.087 DE-FG36-08GO88170
Type of finding – Significant Deficiency and Non-Compliance

Direct Costs

Questioned Cost: $ 305

U.S. Department of Commerce
U.S. Department of Energy

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations (CFR), Section 220, Appendix A, C.2). In addition, *Cost Principles for Educational Institutions* states that costs associated with contributing to organizations established for the purpose of influencing the outcomes of elections are unallowable (Title 2 CFR, Section 220, Appendix A, J.28(a)(2)).

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on the actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. Service rates shall be adjusted at least biennially and shall take into consideration over/under applied costs of the previous period(s) (Title 2 CFR, Section 220, Appendix A, J.47)

One (2 percent) of 66 direct cost transactions tested at the University of Texas at Arlington (University) was unallowable. The University paid $305 for a principal investigator's membership fee in a business league. All membership contributions for the business league are used to support lobbying expenses. The University made the payment using a procurement card and, although the University reviewed the related invoice, the review process did not determine that the fee would be used for lobbying.

In addition, 2 (3 percent) of 66 direct cost transactions tested were charged to an internal service center that did not comply with requirements for internal services related to the installation of purchased equipment. The University's service center charged labor expense to the federal award. The rates for labor were not designed to recover only the cost of services to the University. After auditors identified these errors, the University transferred these costs to non-federal accounts.

Cost Accounting Disclosure Statement

An institution that receives more than $25 million in federal funding in a fiscal year must prepare and submit a disclosure statement (DS-2) that describes the institution's cost accounting practices (Title 2 CFR, Section 220, Appendix A, C.14). The institution is required to submit a DS-2 within six months after the end of the institution's fiscal year (Title 2 CFR, Section 220, Appendix A, C.14).

The University did not prepare and submit a DS-2 to its federal cognizant agency within the required time frame. In the fiscal year ending August 31, 2010, the University reported spending $29,288,387 in federal funds on research and development; as a result, the University was required to prepare and submit a DS-2 by February 28, 2011. The University was in the process of preparing the DS-2 during fiscal year 2011 and had delayed completing it until after it had completed an indirect cost rate proposal.

Other Compliance Requirements

Although the general controls weaknesses described below apply to cash management, period of availability of federal funds, and procurement and suspension and debarment, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not have sufficient change management controls for two systems. The University uses the Departmental Financial Information Network (DEFINE) and the Human Resources Management System (HRMS), both of which the University of Texas at Austin hosts. Programmers for those systems have access to migrate code into the production environment, which increases the risk of unauthorized programming changes being made to critical information systems.

Recommendations:

The University should:

- Establish and implement procedures to ensure that it does not charge unallowable costs to federal awards.
- Prepare and submit a disclosure statement (DS-2) to its federal cognizant agency within the required time frame.
- Establish and implement a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

- *Establish and implement procedures to ensure that it does not charge unallowable costs to federal awards.*

Management Response and Corrective Action Plan:

Policies and procedures are in place to help ensure that unallowable costs are not charged to federal awards. Management has confidence that the current process and controls provide assurance to prevent against unallowable costs from being charged to federal awards. Training will be provided to research faculty and staff on campus to further enforce these controls.

Implementation Date: Ongoing - additional training completed by June 2012

Responsible Person: Sarah Panepinto

- *Prepare and submit a disclosure statement (DS-2) to its federal cognizant agency within the required time frame.*

Management Response and Corrective Action Plan:

The DS-2 has been submitted to the cognizant agency.

Implementation Date: Completed

Responsible Person: Kelly Davis

- *Establish and implement a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.*

Management Response and Corrective Action Plan:

UT Austin has provided the following response for the systems they manage (HRMS and DEFINE):

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two-year plan to enact enhanced change management controls. Systems in the Research and Development area will be in compliance by March 1, 2012. As noted in last year's response to this same finding, this is a two-year plan and we are in the second year.

While not fully controlled by an automated process until March, 2012, in practice we do segregate software development and deployment duties. At present, all change requests within the Office of Accounting are logged and monitored through an incident and change management tool. Only select, senior members of the Office of Accounting IT team are able to deploy code to production, and the offices maintain logs that allow for post-deployment review.

Implementation Date: Change Management – March 2012

Responsible Person: Fred Friedrich

Reference No. 12-163

Special Tests and Provisions - R3 – Subrecipient Monitoring

Research and Development Cluster – ARRA
Award year – December 1, 2009 to August 31, 2011
Award number – CFDA 81.117 DE-EE0002680
Type of finding – Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funds

Questioned Cost: $ 0

U.S. Department of Energy

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds. In addition, recipients must require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funds (Title 2, Code of Federal Regulations, Section 176.210).

During fiscal year 2011, the University of Texas at Arlington (University) used Recovery Act funds to pay one entity to conduct work as a subrecipient before it had a signed subrecipient agreement with that entity. On August 19, 2011, the University made a payment to the entity for work the entity performed; however, the subrecipient agreement was not signed until September 27, 2011. The signed subrecipient agreement contained all required award and reporting information. The University had only one subrecipient that received Recovery Act funds during the fiscal year. By not obtaining a signed subrecipient agreement prior to paying the entity, the University risked expending funds on unallowable costs, obligating funds for unintended costs, and limiting recourse for disputes. In addition, this increased the risk that the entity that received the payment might not properly account for and report Recovery Act funds in its accounting records, SEFA, and other financial reports.

During fiscal year 2011, the University did not send the required notification at the time of disbursement of funds to its one Recovery Act subrecipient. The University did not have a process to ensure that it sent that notification at the time of disbursement. The University sent a notification to the subrecipient on September 23, 2011, for a payment it made to the subrecipient on August 19, 2011. Without receiving a notification at the proper time, subrecipients could report inaccurate Recovery Act expenditures. The notification the University sent to the subrecipient contained all required information.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not have sufficient change management controls for two systems. The University uses the Departmental Financial Information Network (DEFINE) and the Human Resources Management System (HRMS), both of which the University of Texas at Austin hosts. Programmers for those systems have access to migrate code into the production environment, which increases the risk of unauthorized programming changes being made to critical information systems.

Recommendations:

The University should:

- Establish and implement procedures to ensure that it makes payments only to subrecipients with which it has signed subrecipient agreements.
- Establish and implement procedures to ensure that it makes required notifications when it disburses Recovery Act funds to subrecipients.
- Establish and implement a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

- *Establish and implement procedures to ensure that it makes payments only to subrecipients with which it has signed subrecipient agreements.*

Management Response and Corrective Action Plan:

Additional procedures have been developed and implemented whereby Grant and Contract Accounting will not authorize payment of invoices without a fully executed subrecipient agreement.

Implementation Date: Additional Procedures were implemented on October 4, 2011

Responsible Persons: Sarah Panepinto and Nora Tsay

- *Establish and implement procedures to ensure that it makes required notifications when it disburses Recovery Act funds to subrecipients.*

Management Response and Corrective Action Plan:

A procedure has been developed whereby purchasing notifies subrecipients of required ARRA information. UT Arlington has fulfilled all subrecipient obligations; there are no longer any active subrecipient agreements under ARRA awards. No further ARRA disbursements will be made.

Implementation Date: Implemented

Responsible Person: Sarah Panepinto

- *Establish and implement a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.*

Management Response and Corrective Action Plan:

UT Austin has provided the following response for the systems they manage (HRMS and DEFINE):

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two-year plan to enact enhanced change management controls. Systems

in the Research and Development area will be in compliance by March 1, 2012. As noted in last year's response to this same finding, this is a two-year plan and we are in the second year.

While not fully controlled by an automated process until March, 2012, in practice we do segregate software development and deployment duties. At present, all change requests within the Office of Accounting are logged and monitored through an incident and change management tool. Only select, senior members of the Office of Accounting IT team are able to deploy code to production, and the offices maintain logs that allow for post-deployment review.

Implementation Date: Change Management – March 2012

Responsible Person: Fred Friedrich

University of Texas at Austin

Reference No. 12-169
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Reporting
Special Tests and Provisions – Awards with ARRA Funding
Special Tests and Provisions – Key Personnel
Special Tests and Provisions – Indirect Cost Limitation
(Prior Audit Issue 11-168)

Research and Development Cluster
Research and Development Cluster - ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

Questioned Cost: $ 0

Federal Agencies that provide R&D Awards

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. Service rates shall be adjusted at least biennially and shall take into consideration over/underapplied costs of the previous period(s) (Title 2, Code of Federal Regulations, Section 220 Appendix A, J.47). Working capital reserves are generally considered excessive when they exceed 60 days of cash expenses for normal operations incurred for the period, exclusive of depreciation, capital costs, and debt principal costs (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section B).

The University of Texas at Austin (University) did not ensure that the costs of services provided by specialized service facilities were designed to recover only the aggregate costs of the services. In addition, the University did not adjust service rates as required.

One (8 percent) of the 13 service centers auditors tested had working capital reserves that exceeded 60 days of cash expenses. During fiscal year 2011, that service center had annual operating expenses of $806,264 (or average monthly expenses of $67,189) and a year-end fund balance of $1,002,304, (approximately 14 months of operating expenses).

It is the University's practice to review fiscal year-end service center fund balances annually to identify service centers with excessive fund balances. In addition, the University reviews its service center rates every two years to ensure that service center rates are appropriate to cover expenses. According to the University, the service center discussed above was scheduled for a review during Fall 2011; however, that review had not been completed at the time of this audit.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, period of availability of federal funds, procurement and suspension and debarment, reporting, special tests and provisions – awards with ARRA funding, special tests and provisions – key personnel, and special tests and provisions – indirect cost limitation, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not have sufficient change management controls for the information systems that its Office of Accounting uses. Specifically, the University has not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer research and development awards.

Recommendations:

The University should:

- Establish policies and procedures to ensure that it adjusts service center rates at least every two years and does not maintain working capital balances that exceed 60 days of cash expenses.
- Establish a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

The University's Handbook of Business Procedures, Service Center Policy Summary, Sections 10.2.5 and 10.2.6 states The Costing & Analysis section of the Office of Accounting will conduct rate reviews on a biennial basis and service centers will have balances reviewed based on the effective balance calculation to determine if surplus balances exist.

The University agrees that the review of the service center was not completed by the end of the SAO visit in December. The review of the questioned service center was scheduled to begin December 2011 and will be completed by August 31, 2012. As noted in last year's response to the same finding, the review is a two-year plan and we are in the second year. As of January 2012, 39% of biennial reviews were completed with an additional 29% service centers in-process. The University continues to work towards 100% completion by August 31, 2012.

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two-year plan to enact enhanced change management controls. Systems in the Research and Development area will be in compliance by March 1, 2012. As noted in last year's response to this same finding, this is a two-year plan and we are in the second year.

While not fully controlled by an automated process until March, 2012, in practice we do segregate software development and deployment duties. At present, all change requests within the Office of Accounting are logged and monitored through an incident and change management tool. Only select, senior members of the Office of Accounting IT team are able to deploy code to production, and the offices maintain logs that allow for post-deployment review.

Implementation Dates: Rate and Service Center Reviews – August 2012
Change Management – March 2012

Responsible Persons: Rate and Service Center Review – Janie Kohl
Change Management – Dana Cook

Reference No. 12-170

Equipment and Real Property Management

Research and Development Cluster
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Equipment and Real Property Management

Questioned Cost: $122,856

U.S. Department of Defense
U.S. Department of Energy
National Science Foundation

A recipient's equipment records for equipment acquired with federal funds and federally owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment.

A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the cause of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and the continued need for the equipment.

A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the federal government, the recipient shall promptly notify the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas at Austin (University) did not maintain adequate property records or ensure that it had adequate safeguards for 6 (10 percent) of 60 equipment items tested. Specifically:

- The University transferred three items off site more than two years ago, but it did not update its property records with the new location of the items.
- The University replaced one item under warranty, but it did not update its property records to reflect the new item's serial number. In addition, the University was unable to locate the new item at the time of the audit.
- The University did not ensure that it had adequate safeguards to prevent the loss of two items. The University was unable to locate those two items during the audit, and the items are now considered to be missing.

The issues above affected the following awards:

CFDA	Agency	Award Number	Award Period	Questioned Cost
12.300	U.S Department of Defense - Navy	N00039-91-C-0082	December 4, 1990 to December 31, 2001	$ 11,072
		N00039-96-E-0077	May 1, 1996 to September 30, 2003	
81.000	U.S. Department of Energy	DE-FG03-93ER14334	March 1, 1993 to June 30, 2004	7,336
47.049	National Science Foundation	CHE-9319640	January 1, 1994 to December 31, 1999	6,164
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	October 22, 2001 to May 7, 2003	5,258
		N00039-96-E-0077	May 1, 1996 to September 30, 2003	
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	January 23, 2002 to December 30, 2010	5,088
47.000	National Science Foundation	EIA-0303609	September 1, 2003 to August 31, 2008	37,938

CFDA	Agency	Award Number	Award Period	Questioned Cost
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	March 20, 2007 to March 19, 2011	50,000
			Total Questioned Costs	**$122,856**

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not have sufficient change management controls for the information systems that its Office of Accounting uses. Specifically, **the University has not segregated duties for personnel who make programming changes and migrate those changes to the production environment.** This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer research and development awards.

Recommendations:

The University should:

- Develop and implement processes to ensure that it maintains complete and accurate property records for equipment.
- Develop and implement controls to ensure that it has adequate safeguards to prevent the loss, damage, or theft of equipment.
- Establish a formal change management process that prevents programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

While the University has existing processes to maintain complete and accurate property records for equipment, we agree that better efforts can be made to ensure that these processes are consistently applied by staff at all levels within the University. In the past several years, we have begun programs to increase education and training at a departmental level, as well as raising awareness of available resources.

The University's requirement of an annual physical inventory meets and exceeds the biennial standard for the federally-funding property. The DE437 Inventory Policies and Procedures class is required once every fiscal year for departmental inventory contacts. In this class, departments learn the step-by-step methods of conducting an annual physical inventory and reconciling this physical inventory of equipment in their possession to the official equipment listing. The University requires that any discrepancies be investigated thoroughly and remediated.

The University has already implemented several resources to improve the dissemination of inventory information, policies and procedures:

- *Frequently asked questions, or FAQ's, regarding inventory policies and procedures are currently being updated and moved to a centralized knowledge web base location called askUS. This is scheduled for completion by February 29, 2012*
- *An on-line training module, "CW536 Inventory Re-certification" has been made available and the content will be updated by August 31, 2012.*
- *We have begun steps to update the content in the Handbook of Business Procedures (HBP), Section 16.5 "United States Government-Owned Equipment" to comply with FAR, and will be updated by August 2012.*

The Annual Physical Inventory Certification form is currently required to submit annual physical inventory results and must be signed by the inventory contact and departmental administrator or department head in order for the certification for a department to be considered complete by Inventory Services. In addition, as part of the Fiscal Year 2012/2013 certification process, we will begin requiring proof that the inventory contact has attended a DE 437 Policies and Procedures class or has taken the CW536 Inventory Re-certification on-line ensuring departments are aware and familiar with Inventory policies and procedures. This new and additional requirement will be implemented by November 2012.

The University has begun a program to enhance the University's existing controls ensuring adequate safeguards to prevent the loss, damage, or theft of equipment. The program produces a regular, automated report notifying Inventory Services when the status of high-profile items are marked missing; in particular, items with Federal ownership and any non-Federal equipment with historical value of $50,000 or greater. The target date of this report notification is February 2012.

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two-year plan to enact enhanced change management controls. Systems in the Research and Development area will be in compliance by March 2012. As noted in last year's response to this same finding, this is a two-year plan and we are in the second year.

While not fully controlled by an automated process until March 2012, in practice we do segregate software development and deployment duties. At present, all change requests within the Office of Accounting are logged and monitored through an incident and change management tool. Only select, senior members of the Office of Accounting IT team are able to deploy code to production, and the offices maintain logs that allow for post-deployment review.

Implementation Dates: Creation of report notification when item marked missing – February 2012
Updating Frequently Asked Questions and store in AskUS data base – February 2012
Updating CW536 Inventory Re-Certification on-line training – August 2012
Updating HBP 16.5 United States Government-owned Equipment – August 2012
Updating FY 12/13 Physical Inventory Certification form – November 2012
Change Management – March 2012

Responsible Persons: Equipment – Janie Kohl, Cecilia Jacobson and Jeff Lyon
Change Management – Dana Cook

University of Texas Health Science Center at San Antonio

Reference No. 12-171
Davis-Bacon Act

Research and Development Cluster- ARRA
Award years – December 17, 2010 to September 8, 2011 and March 18, 2010 to December 31, 2011
Award numbers – CFDA 93.701, 3 UL1 RR025767-03S1and CFDA 81.041, DE-EE0000116
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services
U.S. Department of Energy

When required by the Davis-Bacon Act, the U.S. Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, or by federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (Title 40, United States Code (USC), Sections 3141-3144, 3146, and 3147). All projects funded in whole or in part by the American Recovery and Reinvestment Act of 2009 (Recovery Act) are required to comply with Davis-Bacon Act requirements (Title 2, Code of Federal Regulations (CFR), Section 176, Subpart C).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL's regulations (Title 29, CFR, Sections 5.5-5.6). In addition, contractors or subcontractors are required to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (Title 29, CFR, Sections 3.3-3.4). This reporting is often done using optional form WH-347, which includes the required statement of compliance (Office of Management and Budget No. 1215-0149).

The University of Texas Health Science Center at San Antonio (Health Science Center) did not comply with requirements of the Davis-Bacon Act for construction contracts funded by the Recovery Act. The Health Science Center used Recovery Act funds to partially fund construction of the South Texas Research Facility. The University of Texas System's (System) Office of Facilities Planning and Construction (OFPC) managed that construction project, and the OFPC's procedures required the contractor to maintain certified payrolls and to retain them for OFPC's review upon request. However, OFPC did not require the contractor to provide weekly certified payrolls. The two Recovery Act-funded projects associated with the construction of the South Texas Research Facility totaled $1,207,862.

Recommendation:

The Health Science Center should work with OFPC to develop and implement a process to collect certified payrolls from contractors when required.

Management Response and Corrective Action Plan:

HSC: We acknowledge these findings and will strengthen our controls by adding additional procedures to assist with identification of sources of funds during the contracting phase or when additional funds are added to a project. If applicable, the funding sources will be relayed to OFPC for their use during contract development or contract revision.

Implementation Date: July 31, 2012

Responsible Person: Ray Martin

OFPC: These risks are currently addressed in our Risk Mitigation & Monitoring Plan. We acknowledge these findings and will continue to train our staff to prevent any non-compliance. Follow up training will be provided in our January 20th lessons learned video conference regarding these findings.

Implementation Date: January 20, 2012

Responsible Person: Gary Barnard

Reference No. 12-172
Equipment and Real Property Management
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Reporting
Special Tests and Provisions – Key Personnel
Special Tests and Provisions – Indirect Cost Limitation

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Equipment Management

A recipient's equipment records for equipment acquired with federal funds and federally-owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or in the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment (Title 2, Code of Federal Regulations, Section 215.34(f)).

Questioned Cost: $ 0

National Institutes of Health
National Science Foundation
Army Medical Research Acquisition Activity

The University of Texas Health Science Center at San Antonio's (Health Science Center) *Handbook of Operating Procedures* states that all new equipment that costs $5,000 or more and all items defined by the Texas Comptroller of Public Accounts as "controlled" items that cost $500 to $4,999.99 will be tagged with an inventory number and placed on the official property records.

The Health Science Center did not always maintain accurate property records or adequately safeguard and maintain equipment. Specifically:

- The Health Science Center was initially unable to locate 5 (8 percent) of 60 equipment items tested. The Health Science Center later located these items, but its property records were not sufficient to identify the location of the assets. The total value of the 5 assets that the Health Science Center initially could not locate was $62,275.
- 7 (12 percent) of 60 equipment items tested did not have an asset tag affixed to the item or nearby the item. The total value of the 7 items that were not tagged was $68,717.

The Health Science Center's property control unit does not have documented procedures for conducting an annual inventory of equipment, which could result in a lack of accountability and errors in the location field in the Health Science Center's property records. The Health Science Center asserts that attaching a tag to sensitive assets could affect the performance of the asset. However, for the exceptions noted, the Health Science Center was unable to explain why it did not affix an asset tag near the asset or on the asset's container.

The following awards were affected by the issues noted above:

CFDA	Award Number	Award Year
12.420	W81XWH-07-2-0025	December 17, 2007 to February 14, 2008
47.xxx	MCB-9604124	February 1, 1999 to January 31, 2000
93.xxx	R01 GM24365	March 1, 1980 to March 31, 2004
93.121	R21 DE14928	May 1, 2003 to April 30, 2005
93.273	5 R37 AA12297-01/05	March 1, 2000 to February 28, 2005
93.279	P01 DA016719	June 1, 2003 to April 30, 2009
93.856	R01 AI064537	April 1, 2005 to December 31, 2010

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, period of availability of federal funds, reporting, special tests and provisions - key personnel, and special tests and provisions - indirect cost limitation, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Health Science Center did not maintain sufficient user access controls for its PeopleSoft Financials, and PeopleSoft Human Capital Management (HCM), or Time & Effort applications. Specifically:

- Seven programmers had administrative access to the application servers supporting PeopleSoft HCM. Two of those programmers also had administrative access to the application servers supporting PeopleSoft Financials.
- Five users (three programmers and two internal auditors) had administrative access to the Time & Effort application even though their job duties did not require them to have administrative access.
- Two individuals whose employment had been terminated still had active administrator accounts on the production database servers associated with the PeopleSoft Financials and PeopleSoft HCM.

Additionally, the Health Science Center had not performed periodic reviews of access to the production databases and servers supporting the PeopleSoft Financials, PeopleSoft HCM, or Time & Effort applications during the audit period. According to the Health Science Center, management reviews access to the database and servers only when a major upgrade is made to an application. Inappropriate access to automated systems increases the risk of unauthorized or unintended changes made to the critical information systems that the Health Science Center uses to administer research and development awards. Further, a lack of a periodic review of access increases the risk of inappropriate access to the critical applications and their associated databases and servers.

Recommendations:

The Health Science Center should:

- Ensure that its property records contain accurate information about each asset's location and that it updates those records in a timely manner when it relocates assets.
- Ensure that it appropriately tags property and controlled assets as required by its policy.
- Establish and implement written procedures for conducting an annual inventory of equipment.

- Ensure that access to critical information systems that support Research and Development functions is appropriate based on users' job duties.
- Periodically review user accounts on the production servers and production databases associated with the PeopleSoft Financials, PeopleSoft HCM, and Time & Effort applications.

Management Response and Corrective Action Plan:

A. General Controls (Equipment & Property Mgmt)

We acknowledge the A-133 audit Equipment Management findings. We wish to note that The Health Science Center routinely expends significant effort to account for equipment as required by Federal, State and institutional policy. In our FY 2011 annual inventory, 124 assets out of 22,062 could not be found and were removed from inventory. The net book value of the missing assets was $17,547.81 out of $75,586,240.44 net book value of all equipment, a missing ratio of .023%. Each year, during the conduct of annual inventory, detailed instructions that spell out the responsibilities of staff performing the actual physical review of inventoried equipment are consistently produced and distributed. Missing items noted during the course of the audit were all subsequently found or accounted for. To ensure the quality of physical inventory results, we will draft and implement written internal procedures to describe the annual and ongoing inventory processes, to clarify the responsibilities of all parties involved in the physical inventory effort, and to address actions to be taken to remediate non-compliance. To ensure compliance with federal asset management regulations, we will modify and implement both policy and procedures to address Property Control accounting for sensitive pieces of equipment and intangible assets such as software.

Implementation Date: April 30, 2012

Responsible Person: Ralph Kaster

B. IT General Controls

Management concurs with the finding and all inappropriate access was removed at the time of discovery. IMIS will develop a plan for reviewing privileged or special access to servers and PeopleSoft databases on an annual basis. The Time & Effort application reviewed during audit will no longer be used; the new application will be included in the annual review.

Implementation date: January 31, 2012

Responsible Person: Anna Maloy

Reference No. 12-173

Procurement and Suspension and Debarment

Research and Development Cluster- ARRA
Award years – December 17, 2010 to September 8, 2011 and March 18, 2010 to December 31, 2011
Award numbers – CFDA 93.701, 3 UL1 RR025767-03S1and CFDA 81.041, DE-EE0000116
Type of finding – Significant Deficiency and Non-Compliance

Suspension and Debarment

Questioned Cost: $ 0

U.S Department of Health and Human Services
U.S. Department of Energy

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement

transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.210 through 180.220 and 180.970).

The University of Texas Health Science Center at San Antonio (Health Science Center) did not ensure that one construction contractor was not suspended or debarred. The Health Science Center used American Recovery and Reinvestment Act (Recovery Act) funds to partially fund construction of the South Texas Research Facility. The University of Texas System's (System) Office of Facilities Planning and Construction (OFPC) managed that construction project. However, the OFPC did not maintain evidence that it verified that the contractor for this construction project was not suspended or debarred. Auditors reviewed the EPLS and determined that the contractor was not suspended or debarred.

Not verifying that vendors are not suspended or debarred could result in contracting with vendors that are not eligible to receive federal funds.

Buy American

Section 1605 of the Recovery Act prohibits the use of Recovery Act funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. A provision regarding this requirement must be included in all Recovery Act-funded awards for construction, alteration, maintenance, or repair of a public building or public work (Title 2, CFR, Section 176.140).

The Health Science Center did not ensure that a Buy American provision was included in the contract with the contractor for the South Texas Research Facility. Specifically, one portion of that contract was funded with Recovery Act funds; however, the OFPC did not include the Buy American clause in the contract or in a change order for a portion of the construction.

Not including the required Buy American clause in a contract could result in the vendor being unaware of the requirement to purchase iron, steel, and manufactured goods for the project that are manufactured in the United States.

Recommendations:

The Health Science Center should coordinate with the OFPC to:

- Obtain and document suspension and debarment verification for construction contracts that equal or exceed $25,000.
- Include Buy American clauses in Recovery Act-funded construction contracts.

Management Response and Corrective Action Plan:

HSC: We acknowledge these findings and will strengthen controls to identify sources of funds during the contracting phase or when additional funds are added to a project. If applicable, the funding sources will be relayed to OFPC for their use during contract development or contract revision. HSC will design procedures to ensure that suspension and debarment supporting evidence is retained.

Implementation Date: July 31, 2012

Responsible Person: Ray Martin

OFPC: These risks are currently addressed in our Risk Mitigation & Monitoring Plan. We acknowledge these findings and will continue to train our staff to prevent any non-compliance. Follow up training will be provided in our January 20th lessons learned video conference regarding these findings.

Implementation Date: January 20, 2012

Responsible Person: Gary Barnard

University of Texas Health Science Center at Tyler

Reference No. 12-174

Allowable Costs/Cost Principles

Research and Development Cluster
Award years – July 1, 2011 to June 30, 2012; July 1, 2010 to June 30, 2011; June 1, 2010 to May 31, 2011; July 1, 2009 to June 30, 2011; February 1, 2009 to January 31, 2012; June 1, 2010 to May 31, 2012; June 1, 2011 to May 31, 2012; September 23, 2010 to August 31, 2011; January 1, 2009 to December 31, 2010; September 1, 2005 to August 31, 2011; December 1, 2008 to November 30, 2010; September 1, 2009 to August 31, 2011; February 1, 2010 to January 31, 2011; and February 1, 2011 to January 31, 2012
Award numbers – CFDA 93.837 5R18HL092955-03 and 1R21HL093547-01A2; CFDA 93.701 5R21AG031880-02; CFDA 93.701 3R01HL087017-04S1; CFDA 93.838 5R01HL087017-06; CFDA 93.701 5R21AI082335-02; CFDA 93.855 5RO1AI088201-02; CFDA 93.855 1R56AI085135-01A1; CFDA 93.855 5R01AI054629-05; CFDA 93.838 1P01HL076406-05; CFDA 93.855 5R21AI073612-02; CFDA 93.855 5R21AI079747-02; and CFDA 93.838 2R01HL076206-05
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 4,743

U.S. Department of Health and Human Services

Indirect Costs

Research grants may be subject to laws and/or administrative regulations that limit the allowance for indirect costs under each grant to a stated percentage of the direct costs allowed. The maximum allowable under the limitation should be established by applying the stated percentage to a direct cost base, which shall include all items of expenditure authorized by the sponsoring agency for inclusion as part of the total cost for the direct benefit of the work under the grant (Title 45, Code of Federal Regulations, Subtitle A, Part 74, Appendix E, Section v(C)).

In addition, the University of Texas Health Science Center at Tyler's (Health Science Center) indirect cost rate agreement with the U. S. Department of Health and Human Services requires indirect cost calculations to use a modified total direct cost base consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Modified total direct costs shall exclude equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships and fellowships, and the portion of each subgrant or subcontract in excess of $25,000.

For 4 (7 percent) of 60 transactions tested, the Health Science Center overcharged indirect costs to the federal award. All four transactions related to award 5R18HL092955-03. For that award, the Health Science Center incorrectly included charges for patient care in the modified total direct cost base it used to calculate indirect costs. As of August 31, 2011, this resulted in $2,003 in excess indirect costs associated with that award. This occurred because the Health Science Center manually determines the modified total direct cost base it uses to calculate indirect costs based on a monthly summary of expenditures for each award. The Health Science Center charged patient care charges to the medical services account, but it should have excluded patient care charges from the modified total direct cost base for this award. One individual at the Health Science Center performs indirect costs calculations, and those calculations are not subject to an independent review.

After-the-fact Confirmation of Payroll

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220, Appendix A, (J)(10)).

For 3 (9 percent) of 35 payroll items tested, the Health Science Center did not complete effort certifications. As a result, auditors could not verify whether the employees associated with those payroll items committed effort to the projects from which they were paid. Two of those errors occurred because an employee changed from being paid on an hourly status to being paid on a salaried status, but the Health Science Center did not process a necessary

personnel action form; as a result, that employee was not added to the effort certification process. For the remaining error, the Health Science Center did not obtain an effort certification report before an employee transferred to another university. The total of those three payroll transactions was $2,450.

Approval of Non-payroll Transactions

For three non-payroll transactions tested, the Health Science Center did not obtain the correct approvals for payments to subrecipients. Specifically, the Health Science Center personnel who approved each of the expenditures associated with those transactions were not the appropriate personnel to approve those expenditures based on the Health Science Center's approval procedures. However, auditors did not identify any compliance issues associated with those transactions.

National Institutes of Health Salary Limit

Appropriated funds for the National Institutes of Health (NIH) shall not be used to pay the salary of an individual, through a grant or other extramural mechanism, at a rate in excess of Executive Level 1 of the federal executive pay scale (Public Law 111-117: Consolidated Appropriations Act, 2010, Section 203). The Executive Level 1 annual salary rate was $199,700 effective January 1, 2010 (NOT-OD-10-041, Salary Limitation on Grants, Cooperative Agreements, and Contracts) and extended through fiscal year 2011 (NOT-OD-11-073, Salary Limitation on Grants, Cooperative Agreements, and Contracts).

For 2 (15 percent) of 13 payroll items tested, the Health Science Center used NIH funds to pay one employee more than the salary limit. Specifically, one faculty member was paid $1,727 more than the salary limit for one project and $36 more than the salary limit for another project. For the first project, the Health Science center incorrectly calculated the monthly salary limit, which it uses to set up the payroll payments. For the other project, the faculty member is paid on a bi-weekly basis and Health Science Center management asserted it paid out funds for fiscal year 2012 in fiscal year 2011. This resulted in questioned cost of $2,740 ($2,685 associated with award 2R01HL076206-05 and $55 associated with award 1P01HL076406-05), which included salary, indirect cost, and benefits paid in excess of the NIH salary limit.

Internal Service Charges

Charges made from internal service, central service, pension, or similar activities or funds must follow applicable cost principles. Specifically, to be allowable under federal awards, costs must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally supported activities of the higher education institution, including usage by the institution for internal purposes and (2) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both the institution's direct costs and its allocable share of all facilities and administrative costs. Rates shall be adjusted at least biennially, and they shall take into consideration over/underapplied costs of the previous period(s) (Title 2, Code of Federal Regulations, Section 220, Appendix A, J (47)).

Auditors did not identify excessive rates for internal service charges to federal grants; however, f**or 9 (60 percent) of 15 internal service charge transactions tested, auditors could not determine whether the Health Science Center developed rates for those internal service charges based on actual costs and adjusted them to eliminate profits**. The nine transactions related to charges for vivarium, patient study, and pathology services. For those items, the Health Science Center was not able to provide sufficient documentation on how it established rates for internal service charges or how it periodically monitored those rates. Internal service charges totaled $53,599 in fiscal year 2011.

Recommendations:

The Health Science Center should:

- Exclude patient care charges from the modified total direct cost base it uses to charge indirect costs to federal awards.
- Implement a process to ensure the accuracy and completeness of its indirect costs calculations.
- Ensure that all employees certify after-the-fact effort certification reports in a timely manner.
- Obtain required approvals for all transactions.
- Verify that its monthly salary cap calculations are accurate.
- Improve documentation of the methodology it uses to charge the costs of each internal service to awards, including how it determines and monitors rates for internal service charges.

Management Response and Corrective Action Plan:

Management concurs with these recommendations. Corrective action plans follow:

Patient Care Charges

The Health Science Center processed corrections to remove the excess indirect costs that resulted from inadvertently including patient care charges in the modified total direct cost base in FY 2011. The institution has also modified processes to ensure patient care charges are excluded from the modified total direct cost base used to charge indirect costs to federal awards.

Implementation Date: September 2011 (implemented)

Responsible Person: David Anderson

Indirect Cost Calculations

The Health Science Center will implement a second level review of indirect cost calculations to ensure the accuracy and completeness of the calculations.

Implementation Date: February 29, 2012

Responsible Person: David Anderson

Effort Certifications

On September 1, 2011, the Health Science Center implemented a new time and effort reporting system, Huron Consulting Group's ecrt®. This system is integrated with the institution's financial and payroll systems and has greatly diminished past challenges with time and effort certifications. Ecrt® imports monthly data from payroll records, which are then reconciled by Pre-Award staff. This new system and corresponding process improvements are expected to improve the completion rates of effort certifications in a timely manner.

Implementation Date: April 30, 2012

Responsible Person: Conna Sutton

Transaction Approvals

Procedures for required approvals for all transactions have been in place. The Health Science Center had already identified shortcomings in consistent application of these procedures during the fiscal year. Institutional senior leadership reinforced the importance of these procedures at that time, with the expectation and corresponding accountability at both the departmental and centralized levels that only properly approved transactions be processed.

Implementation Date: August 31, 2011 (implemented)

Responsible Person: Crystal Smith

NIH Salary Cap

The Health Science Center processed corrections to remove the salary, benefits, and associated indirect cost inadvertently paid in excess of the NIH limit. Additionally, the Director of Pre-Award Services will verify that the calculations for salary cap on Personnel Action Forms (PA) are correct before signing off on these forms. Also, the institution's new ecrt® time and effort system will play a key role in preventing payment to any employee above the NIH salary cap. Since the ecrt® system is integrated with the Health Science Center's payroll records and has a robust reporting capability, in early July of each year the Office of Pre-Award Services will run a Certification Payroll Report from ecrt® to determine if a payroll adjustment needs to be made. The Finance Administrator will run a report from the PeopleSoft payroll system doing the same analysis. A reconciliation of the two analyses will then be performed to ensure the Health Science Center does not exceed the salary cap for the fiscal year. Pre-Award Services will then prepare revised PA forms to support adjustments, if any, by each fiscal year ending date.

Implementation Dates: Salary cap corrections and PA form verification — December 31, 2011 (implemented)
Salary cap verification for current fiscal year — August 31, 2012

Responsible Person: Conna Sutton

Internal Service Costing

On a quarterly basis, the Cost Accounting department will review and update the costs of internal service charges for the Research and Grant areas, collaborating with Research Administration when developing costs for research cores. The Cost Accounting department will provide reports and calculation sheets to the Office of Pre-Awards, Research Administration, and institutional areas that provide services that are appropriately charged to sponsored research. Research Administration will ensure internal services charges are communicated to principal investigators as they are updated to facilitate budget management for their grants.

Implementation Date: February 29, 2012

Responsible Person: Heather Hesser

Reference No. 12-175

Cash Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

Federal Agencies that provide R&D Grants

A state must minimize the time between its drawdowns of federal funds and the disbursement of those funds for federal program purposes. The timing and amount of the funds transfer must be as close as is administratively feasible to a state's actual cash outlays (Title 31, Code of Federal Regulations, Section 205.33(a)).

The University of Texas Health Science Center at Tyler (Health Science Center) operates on a reimbursement basis under which its drawdowns of federal funds should be based only on expended amounts. **However, the Health Science Center has not established controls to ensure that it excludes expenses that have been incurred but not yet been paid (such as accounts payables) from its drawdown requests.** The Health Science Center uses a report from its financial system, PeopleSoft, to determine the amount of federal funds that it should draw down. While that report correctly excludes some types of transactions (such as purchase orders and requisitions), it does not exclude expenses that have been incurred but not yet paid. As a result,

the Health Science Center is not able to consistently minimize the time between its drawdowns of federal funds and its disbursement of those funds.

Additionally, the report the Health Science Center uses to determine the amount of federal funds that it should draw down is available only at a summary level and, therefore, cannot be traced to individual transactions. As a result, auditors could not determine whether the Health Science Center requested funds only for items for which it had already paid. However, it is important to note that none of the 11 reimbursement requests that the Health Science Center made as a subrecipient included items for which the Health Science Center had not already paid.

The Health Science Center has established procedures requiring federal drawdowns to be performed on a monthly basis. However, those procedures do not include a review or approval process to ensure that drawdown amounts are correct. Not requiring review or approval of drawdown amounts increases the risk that the Health Science Center could draw down an incorrect amount of federal funds.

Recommendations:

The Health Science Center should:

- Exclude accounts payable from reports it prepares to draw down federal funds.
- Implement a review and approval process for drawdowns of federal funds.

Management Response and Corrective Action Plan:

Management concurs with these recommendations. Corrective action plans follow:

Draw down reports

The Health Science Center will exclude accounts payable from the reports prepared to draw down federal funds.

Implementation Date: April 30, 2012

Responsible Person: David Anderson

Draw down review and approval

The Health Science Center will institute a second level review and approval process for drawdowns of federal funds.

Implementation Date: February 29, 2012

Responsible Person: David Anderson

Reference No. 12-176

Period of Availability of Federal Funds

Research and Development Cluster
Award year – August 1, 2008 to July 31, 2010
Award number - CFDA 93.855 1R56AI073966-01A2
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 3

U.S. Department of Health and Human Services

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar

days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, Code of Federal Regulations, Section 215.71).

The University of Texas Health Science Center at Tyler (Health Science Center) did not always charge to a grant only allowable costs resulting from obligations incurred during the funding period. Specifically, for 2 (12 percent) of 17 transactions tested that were liquidated after the funding period, the Health Science Center obligated funds 51 and 53 days after the end of the funding period. This occurred because the Health Science Center charged those costs to a non-American Recovery and Reinvestment Act (non-ARRA) grant that had expired instead of to the equivalent ARRA grant that had not yet expired. Those two transactions resulted in a net overcharge of $3.

Additionally, the Health Science Center did not adequately review 2 (11 percent) of 19 adjustments to federal grant expenditures tested. For one of those adjustments, the post-award finance administrator did not review one interdepartmental transfer form as required by the Health Science Center's policy. For the other adjustment, the accounting department did not adequately review one payroll adjustment, and some of the transactions included in that adjustment were reclassified to the wrong grant department. Although the lack of review for those two adjustments did not result in non-compliance, not reviewing adjustments as required increases the risk that the Health Science Center could make adjustments to federal grants expenditures for transactions that did not occur within the period of availability.

Recommendations:

The Health Science Center should:

- Strengthen controls to ensure that it does not obligate funds outside of a grant's funding period
- Adequately review all adjustments to federal grant expenditures.

Management Response and Corrective Action Plan:

Management concurs with these recommendations. Corrective action plans follow:

Fund Obligation Period

Expenditures are reviewed to ensure they are in the proper account. Controls will be strengthened by undergoing a second level review to ensure that expenditures posted after the funding period were obligated before the period ended.

Implementation Date: January 31, 2012

Responsible Person: David Anderson

Adjustments Review

Procedures for approval of adjustments have been in place. The Health Science Center will reinforce these procedures with departments to ensure all adjustments are adequately reviewed.

Implementation Date: January 31, 2012

Responsible Person: David Anderson

Reference No. 12-177

Procurement and Suspension and Debarment

Research and Development Cluster
Award years - September 1, 2009 to August 31, 2012, September 26, 2008 to September 25, 2011, September 1, 2005 to August 31, 2011, September 30, 2001 to September 30, 2011, September1, 2010 to August 31, 2011, and August 1, 2010 to July 31, 2013
Award numbers – CFDA 93.887 1C76HF16036-01-00, CFDA 93.000 HHSN27500800035C, , CFDA 93.838 1P01HL076406-05, CFDA 93.262 5U50OH007541-10, CFDA 93.887 C76HF19545-01-00, and CFDA 93.262 1K01OH009674-01A1
Type of finding – Material Weakness and Non-Compliance

Questioned Cost: $ 40,220

National Institutes of Health
National Institute for Occupational Safety and Health
Health Resources and Services Administration

Competition in Procurement

Title 2, Code of Federal Regulations (CFR), Chapter 215, establishes uniform administrative requirements for federal grants and agreements awarded to higher education institutions. Title 2, CFR, Section 215.43, requires that "all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." In addition, Title 2, CFR, Section 215.46, requires that procurement records and files include, at a minimum, (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price.

The University of Texas Health Science Center at Tyler (Health Science Center) has procurement guidelines that require all purchases that equal or exceed $5,000 to either (1) go through a competitive bidding process or (2) when competitive bids or offers are not obtained, document the reason competition was limited by completing a "Sole Source Justification or Proprietary Purchases" document prior to a purchase being agreed upon with a vendor.

For 3 (27 percent) of 11 procurements with limited competition that auditors tested, the Health Science Center did not document an adequate basis for contractor selection or the rationale for the method of procurement. The Health Science Center selected contractors to perform consulting and research services, but it did not document why competition for those procurements was limited using the sole source justification form required by its procurement guidelines. This occurred because the Health Science Center processed the payments to those contractors using purchase orders that were incorrectly identified as subcontractor payments. These three errors resulted in questioned costs of $12,000 associated with award 5U50OH007541-10 and $13,170 associated with award HHSN27500800035C.

The Health Science Center also did not secure bids or document its rationale for the method it used to procure services for 1 (14 percent) of 7 procurements that required bidding. This procurement was for the construction of an animal research facility and resulted in questioned costs of $15,050 associated with award C76HF19545-01-00 during fiscal year 2011. The Health Science Center documents competitive bids with a bid tabulation sheet. However, the Health Science Center's physical plant contractor selected the vendor and did not use the Health Science Center's bidding process.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.210 through 180.220 and 180.970).

The Health Science Center did not document that it verified that vendors and subrecipients were not suspended or debarred from federal procurements. Specifically, the Health Science Center could not provide evidence that it verified the suspension and debarment status for (1) all seven procurement contracts exceeding $25,000 that auditors tested and (2) all seven subrecipient agreements that auditors tested. The Health Science

Center asserted that it verified that the vendors and subrecipients were not suspended or debarred by searching EPLS as required, but it did not begin documenting its search until Summer 2011, after an internal audit of its procurement. However, for the fiscal year 2011 procurement contracts and subrecipient agreements tested, the Health Science Center did not document its EPLS search. Auditors searched the EPLS and verified that the vendors and subrecipients for the procurements and subrecipient awards tested were not suspended or debarred.

Recommendations:

The Health Science Center should:

- Maintain documented justification to support procurements for which competition is limited.
- Secure bids for procurements that require competitive bidding.
- Document its suspension and debarment verification for all vendors and subrecipients.

Management Response and Corrective Action Plan:

Management concurs with these recommendations. The Health Science Center had previously identified these issues during an internal audit of purchasing and contracting that was completed late in fiscal year 2011. At that time institutional senior leadership quickly addressed the internal audit recommendations and had implemented corrective actions prior to this audit by the SAO. However, since the scope of the SAO audit was also fiscal year 2011, the SAO had similar findings. Health Science Center senior leadership continues to monitor implementation of the corrective action plans, all of which have been implemented, as follows:

Limited competition documentation

The Health Science Center has strengthened the level of justification and authorization required to ensure procurements with limited competition have adequate and documented bases for contractor selection and the rationale for the method of procurement. This process improvement was facilitated by issuance of a more rigorous Sole Source/Proprietary Justification Form that is strictly enforced by the Purchasing department, with the support of institutional senior leadership. This updated form requires six signatures to hold departmental, centralized procurement, and administrative personnel accountable to the decision that the transaction at hand meets regulatory requirements for limiting competition and that no other sources are available. Completed forms will be maintained in the Purchasing department as supporting documentation for these procurement transactions, as well as uploaded to the institution's centralized contract management system when associated with contracts.

Implementation Date: September 2011 (implemented)

Responsible Person: Crystal Smith

Competitive bidding

The Health Science Center continues to secure competitive bids for procurement of goods and services that equal or exceed $5000. 00. The institution will continue to improve processes to ensure all documentation is maintained to support the competitive bidding process. A physical plant operator whose contract was not renewed by the institution early in fiscal year 2011 selected the vendor for the procurement that lacked bidding documentation. The Health Science Center no longer outsources this physical plant operation.

Implementation Date: September 2011 (implemented)

Responsible Person: Crystal Smith

Suspension and debarment verification documentation (vendors)

The Purchasing department has implemented a checklist process applicable to all grant-funded procurement transactions expected to equal or exceed $25,000. The completed checklist will be maintained in the Purchasing department as supporting documentation for these procurement transactions, along with an EPLS screen print verifying the entity is not suspended, debarred, or otherwise excluded from federal contracts.

Implementation Date: August 2011 (implemented)

Responsible Person: Crystal Smith

Suspension and debarment verification documentation (subrecipients)

Pre-Award Services will continue to complete a Subrecipient Risk Assessment form for each subaward issued, and is now saving a screen print of the EPLS check made on each. This process is being performed at the beginning of a new subaward and at each subsequent renewal date to ensure the Health Science Center does not enter agreements with subrecipients that are suspended, debarred, or otherwise excluded from federal contracts.

Implementation Date: June 2011 (implemented)

Responsible Person: Conna Sutton

University of Texas Medical Branch at Galveston

Reference No. 12-178
Equipment and Real Property Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency

Questioned Cost: $ 0

Federal Agencies that Provide R&D Awards

When a recipient of a federal award is authorized or required to sell equipment purchased under a federal award, proper sales procedures shall be established that provide for competition to the extent practicable and result in the highest possible return. When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance certain standards. For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original federal awarding agency or its successor. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request and the following procedures shall govern (Title 2, Code of Federal Regulations (CFR), Section 215.34).

In addition, when a recipient of a federal award acquires equipment that is funded from the award, the recipient is required to maintain effective controls over and accountability for all funds, property, and other assets (Title 2, CFR, Section 215.21(3)). The University of Texas Medical Branch at Galveston's (Medical Branch) *Asset Management Handbook* also requires the use of designated equipment disposition forms that document the appropriate approvals needed for the disposition of equipment acquired using federal funds.

The Medical Branch did not maintain the proper equipment disposition forms or have other documentation of the required approvals for 4 (31 percent) of the 13 equipment dispositions tested. Specifically:

- The Medical Branch could not provide documentation showing required approvals for three of those equipment dispositions.
- For the remaining equipment disposition, the Medical Branch used an incorrect form when transferring the equipment to another higher education institution. As a result, the Medical Branch did not have documentation of approval from its Office of Institutional Compliance, which monitors the disposition of federally funded equipment.

The Medical Branch relies on equipment disposition forms to ensure that dispositions are appropriate and comply with federal requirements. Not completing these forms increases the risk that the Medical Branch could dispose of equipment without providing required compensation to the federal awarding agency, or without following guidelines established by the federal awarding agency. However, auditors did not identify any compliance exceptions related to equipment and real property management.

Recommendation:

The Medical Branch should establish and implement a monitoring process to ensure that it tracks and disposes of equipment purchased using federal funds in accordance with its policy.

Management Response and Corrective Action Plan:

Management agrees with the recommendation and has implemented a review process prior to the disposition or transfer of all equipment to determine the source of funds that purchased the equipment. In those cases where federal funds purchased the equipment, a request for review and approval of the disposition or transfer will be sent to the Office of Sponsored Programs Post-Award Administration. Additionally, Asset Management is working with

Information Services to update the e-form used for dispositions and transfers of federally purchased equipment to route electronically to Office of Sponsored Programs Post-Award Administration as part of the work flow. The paper forms will be updated to follow the same routing as the e-forms. As a final step, Asset Management will maintain a federal equipment disposition and transfer log for audit purposes.

Implementation Date: August 2012

Responsible Person: Craig Ott

Reference No. 12-179
Reporting
(Prior Audit Issue 10-131)

Research and Development Cluster
Award years - See below
Award numbers - See below
Type of finding - Significant Deficiency and Non-Compliance

Financial Reporting

Questioned Cost: $ 0

National Institutes of Health
U.S. Department of Defense
U.S. Department of Energy

Recipients are responsible for managing, monitoring, and reporting performance and financial information for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* SF-269 or SF-269A to report the status of funds for non-construction projects (Title 45, Code of Federal Regulations (CFR), Section 74.52). The *Federal Financial Report* SF-425 is used to report expenditures under federal awards, as well as cash status. The National Institutes of Health (NIH) requires recipients to report on financial and personnel resources using the NIH 2706 form. Awarding entities may establish time frames for the submission of required financial reports. Typically, those time frames are between 30 and 90 days after the end of the reporting period.

The University of Texas Medical Branch at Galveston (Medical Branch) did not always submit required financial reports within the required time frames. **Specifically, for 33 (55 percent) of 60 financial reports tested, the Medical Branch submitted the reports between 2 and 323 days late.** The Medical Branch submitted 15 of those 33 financial reports more than 60 days late. The Medical Branch has a process to identify financial reports that are due, but it does not have a process to ensure that it submits those reports in a timely manner. The Medical Branch asserted that delays in grant closeout resulted in the late submission of financial reports.

By not submitting financial reports in a timely manner, the Medical Branch risks suspension or termination of award funding or other enforcement actions from awarding entities.

The following awards were affected by the issues noted above:

CFDA	Award Number	Award Year
12.300	N000140610300	December 19, 2005 to September 29, 2010
12.420	DAMD170110417	August 1, 2001 to August 31, 2011
81.049	DEFG0207ER64347	February 1, 2007 to December 31, 2010
93.xxx	N01AI25489	September 30, 2002 to December 31, 2010
93.110	5R40MC066340403	January 1, 2006 to January 31, 2011
93.113	5T32ES00725419S1	July 1, 2006 to June 30, 2012
93.242	5P20DA024157-04	September 30, 2007 to July 31, 2011

CFDA	Award Number	Award Year
93.242	5U01MH083507-04	June 5, 2008 to April 30, 2013
93.279	5F30DA02031405	May 24, 2006 to November 23, 2010
93.279	5T32DA00728713	July 1, 2007 to June 30, 2012
93.359	1D11HP097570100	July 1, 2008 to June 30, 2011
93.389	5UL1RR029876-03	July 14, 2009 to March 31, 2014
93.398	5T32CA11783405	July 1, 2006 to June 30, 2011
93.399	5P50CA10563105S1	September 1, 2003 to August 31, 2010
93.701	5R1GM081685-05	March 10, 2010 to February 28, 2011
93.701	5U01AI082202-02	August 1, 2009 to July 31, 2012
93.837	5R01HL07116304	April 15, 2004 to February 28, 2011
93.853	5R01NS04432405	April 1, 2003 to March 31, 2011
93.855	2U54A105715606	March 1, 2009 to February 28, 2014
93.855	5R01AI031431-18	June 1, 2005 to May 31, 2011
93.855	5R01AI052428-04	March 1, 2004 to August 31, 2010
93.855	5R21AI06627302	September 1, 2008 to January 31, 2011
93.855	5U01AI07128305	September 30, 2006 to August 31, 2011
93.855	5U54AI057156-07	March 1, 2009 to February 28, 2014
93.859	5T32GM00825620	July 1, 2006 to June 30, 2011
93.865	5K12HD001269-12	September 30, 2009 to August 31, 2014
93.865	5K12HD05202305	August 29, 2005 to July 31, 2010
93.865	5P01HD03983305	September 1, 2003 to June 30, 2010
93.865	5R21NS05841702	February 1, 2008 to January 31, 2011
93.865	5T32HD00753911	May 1, 2006 to April 30, 2011
93.865	5U10HD05309704	April 15, 2006 to March 31, 2011
93.866	5R21AG023951-03	August 2, 2004 to June 30, 2010
93.867	5R01EY01421805	September 15, 2003 to August 31, 2010

Recommendation:

The Medical Branch should establish and implement procedures to ensure that it submits financial reports to awarding entities within the required time frames.

Management Response and Corrective Action Plan:

Management agrees with the auditor's recommendation and will take steps to review and revise the procedures for preparation and review of financial status reports submitted to Federal sponsors. Although the Office of Sponsored Programs Finance and Post-Award Administration is responsible for the preparation and submission of these reports, we determined that 31 of 33 delayed reports were due to delays in receiving information from the recipient departmental staff and/or principle investigators. Additional steps will be taken to ensure that the recipient departmental staff and the principal investigators are being more responsive on their review and follow up actions.

Implementation Date: August 31, 2012

Responsible Person: Glenita Segura

University of Texas Southwestern Medical Center at Dallas

Reference No. 12-186
Equipment and Real Property Management
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Special Tests and Provisions- Key Personnel
Special Tests and Provisions- Indirect Cost Limitation
Special Tests and Provisions- R1- Separate Accountability for ARRA Funding
Special Tests and Provisions- R2- Presentation on the Schedule of Expenditures of Federal Awards and Data Collection Form
(Prior Audit Issue 11-188)

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Equipment and Property Records

A recipient's equipment records for equipment acquired with federal funds and federally-owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number or other identification number, the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not maintain complete and accurate property records for 4 (7 percent) of 60 equipment items tested. Specifically:

- For one item, the Medical Center recorded an incorrect serial number in its property records.
- For three items, the Medical Center did not record the serial numbers in its property records.

The Medical Center tracks serial numbers as it enters information about equipment into its inventory management system; however, it did not always enter the serial numbers into that system. Not maintaining complete and accurate property records could result in non-traceable missing, lost, or stolen equipment.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, period of availability of federal funds, procurement and suspension and debarment, special tests and provisions - key personnel, special tests and provisions - indirect cost limitation, special tests and provisions – R1 – separate accountability for ARRA funding, and special tests and provisions – R2 – presentation on the schedule of expenditures of federal awards and data collection form, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not limit high-profile access to its systems to key personnel or maintain appropriate segregation of duties. Auditors identified excessive access granted to 36 users who had the ability to migrate code to the production environment and modify the database structure for the activity confirmation application. The Medical Center removed the excessive access when auditors brought this matter to its attention. Additionally, six programmers had excessive privileges to create, grant, and delete access, as well as to assign and remove that ability, for the activity confirmation application. The Medical Center removed the excessive privileges when auditors brought this matter to its attention. This increases the risk of unauthorized code modifications and access being granted to information systems.

In addition, 32 users shared passwords to administrator accounts at the network and servers level, and a preventive control did not exist to ensure user accountability. This increases the risk of unauthorized changes being made without the ability to trace those changes to the particular user who made them.

Recommendations:

The Medical Center should

- Establish and implement a process to ensure that it maintains complete and accurate property records.
- Limit system access to key personnel and maintain adequate segregation of duties.
- Ensure that users do not share administrator account passwords or limit such activity.

Management Response and Corrective Action Plan:

Equipment and Property Records

a) We note that the audit resulted in 100% accountability of all equipment tested. While four of those sixty assets had an error or no serial number on the inventory record, each did have a unique identifying number as required by Title 2, Code of Federal Regulations, Section 215.34 (f). There is no indication or history of loss of accountability at this institution due to a lack of a recorded serial number. Our objective is to record a serial number for each asset in our system. We will continue to retrieve and record a serial number for every asset and have made progress toward our goal of 100% accurate serial numbers.

Implementation Status: In-progress

Implementation Date: August 31, 2013

Responsible Person: Paul Belew

General Controls

b) As the report notes, access for 28 of the 36 users identified was removed in September 2011. Access is now restricted to 8 database administrators responsible for migrating database changes. To limit the risk of recurrence of this situation, the following actions have been taken: (1) SQL Server build standards have been updated to remove the default "Builtin\Administrators" group from the sysadmin role and (2) a process will be implemented to annually review the appropriateness of users granted privileged access to the database supporting the Activity Confirmation application. These procedures will be documented and the process implemented by April 2012.

Implementation Status: In-progress

Implementation Date; April 2012

Responsible Persons: Ed Ames and Andrea Marshall

As the report also notes, excessive access for the six programmers was removed in September 2011. To limit the risk of recurrence of this situation, a process will be implemented to annually review the appropriateness of users granted administrator access to the iAIM application. Procedures will be documented and the process implemented by April 2012.

Implementation Status: In-progress

Implementation Date: April 2012

Responsible Persons: Andrea Marshall

c) A project has been in progress since summer 2011 to eliminate the remaining dependencies on the Windows "administrator" account for support of the centralized server infrastructure. This project is on track to complete during the scheduled change window on February 26, 2012. Following that date, the administrator account will no longer be required or used for routine support activities. The password for the account will be known by five managers responsible for the centralized infrastructure support. Support activities that require elevated access will be performed by individuals using accounts that are individually assigned.

Implementation Status: In-progress

Implementation Date: February 2012

Responsible Person: Ed Ames

Reference No. 12-187

Reporting

Research and Development Cluster
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

National Institutes of Health

Report Submission

Recipients are responsible for managing, monitoring, and reporting performance and financial information for each project, program, subaward, function, or activity supported by an award. Recipients use the *Financial Status Report* SF-269 or SF-269A to report the status of funds for non-construction projects (Title 45, Code of Federal Regulations (CFR), Section 74.52). The *Federal Financial Report* SF-425 is used to report expenditures under federal awards, as well as cash status. Awarding entities may establish time frames for the submission of required financial reports. Typically, those time frames are between 30 and 90 days after the end of the reporting period.

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not always submit required financial reports in a timely manner. **Specifically, for 5 (8 percent) of 60 reports tested, the Medical Center submitted the required reports between 4 and 39 days after their due date.** Of those 5 reports, only 1 was filed more than 30 days late. While the Medical Center has a process to identify reports that are due, it does not have a process to ensure that it submits those reports in a timely manner.

This issue affected the following awards:

CFDA	Award Number	Award Year
93.279	5R01DA01780405	May 1, 2008 to January 20, 2011
93.859	5R01GMO7162105	September 1, 2009 to August 31, 2010
93.396	2R56CA10961806	September 1, 2009 to August 31, 2010
93.701	3R01DK06362108S1	June 25, 2010 to June 30, 2011
93.701	3K22CA11871703S1	September 30, 2009 to September 29, 2010

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not limit high-profile access to its systems to key personnel or maintain appropriate segregation of duties. Auditors identified excessive access granted to 36 users who had the ability to migrate code to the production environment and modify the database structure for the activity confirmation application. The Medical Center removed the excessive access when auditors brought this matter to its attention. Additionally, six programmers had excessive privileges to create, grant, and delete access, as well as to assign and remove that ability, for the activity confirmation application. The Medical Center removed the excessive privileges when auditors brought this matter to its attention. This increases the risk of unauthorized code modifications and unauthorized access being granted to information systems.

In addition, 32 users shared passwords to administrator accounts at the network and servers level, and a preventive control did not exist to ensure user accountability. This increases the risk of unauthorized changes being made without the ability to trace those changes to the particular user who made them.

Recommendations:

The Medical Center should:

- Establish and implement procedures for submitting reports to awarding agencies by the due dates.
- Limit system access to key personnel and maintain adequate segregation of duties.
- Ensure that users do not share administrator account passwords or limit such activity.

Management Response and Corrective Action Plan:

Report Submission

a) The Medical Center will identify and document its processes and procedures which affect the timely submission of federal reports to awarding agencies and implement changes, as necessary, to improve compliance with reporting due dates.

Implementation Status: In-progress

Implementation Date: April 2012

Responsible Person: Don Mele

General Controls

b) As the report notes, access for 28 of the 36 users identified was removed in September 2011. Access is now restricted to 8 database administrators responsible for migrating database changes. To limit the risk of recurrence of this situation, the following actions have been taken: (1) SQL Server build standards have been updated to remove the default "Builtin\Administrators" group from the sysadmin role and (2) a process will be implemented to annually review the appropriateness of users granted privileged access to the database supporting the Activity Confirmation application. These procedures will be documented and the process implemented by April2012.

Implementation Status: In-progress

Implementation Date: April 2012

Responsible Persons: Ed Ames and Andrea Marshall

As the report also notes, excessive access for the six programmers was removed in September 2011. To limit the risk of recurrence of this situation, a process will be implemented to annually review the appropriateness of users granted administrator access to the iAIM application. Procedures will be documented and the process implemented by April 2012.

Implementation Status: In-progress

Implementation Date: April 2012

Responsible Person: Andrea Marshall

c) A project has been in progress since summer 2011 to eliminate the remaining dependencies on the Windows "administrator" account for support of the centralized server infrastructure. This project is on track to complete during the scheduled change window on February 26, 2012. Following that date, the administrator account will no longer be required or used for routine support activities. The password for the account will be known by five managers responsible for the centralized infrastructure support. Support activities that require elevated access will be performed by individuals using accounts that are individually assigned.

Implementation Status: In-progress

Implementation Date: February 2012

Responsible Person: Ed Ames

Summary Schedule of Prior Year Audit Findings

Federal regulations (OMB Circular A-133) state, "the auditee is responsible for follow-up and corrective action on all audit findings." As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2010 Schedule of Findings and Questioned Costs.
- Each finding in the 2010 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

The Summary Schedule of Prior Audit Findings (year ended August 31, 2011) has been prepared to address these responsibilities.

Tarleton State University

Reference No. 10-52
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds

Research and Development Cluster
Award years – March 1, 2009 to February 28, 2010
Award numbers - CFDA 10.450 09IE08700026 and CFDA 15.000 08IE08710054
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S Department of Agriculture
U.S. Department of Interior

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct costs activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220(J)(10)).

Office of Management and Budget (OMB) Circular A-133, Section 300(b), requires entities to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. A properly designed and implemented internal control system includes written policies governing A-133 compliance areas. OMB Circular A-110 requires that recipients shall have "written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award" (OMB A-110, Section 21(b)(6)). In addition, Texas A&M University System policy 15.01.01 "Administration of Sponsored Agreements - Research and Other," Section 7.5, states that "each system member shall have written procedures for determining the allowability of costs of federally sponsored agreements and monitor those procedures according to OMB Circular A-110."

Tarleton State University (University), which is a member of the Texas A&M University System, did not complete after-the-fact confirmations of effort certifications for 2 (25 percent) of 8 employees tested. Monthly salary charges to the federal program for those two employees totaled $10,166. Two departments at the University, the Center for Agribusiness Excellence (CAE) and Common Information Systems (CIMS), paid these two employees from federal grants when the employees did not commit 100 percent effort to projects funded by the federal grants (i.e., the employees were not "dedicated personnel"). The University asserts that most employees who contribute effort to

these projects are dedicated personnel, and therefore, it did not complete after-the-fact confirmations. Failure to certify effort can result in required adjustments to accounts funded by federal research and development grants going undetected. During fiscal year 2009, the University charged $764,087 in payroll-related costs to the CAE and CIMS programs.

Three University departments manage federally funded research and development programs. These departments include CAE, CIMS, and the Texas Institute for Applied Environmental Research (TIAER). Each department performs its own grant and contract administration, including time and effort certification. As a result, these departments do not administer grants and contract in a consistent manner. For example, CAE and CIMS do not perform after-the-fact confirmations of effort certifications while TIAER performs these confirmations.

In addition, the University did not have a sufficient policy that addressed federal grant administration related to allowable costs and cost principles. For example, the University's policy did not specify the types of costs that are allowed or unallowed when funded by federal grants, did not address funding periods, and did not distinguish between direct and indirect costs. The policy also did not reference monitoring procedures according to OMB Circulars A-21 and A-110. Failure to have adequate policies increases the risk of non-compliance with federal requirements, which may lead to unallowable and questioned costs.

Corrective Action:

Corrective action was taken.

Reference No. 10-54

Procurement and Suspension and Debarment

Research and Development Cluster
Award year - March 1, 2009 to February 28, 2010
Award number - CFDA 10.450 09IE08700026
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S Department of Agriculture

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

Tarleton State University's (University) process is to check the EPLS for the suspension and debarment status of the vendor for all procurements. However, it does not maintain any evidence of its EPLS verification. In addition, the University uses a procurement contract template containing a clause referencing the excluded parties list. However, for 1 (8 percent) of 12 procurements tested, the procurement contract did not contain a suspension and debarment clause, and the University retained no other evidence that it determined the suspension and debarment status of the vendor. The procurement totaled $1,827,071.75. Auditors verified that the vendor was not suspended or debarred.

In addition, the University retained no evidence that it determined the suspension and debarment status for the vendor associated with one subaward, which was the only subaward initiated during the fiscal year that involved federal research and development funding. The subaward totaled $2,046,225.92. Auditors verified that the entity associated with the subaward was not suspended or debarred.

Corrective Action:

Corrective action was taken.

Texas Engineering Experiment Station

Reference No. 11-125

Period of Availability of Federal Funds

Research and Development Cluster
Award year – September 30, 2008 to September 29, 2009
Award number – CFDA 12.902 H98230-08-C-0365
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Partially Implemented

U.S. Department of Defense

Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Office of Management and Budget (OMB) Circular A-110, Subpart C, Paragraph 28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (OMB Circular A-110, Subpart D, Paragraph 71.b).

The Texas Engineering Experiment Station (Station) did not always liquidate obligations within 90 calendar days after the end of the funding period as required. Specifically, 1 (10 percent) of 10 transactions tested that were charged to the federal award after the end of the period of availability was not liquidated until 154 calendar days after the end of the funding period.

The delay occurred because a Station department did not submit an invoice to the Station's fiscal office for payment in a timely manner. Failure to comply with period of availability requirements could adversely affect future research and development funding decisions.

Recommendation:

The Station should strengthen controls to ensure that it liquidates all obligations incurred during an award period not later than 90 calendar days after the end of the funding period.

Management Response and Corrective Action Plan 2010:

The transaction questioned in the audit was paid on March 3, 2010, prior to the approval of a new procedure for non-payroll costs and transfers to sponsored accounts/projects which prevents the posting of expenditures outside the period of availability without approval.

In addition to the new procedures, on May 12, 2010, an approval step was added to the end of the electronic document routing path in the accounting system to ensure that payments of expenditures requested after the period of availability are not released without documented sponsor approval.

Management Response and Corrective Action Plan 2011:

A new procedure was implemented March 3, 2010 (and a written procedure signed March 9, 2010) for non-payroll costs and transfers to sponsored accounts/projects which prevents the posting of expenditures outside the period of availability without approval.

In addition, the following controls were added to the accounting system to ensure that payments of expenditures requested after the period of availability are not released without documented sponsor approval.

- *On May 12, 2010, an approval step was added to the end of the electronic document routing path for direct expenditures.*

- *On August 10, 2011, an accounting system edit was added for indirect expenditures.*

It should be noted that obtaining sponsor approval is an internal procedure that TEES has adopted, when applicable. It is not a sponsor requirement.

Implementation Date: August 10, 2011

Responsible Person: Andy Hinton, TEES Controller

Reference No. 11-126

Procurement and Suspension and Debarment

Research and Development Cluster
Award years – see below
Award numbers – see below
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Energy
U.S. Department of Defense
National Science Foundation

Title 2, Code of Federal Regulations (CFR), Chapter 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.43, requires that "all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." In addition, Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price.

The Texas Engineering Experiment Station (Station) has established procurement guidelines that require all purchases that exceed $5,000 to either (1) go through a competitive bidding process or (2) when competitive bids or offers are not obtained, have a completed "Sole Source Justification" document prior to a purchase being agreed upon with a vendor. To begin this process, the Station requires all purchases that exceed $5,000 to have a requisition entered into Epik, the Station's financial management system.

The Station did not secure bids or document its rationale for limiting competition for 4 (10 percent) of 40 procurements exceeding $5,000 that auditors tested. The requesting personnel at the Station did not enter the procurements into Epik prior to making the purchases, which resulted in these four procurements bypassing the bidding process without staff documenting the rationale for limiting competition prior to the procurement. The four procurements totaled $40,321.

The issues noted above related to the following awards:

Federal Agency	Award Number (CFDA)	Award Years
U.S. Department of Energy	DE-AC26-07NT42677 (81.089)	September 3, 2008 – March 31, 2011
U.S. Department of Defense	HR0011-09-C-0075 (12.910)	March 31, 2009 – December 31, 2010
U.S. Department of Defense	FA8650-05-D-1912 (12.800)	October 13, 2009 – November 1, 2010
National Science Foundation	CNS-0837717 (47.070)	December 1, 2008 – November 30, 2011

Corrective Action:

Corrective action was taken.

Texas State University – San Marcos

Reference No. 10-75
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Direct Costs

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Defense
U.S. Department of Agriculture
U.S. Department of Commerce
U.S. Department of Interior
U.S. National Science Foundation
U.S. Department of Homeland Security
U.S. Department of Education
U.S. Environmental Protection Agency
U.S. Department of Health and Human Services

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220(C)). When a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.28).

Texas State University's - San Marcos (University) wireless cellular communication services policy (UPPS No. 05.03.11) establishes University policy concerning the use, availability, and acquisition of wireless cellular communication services by University employees, including grant-funded employees. Under that policy, a department head is responsible for initiating the processing of an allowance for using an employee's personal cellular instrument and service for business purposes. The allowance is processed through the University's payroll system and is included as additional compensation on the employee's remuneration statement.

The University also has established policies and procedures for delegating "authority to sign specific contracts, or specific types of contracts, to certain regular employees." That policy states that "a contract signed by an unauthorized person is not binding on the University. A person who signs without proper authorization may be personally liable for any damages incurred by the University or the state."

Auditors determined that 1 (3 percent) of 40 expenditures tested at the University was unallowable because the cost was not allocable to the sponsored agreement to which it was charged. In September 2008, the University paid a stipend of $110 for personal cellular service to a University employee who was assigned as a principal investigator for several federal grants. The University charged this stipend to a sponsored agreement, but the University paid the employee's base salary from non-federal funds. In addition, the University did not report effort for or receive compensation from services performed on any sponsored project for the time period associated with this expenditure.

Although the University has a policy for providing such an allowance for personal cellular service, the policy is unclear regarding when an employee who receives the allowance is or is not working and certifying effort on a federally sponsored project. The University has the responsibility for proper fiscal management, conduct of sponsored projects, and ensuring that all expenditures charged to a project are reasonable, allocable, and allowable. The expenditure discussed above resulted in questioned costs of $110.

In addition, 4 (8 percent) of 51 grant agreements tested were signed by an unauthorized individual. The four grants totaled $2.4 million. For these four grant agreements, the University did not follow its policy on contracting authority. This resulted in contracts being signed that may not be binding, and it could create a personal liability on the part of the individual who signed the grant agreements.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009
10.200	2008-38869-19174	July 15, 2008 to June 14, 2010
66.202	EM-96634101-0	September 6, 2006 to September 30, 2010
11.426	NA06NOS4260118	September 1, 2006 to August 31, 2010
15.921	J2124080047	August 1, 2008 to June 30, 2010

Corrective Action:

Corrective action was taken.

Indirect Costs

Facilities and administration (F&A) costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of $25,000, shall be excluded from modified total direct costs. Other items may be excluded only where necessary to avoid a serious inequity in the distribution of F&A costs. For this purpose, an F&A cost rate should be determined for each of the separate F&A cost pools developed pursuant to federal requirements. The rate in each case should be stated as the percentage that the amount of the particular F&A cost pool is of the modified total direct costs identified with such pool (Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, Section G, Subsection 2).

For 3 (8 percent) of 40 indirect cost rate items tested at the University, the indirect cost the University charged was not in accordance with the University's indirect cost rate agreement with the cognizant federal agency. Specifically:

- For two of these indirect cost rate items, the University initially undercharged the amount of indirect costs allowable per the indirect cost rate agreement. This occurred because project budgets were amended when additional federal funding was received; however, the indirect cost budget was not amended in the system the University uses to calculate indirect costs. As a result, the system ceased to apply the approved indirect cost rate once the original budget was exceeded. The University corrected this in a subsequent period by processing manual journal vouchers to recover the costs.

- For one of these indirect cost rate items, the University exceeded the approved indirect cost rate. During a two-month period, the University did not use its system to calculate the indirect costs associated with the grant and instead processed manual journal vouchers to recover the costs. When automated processing of the indirect cost resumed, the system did not recognize the amounts previously recovered by processing journal vouchers. As a result, the rate was applied to the same direct cost base twice for a two-month period. Indirect costs recovered exceeded the allowable amount by $1,633.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
47.075	SES-0729264	November 1, 2007 to October 31, 2010
15.640	401817M112	February 28, 2007 to February 28, 2012
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009

Corrective Action:

Corrective action was taken.

Time and Effort Certification

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct costs activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220(J)(10)).

The University's time and effort certification policy in effect for fiscal year 2009 required that time and effort certifications be completed within 21 days of receipt.

For 16 (64 percent) of 25 aggregate payroll expenditures tested (consisting of 44 detailed payroll transactions) at the University, employees time and effort certifications for the applicable period were not completed in a timely manner (completion was considered to be timely if it occurred within 21 days of the end of the certification period). The late certifications were more prevalent for positions that were classified as other than professional. Of the 16 late certifications, 12 (75 percent) were for individuals in positions classified as other than professional. Although the University performed effort certifications for all employees tested, not completing the certifications within the time frame established in its policy can result in adjustments to accounts funded by federal research and development grants not being made in a timely manner.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
10.200	2008-38869-19174	July 15, 2008 to June 14, 2010
12.000	NAN0982	October 31, 2008 to August 15, 2009
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009
47.075	SES-0648278	March 1, 2007 to February 28, 2010
97.077	2008-DN-A R1012-02	September 15, 2008 to August 31, 2009
84.002	9410003711037.00	October 1, 2008 to September 30, 2009
84.324	R324B070018	August 1, 2008 to July 31, 2010
84.031	P031C080008	September 1, 2008 to September 30, 2009
66.460	582-8-77060	December 1, 2007 to November 30, 2009
47.076	HRD-0402623	November 1, 2007 to October 31, 2008
15.608	201818G902	January 17, 2008 to August 31, 2009
47.074	DEB-0816905	September 1, 2008 to August 31, 2010
93.086	09FE0128/03	September 30, 2008 to September 29, 2009

Recommendations:

- The University should ensure that employees complete time and effort certifications within the time frames established in its policy.

Management Response and Corrective Action Plan 2009:

Management Concurs. The University is currently configuring an electronic effort reporting system. This system should ensure that effort reports are completed within policy established time frames.

Management Response and Corrective Action Plan 2010:

10-75 to our knowledge was not tested for compliance. As Management stated in an email dated 9-22-2010, not enough data had accumulated for reasonable testing of compliance with management's response to this finding. All

process changes have been put in place and data continues to accumulate. Enough data should exist for testing during the next review.

Management Response and Corrective Action Plan 2011:

Following discussion and recommendation by the Effort Reporting Guidance Committee the University changed the approach it was taking to deliver an appropriate effort reporting solution to the campus. The University's Effort Reporting Guidance committee has made numerous recommendations on the business process workflow and front end appearance of the solution and technical system configuration is in process. Expect completion of project in 2012.

Implementation Date: In Process

Responsible Person: W. Scott Erwin

Reference No. 10-77

Procurement and Suspension and Debarment

Research and Development Cluster
Award years – see below
Award numbers – see below
Type of finding - Significant Deficiency and Non-Compliance

Procurement

Initial Year Written: 2009
Status: Partially Implemented

National Oceanic and Atmospheric Administration
U.S. Environmental Protection Agency
National Science Foundation
U.S. Department of Defense
U.S. Fish and Wildlife
U.S. Department of Justice

Title 2, Code of Federal Regulations (CFR), Section 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. 2 CFR Section 215.46 requires that procurement records and files shall include the following at a minimum: (1) basis for contractor selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price.

Texas State University - San Marcos (University) has established procedures for processing contracted services contracts and documented them in University Policies and Procedures Statement No. 03.04.01. Employees are required to select a contractor on the basis of "best value" or demonstrated competence and qualifications, and on the amount of the fee. For 1 (4 percent) of 26 procurements tested, the University did not retain documentation supporting the basis of its contractor selection. The University recorded the procurement as a professional and contract services contract for $35,500. The University's policy discussed above does not specifically address procurement file retention. Failure to fully record and retain documentation related to procurement transactions results in ineffective monitoring and increases the risk of entering into contractual agreements that do not provide the University with best value.

The University also requires employees to complete a "Justification for Proprietary, Sole Source or Brand Procurement" form when competitive bids or offers are not obtained. However, for 1 (11 percent) of 9 non-competitive procurements tested, the University did not retain the required form that sufficiently explained the rationale to limit competition. As a result, the University did not comply with its internal policy, which is intended to mitigate the risk of non-compliance with federal regulations.

In addition, the University uses its accounting system to initiate and approve requisitions. Auditors reviewed assigned roles within the accounting system and determined that 50 (5 percent) of 990 users could both initiate and approve requisitions during a portion of fiscal year 2009. In May 2009, the University significantly reduced the segregation of duty risk by editing assigned roles so that only nine users could both initiate and approve requisitions. After fiscal year 2009, the University made further edits of the assigned roles and reduced the number of individuals with the dual roles to four users. The University's information technology security policy requires the approval of

the vice president before granting a user both of these roles. According to University staff, some grants do not have administrative support; therefore, one person has been assigned both roles. The lack of segregation of duties between requisitioner and approver increases the risk that federal funds will not be spent as intended.

The issues noted above are related to the following awards:

Federal Agency	Award Numbers (CFDA)	Award Years
National Oceanic and Atmospheric Administration	NA06NOS4260118 (11.426)	September 1, 2006 - August 31, 2010
National Science Foundation	BCS-0820487 (47.075)	September 15, 2008 - August 31, 2010

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.220 and 180.970).

The University did not maintain documentation confirming that suspension and debarment determinations were made for all seven covered procurement transactions tested. Although University policy is to conduct an EPLS search for each vendor name at the time of procurement, the University has not implemented procedures to document the search. As a result, auditors could not determine whether the University complied with federal requirements to verify that the entity is not suspended or debarred or otherwise excluded from federal contracts.

Auditors conducted an EPLS search for all entities for which the University did not have a suspension and debarment certification and determined that the entities were not suspended or debarred.

The issues noted above are related to the following awards:

Federal Agency	Award Numbers (CFDA)	Award Years
National Oceanic and Atmospheric Administration	NA05NOS4261162 (11.426)	September 1, 2005 - August 31, 2009
	NA06NOS4260118 (11.426)	September 1, 2006 - August 31, 2010
U.S. Environmental Protection Agency	EM-96634101-0 (66.202)	September 6, 2006 - September 30, 2010
National Science Foundation	CHE-0821254 (47.079)	August 1, 2008 - July 31, 2011
	BCS-0820487 (47.075)	September 15, 2008 - August 31, 2010
U.S. Department of Defense	W911NF-07-1-0280 (12.431)	May 15, 2007 - May 14, 2009
U.S. Fish and Wildlife	201818G902 (15.608)	January 17, 2008 - August 31, 2009
U.S. Department of Justice	2008-DD-BX-0568 (16.580)	September 1, 2008 - August 31, 2010

Recommendations:

The University should:

- Implement policies and procedures to document the basis for contractor selection.

- Ensure that employees complete and retain the required justification forms for all non-competitive procurements.
- Implement segregation of duties between the roles associated with initiating requisitions and approving requisitions in its accounting system.
- Establish procedures to ensure that staff document suspension and debarment determinations.
- Maintain sufficient documentation to prove that it made suspension and debarment determinations at the time of procurement.

Management Response and Corrective Action Plan 2009:

Recommendations:

- *Implement policies and procedures to document the basis for contractor selection.*
- *Ensure that employees complete and retain the required justification forms for all non-competitive procurements.*
- *Establish procedures to ensure that staff document suspension and debarment determinations.*
- *Maintain sufficient documentation to prove that it made suspension and debarment determinations at the time of procurement.*

University Management is in agreement with the recommendation.

The Purchasing Office has procedures in place, which require completion and retention of supporting purchasing documentation as noted in UPPS No. 03.04.01.

Additional mandatory training will be provided and documented for purchasing Staff in Central Purchasing and the College of Science Purchasing Office. Training will cover the importance of completing, evaluating, and retaining the appropriate documents into the requisition at the time of the purchase.

A procedure is in place to provide the correct documentation and explanation supporting the purchase in question. The Central Purchasing Office will reinforce the importance of including this documentation and make sure that all documentation is attached to the requisition. Additional mandatory training will be provided and documented for purchasing Staff in Central Purchasing and the College of Science Purchasing Office.

The Purchasing Office has a suspension and debarment determination procedure in place to verify and maintain sufficient documentation.

The Purchasing Staff will receive additional mandatory training and be made fully aware of the importance of this procedure. A report has been designed and will be initiated as a check/balance to prevent any oversight in the procurement process.

Recommendation:

- *Implement segregation of duties between the roles associated with initiating requisitions and approving requisitions in its accounting system.*

Management Concurs. The University will consistently enforce its policy such that all dual roles from all University staff are segregated. There are currently no individuals on campus that possess both security roles.

Management Response and Corrective Action Plan 2010:

10-77 As of Monday Dec 13, 2010 there are no Financial Services employees with dual roles.

Management Response and Corrective Action Plan 2011:

1. *We have updated our bid tabulation sheet so that the end user does include more information as to why a vendor is chosen.*
2. *All sole source or proprietary purchase forms are clearly filled out and attached to the requisition electronically. Texas State will modify the required Documentation for the Purchase of Goods or Non Professional or Non-Consultant Services to include mandatory sole source or proprietary forms is attached to any personal service contract over $5k.*
3. *Procedures are in place for suspension and debarment, reported daily. All documents are on file. While procedures were well documented, the process was not followed as intended. Corrections have been made and additional steps have been implemented to ensure compliance.*
4. *The purchasing personnel have completed additional training this year including both basic and advances purchasing classes. (Completed July 1, 2011)*
5. *The College of Science personnel have completed purchasing classes; both basic and advanced. They are required to take the test and pass it by March 31, 2012. (UPPS 05.02.04) (Completed October 2, 2011)*

Implementation Date: *January 2, 2012*

Responsible Person: *Jacque Allbright*

Texas Tech University Health Sciences Center

Reference No. 11-140
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Award years – January 1, 2009 to December 31, 2010, September 1, 2009 to August 31, 2010, September 15, 2009 to September 14, 2010, September 1, 2009 to August 31, 2010, March 1, 2010 to February 28, 2011, September 20, 2009 to August 31, 2010, and July 1, 2008 to November 30, 2009
Award numbers – CFDA 93.395 R01CA82830, CFDA 93.701 2R01RY013610-04A1, CFDA 12.420 W81XWH-07-1-0580, CFDA 93.855 U19AI082623, CFDA 93.281 5R01MH085554-02, CFDA 93.701 1R21AA018160-01, and CFDA 93.855 R01AI079497
Type of finding –Significant Deficiency and Non-Compliance

Salary Limitation

Initial Year Written: 2010
Status: Implemented

National Institutes of Health
U.S. Department of Defense

Appropriated funds for the National Institutes of Health (NIH) shall not be used to pay the salary of an individual, through a grant or other extramural mechanism, at a rate in excess of Executive Level 1 of the federal executive pay scale (Public Law 111-117, Consolidated Appropriations Act, 2010). The Executive Level 1 annual salary rate was $196,700 for the period from January 1, 2009, through December 31, 2009. Effective January 1, 2010, the Executive Level 1 annual salary rate increased to $199,700 (NOT-OD-10-041, Salary Limitation on Grants, Cooperative Agreements, and Contracts).

For 2 (5 percent) of 37 payroll items tested, the Texas Tech Health Sciences Center (Health Sciences Center) used NIH funds to pay employees more than the salary limitation. One faculty member's salary exceeded the limitation by $3,934 for the effort reporting period tested. The other faculty member's salary exceeded the limitation by $8 for the effort reporting period tested. The Health Sciences Center does not have a process to ensure compliance with salary limitations. As a result, the Health Sciences Center may use federal funds to pay a salary that exceeds the federal salary limitation.

After-the-fact Confirmation of Payroll

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220(J)(10)). Additionally, Health Sciences Center policy states that activity reports must be certified within 30 days after the reporting period.

For 3 (8 percent) of 37 payroll items tested, the Health Sciences Center did not have employees' certified activity reports on file. As a result, auditors could not verify whether those employees committed effort to the projects from which they were paid. For two additional payroll items tested, an employee did not certify the activity report within 30 days, as required by Health Sciences Center policy. (These two payroll transactions were for the same employee.) The employee certified the activity report 54 days late (84 days after the reporting period).

Additionally, for one payroll item tested, the Health Sciences Center used grant funds to pay an employee 3.6 percent more in salary than the employee certified in effort for the project. (This payroll item was also one of the salary limitation exceptions noted above.) Health Sciences Center policy states that only effort adjustments that

vary by more than 5 percent require correction. The design of this policy could result in payroll charges that exceed the amount of effort an employee committed to a project.

Cost Transfers and Adjustments

Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations to avoid restrictions imposed by law or by terms of the sponsored agreement or for other reasons of convenience (Title 2, Code of Federal Regulations, Section 220 (C)(4)).

Health Sciences Center policy states that "cost transfers will be denied if there is not sufficient supporting documentation and explanation justifying the benefit to the grant for the cost being moved." The Health Sciences Center's Office of Accounting Services processes cost transfers for non-payroll items, and the Health Sciences Center's Budget Office processes any payroll-related items.

The Health Sciences Center did not provide justification for three payroll cost transfers tested. The transfers were employee benefit items for ($16.67), $37.66, and $3.85. Without justifications for the payroll transfers, auditors were unable to determine whether the cost transfers benefited the appropriate grant.

Additionally, for 1 (10 percent) of 10 transfers tested, the transferred costs were allowable for the project to which the costs were transferred; however, the Health Sciences Center originally charged those costs to an unrelated federal project. The Health Sciences Center did this because, at the time it originally charged these costs, it had not yet established the correct project account. Therefore, the Health Sciences Center made this transfer for reasons of convenience, which is not a valid justification according to federal regulations. The amount transferred totaled $10,561.

Other Compliance Requirements

Although the general controls weaknesses described below also apply to cash management, period of availability of federal funds, and procurement and suspension and debarment, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Health Sciences Center did not maintain adequate segregation of duties between programmers and system administrators for its Personnel and Activity Reporting System (PARs) or for its DirectPay application. Specifically, auditors identified a programmer with system administrator rights to the PARs database and five programmers who had access to the DirectPay application and web server. Allowing employees inappropriate or excessive access to Health Sciences Center systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Corrective Action:

Corrective action was taken.

Reference No. 11-141

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years –September 1, 2009 to August 31, 2010, October 1, 2009 to September 30, 2010, March 1, 2009 to February 28, 2011, April 6, 2010 to April 5, 2012, and August 2, 2010 to July 31, 2011
Award numbers – CFDA 93.701 R01EY013610-04A1 (ARRA), CFDA 17.258 2910XSW000 (ARRA), CFDA 93.703 1H8ACS11424-0100 (ARRA), CFDA 93.718 90RC004001 (ARRA), and CFDA 93.701 3R01AI071223 (ARRA)
Type of finding – Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

Initial Year Written: 2010
Status: Implemented

National Institutes of Health
U.S. Department of Labor

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds; and (3) require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

For all five of its subrecipients of Recovery Act funds in fiscal year 2010, the Texas Tech University Health Sciences Center (Health Sciences Center) did not require its subrecipients to identify these funds as Recovery Act funds in their SEFAs. The Health Sciences Center did not have procedures to ensure that the required Recovery Act information was included in the subaward agreement. The Health Sciences Center used a federal demonstration partnership template for the Recovery Act awards; however, the template did not include the required language.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Health Sciences Center did not maintain adequate segregation of duties between programmers and system administrators for its Personnel and Activity Reporting System (PARs) or for its DirectPay application. Specifically, auditors identified a programmer with system administrator rights to the PARs database and five programmers who had access to the DirectPay application and web server. Allowing employees inappropriate or excessive access to Health Sciences Center systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Corrective Action:

Corrective action was taken.

University of Houston

Reference No. 11-156
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Research and Development Cluster - ARRA
Award years – September 1, 2009 to August 31, 2010, August 1, 2009 to July 31, 2010, August 1, 2009 to July 31, 2010, October 1, 2009 to September 30, 2010, and September 1, 2009 to August 31, 2010
Award numbers – CFDA 47.070 IIS-0712941, CFDA 84.305 R305A050056, CFDA 93.701 1 R01 EY018165-01A1 (ARRA), CFDA 84.359 2472, and CFDA 93.701 3R01EY013175-07S2 (ARRA)
Type of finding – Significant Deficiency and Non-Compliance

Limited Competition

Initial Year Written: 2010
Status: Implemented

National Science Foundation
U.S. Department of Education
National Eye Institute

Title 2, Code of Federal Regulations (CFR), Section 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price.

For 1 (2 percent) of 48 procurements with limited competition that auditors tested, the University of Houston (University) did not document an adequate basis for contractor selection. The University filled out and retained a sole source justification form, but that form stated that the reason for limited competition was that the contract was competitively bid at the principal investigator's (PI) previous institution. The University did not obtain documents from the PI's previous institution supporting the PI's assertion. The University paid $30,000 to the contractor. This award was from the National Science Foundation.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.220 and 180.970).

For 4 (15 percent) of 26 covered transactions that auditors tested, the University did not verify that the vendor was not suspended or debarred from federal procurements. Auditors reviewed the EPLS and determined that none of the four vendors was suspended or debarred from federal procurements. For two of these transactions, the University did not perform the verification because the department that prepared the procurements had not established suspension and debarment procedures for federally funded procurements. For the other two transactions, the University did not perform the verification because it had not established suspension and debarment verification procedures for procurements made with American Recovery and Reinvestment Act (Recovery Act) funds. The lack of suspension and debarment procedures affected all four procurements made with Recovery Act funds during the fiscal year for which the University was required to verify suspension and debarment status.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, and period of availability of federal funds, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. **A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Corrective Action:

Corrective action was taken.

Reference No. 11-157

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years – September 24, 2009 to August 31, 2010 and July 1, 2009 to June 30, 2010
Award numbers – CFDA 93.701 5 RC1 RR028465-02 (ARRA) and CFDA 47.082 MCB-0920463 (ARRA)
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Health and Human Services
National Science Foundation

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office (Title 2, Code of Federal Regulations, Section 176.210).

The University of Houston (University) did not identify Recovery Act information to 2 (100 percent) of 2 subrecipients at the time of the disbursement of funds, and it does not have a procedure to do so. For fiscal year 2010, this affected subaward expenditures totaling $79,299. Failure to notify subrecipients about Recovery Act information at the time of disbursement may result in inaccurate reporting of Recovery Act funds by subrecipients.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system**. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Corrective Action:

Corrective action was taken.

University of Texas at Austin

Reference No. 11-168
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Equipment and Real Property Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Reporting
Special Tests and Provisions – Awards with ARRA Funding
Special Tests and Provisions – Key Personnel
Special Tests and Provisions – Indirect Cost Limitation

Research and Development Cluster
Research and Development Cluster – ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

Initial Year Written: 2010
Status: Partially Implemented

Federal Agencies that Provide R&D Awards

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. Service rates shall be adjusted at least biennially and shall take into consideration over/underapplied costs of the previous period(s) (Title 2, Code of Federal Regulations, Section 220 Appendix A, J.47). Working capital reserves are generally considered excessive when they exceed 60 days of cash expenses for normal operations incurred for the period, exclusive of depreciation, capital costs, and debt principal costs (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section B).

The University of Texas at Austin (University) did not ensure that the costs of services provided by specialized service facilities were designed to recover only the aggregate costs of the services. In addition, the University did not adjust service rates as required.

One (8 percent) of the 13 service centers auditors tested had working capital reserves that exceeded 60 days of cash expenses. During fiscal year 2010, the service center had annual operating expenses of $606,312 (or monthly expenses of $50,526) and a year-end fund balance of $686,275. **After excluding amounts set aside for future capital expenses, the service center had a remaining fund balance of $371,275, which is equivalent to over 7 months of its operating expenses**.

The University reviews fiscal year-end service center fund balances annually to (1) ensure that service center rates are appropriate to cover expenses and (2) identify service centers with excessive fund balances. Following the close of fiscal year 2009, the University determined that the service center discussed above had an excessive fund balance. The University began reviewing that service center's rates, but that review was not completed during this audit. **The University has not adjusted the rates for this service center rates since 2001.**

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, equipment and real property management, period of availability of federal funds, procurement and

suspension and debarment, reporting, special tests and provisions – awards with ARRA funding, special tests and provisions – key personnel, and special tests and provisions – indirect cost limitation, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not have sufficient change management controls for the information systems that its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer research and development awards.

Corrective Action:

This finding was reissued as current year reference number: 12-169

University of Texas at Brownsville

Reference No. 11-169
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Special Tests and Provisions - Awards with ARRA Funding

Research and Development Cluster
Research and Development Cluster – ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency

Initial Year Written: 2010
Status: Partially Implemented

Federal Agencies that Provide R&D Awards

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University of Texas at Brownsville (University) did not have sufficient controls over the change management process for custom changes to its Colleague Enterprise Resource Planning (ERP) system, which it uses to administer research and development grants. **Specifically, information technology and Colleague ERP support team members who make programming changes to the application code also can migrate those changes to the production environment.** In addition to the programming group manager, all six of the programming support team members for Colleague ERP had access to production systems. Allowing this level of access to programming staff increases the risk of unauthorized programming changes being made to Colleague ERP.

Recommendation:

The University should establish a formal change management process that prevents information technology and Colleague ERP programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan 2010:

The Administrative Computing & ERP staff and the Information Security Officer will develop a formal process to:

1. Accept user custom program change requests and requests for new programs using an automated system for change management. This will be a system whereby requests are documented and assigned to programmers.

2. A checklist of required steps/ tasks for software development will be completed and attached to each ticket to ensure that programmers, users and administrators have reviewed, tested and approved the system change.

3. Once a new program or program change has been completed, the open ticket will be assigned to the system team who does not perform programming for review and finalization of the documentation.

4. The systems team will perform the required installation (move) of the mod/ied program to the LIVE environment for production.

5. The system team will close the ticket.

Additionally, all software tools which allow access to programmers to install/ move modified programs or new programs to the LIVE environment will be disabled.

Change Management tickets will be available for review by management or audit personnel at any time.

Implementation Date: May 2011

Responsible Person: Gustavo Barreda

Management Response and Corrective Action Plan 2011

1. *Corrective Action – The Spiceworks system has been implemented to support a change management system. All programming staff have been informed of new process and new change requests are documented on Spiceworks. Due to staffing constraints, the two Systems Analyst team leaders will be assuming the responsibilities of installing the custom packages to the LIVE environment by July 31, 2011.*

2. *Pending Actions – Removal of access for "moving" programs to the LIVE environment will be completed by July 31, 2011.*

Implementation Date: July 31, 2011

Responsible Person: Abel De La Garza

University of Texas Health Science Center at Houston

Reference No. 11-172

Allowable Costs/Cost Principles

Research and Development Cluster
Award years – August 1, 2009 to July 31, 2010, July 1, 2009 to June 30, 2010, March 1, 2010 to February 28, 2011, and September 23, 2009 to August 31, 2010
Award numbers – CFDA 93.701 1 R21AI079624 and 1 R01HL093029, CFDA 93.837 5 R01 HL088128, and CFDA 93.855 1 R56AI077679
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Partially Implemented

National Institutes of Health

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, Section 220(J)(10)).

The University of Texas Health Science Center at Houston (Health Science Center) did not complete in a timely manner after-the-fact time and effort certifications for 4 (11 percent) of 36 payroll transactions tested. According to Health Science Center policy, completion is considered timely if it occurs within 30 days after the reports are made available to department personnel for certification. Department personnel completed the 4 time and effort certifications between 58 and 70 days after the Health Science Center made the reports available for certification. The Health Science Center has a follow-up process through which it generates reports of late effort certifications and, based on the number of days a certification is late, it sends a notification to the department academic and administrative leadership or to the respective dean for the department. However, that follow-up process is not always effective. A prolonged elapsed time between activity and confirmation of the activity can potentially (1) decrease the accuracy of reporting and (2) increase the time between payroll distribution and any required adjustments to that distribution.

Recommendation:

The Health Science Center should consistently adhere to its follow-up policy for delinquent effort certifications to ensure that it completes time and effort certifications within the time frame established in its policy.

Management Response and Corrective Action Plan 2010:

Current follow-up policies for delinquent effort certification were implemented in June of 2010. We have reviewed our internal process and will consistently adhere to the follow-up policy for delinquent effort certification.

Management Response and Corrective Action Plan 2011:

As of July 1, 2011, the Health Science Center implemented the eCERT effort reporting system, automating the internal follow up process. The initial reporting period of the new system demonstrated substantial improvement of the timely completion of effort reports. In January of 2012, the system will be upgraded, providing accessibility from any internet connection and further diminishing the likelihood of untimely certification.

Implementation Date: February 2012

Responsible Person: Michael Tramonte, Senior Vice President, Finance and Business Services

Reference No. 11-173

Cash Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest-bearing accounts. For those entities for which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas Health Science Center at Houston (Health Science Center) received scheduled payments on grants funded by the U.S. Department of Defense. According to its records, the Health Science Center had 17 projects active during fiscal year 2010 with terms that included scheduled payments. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds. **The Health Science Center did not calculate or remit to the federal government interest on funds it received in advance of expenditures for these awards.**

Corrective Action:

Corrective was action taken.

Reference No. 11-174

Equipment and Real Property Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

National Institutes of Health

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must require that equipment records be maintained accurately and include ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value when a recipient compensates the federal awarding agency for its share (Title 2, Code of Federal Regulations, Section 215.34). Additionally, a state recipient must dispose of equipment acquired under a federal grant in accordance with state laws and procedures. The Office of the Texas Comptroller of Public Accounts' State Property Accounting (SPA) Process User's Guide specifies that inventory must be recognized as missing, but the institution must make efforts to search for the property until found or resolved for two years (SPA Process User's Guide, Chapter 6 and Appendix C).

The University of Texas Health Science Center Houston (Health Science Center) sells surplus equipment at auction, often in lots of similar equipment. In fiscal year 2010, the Health Science Center vacated a building and moved research functions from that building to another building. During this process, the Health Science Center sold

equipment that would no longer be needed at auction. The Health Science Center tracks equipment sold at auction by the equipment's asset tag.

The Health Science Center did not maintain accurate disposition data for 4 (10 percent) of 40 equipment dispositions tested. Specifically:

- The Health Science Center could not locate two pieces of equipment in its surplus warehouse during semi-annual inventories of the surplus warehouse. Upon notification by the auditors, the Health Science Center located and corrected the disposition records for one of these items.

- The Health Science Center could not locate two pieces of equipment following the move from one building to another.

The Health Science Center assumed that the asset tags for the three items it could not locate had fallen off and that it had sold these items in a lot at auction. The Health Science Center retired the assets as if they had been sold at auction, instead of following state property accounting requirements to track the items as missing for two years while making efforts to search for the items. As a result, the items could not be traced to specific auction lots. Without records of the items being included in auction lots, the final disposition records may not be correct, and the items could have been stolen or misplaced.

Corrective Action:

Corrective was action taken.

Reference No. 11-175
Procurement and Suspension and Debarment
(Prior Audit Issue 09-103)

Research and Development Cluster
Award year – September 1, 2009 to August 31, 2010
Award number – CFDA 93.596 1001914017110001
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Health and Human Services

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

To ensure compliance with federal suspension and debarment requirements, staff at the University of Texas Health Science Center at Houston (Health Science Center) complete a buyer debarment checklist, which includes a certification that the buyer checked EPLS prior finalizing a procurement contract. **The Health Science Center did not provide documentation that it verified the vendor was not suspended or debarred at the time of procurement for 1 (5 percent) of 20 procurements tested.** The Health Science Center could not provide evidence that the buyer completed the buyer debarment checklist for this purchase. Failure to complete the checklist and check EPLS increases the risk that the Health Science Center could award a contract to a suspended or debarred vendor. However, auditors subsequently checked EPLS and verified that it did not list the vendor in this case as excluded.

Recommendations:

The Health Science Center should:

- Ensure that staff complete the buyer debarment checklist for all procurement transactions that exceed $25,000.
- Retain sufficient documentation to demonstrate that it checked EPLS, collected a certification from the entity, or added a clause or condition to the covered transaction with the entity regarding suspension, debarment, and exclusion.

Management Response and Corrective Action Plan 2010:

Management will re-enforce/re-train buyers through email notification and monthly buyers meetings of the requirements to check EPLS, complete the debarment checklist, and maintain the checklist in the master purchase order file for all procurement transactions that exceed $25,000.

Management Response and Corrective Action Plan 2011:

Management will re-enforce/re-train buyers through email notification and monthly buyers meeting of the requirements to check ELPS, complete the debarment checklist, and maintain the checklist in the master purchase order file for all procurement transactions that exceed $25,000.

Implementation Date: December 2011

Responsible Person: Michael Tramonte – Senior Vice President, Finance & Business Services

University of Texas M. D. Anderson Cancer Center

Reference No. 11-176
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Program Income
Special Tests and Provisions – Key Personnel

Research and Development Cluster
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

Initial Year Written: 2010
Status: Partially Implemented

U.S. Department of Health and Human Services
U.S. Department of Defense

Research grants may be subject to laws and/or administrative regulations that limit the allowance for indirect costs under each grant to a stated percentage of the direct costs allowed. The maximum allowable under the limitation should be established by applying the stated percentage to a direct cost base, which shall include all items of expenditure authorized by the sponsoring agency for inclusion as part of the total cost for the direct benefit of the work under the grant (Title 45, Code of Federal Regulations, Part 74, Appendix E, Section v(C)). In addition, the University of Texas M.D. Anderson Cancer Center's (Cancer Center) indirect cost rate agreement with the U. S. Department of Health and Human Services requires that indirect cost calculations use a modified total direct cost base consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract).

For 1 (3 percent) of 39 awards tested, the Cancer Center overcharged indirect costs to the federal award. For this award, the Cancer Center incorrectly included subgrant expenditures exceeding $25,000 in the direct cost base it used to calculate indirect cost charges. In August 2010, the Cancer Center adjusted its indirect charges on that award so that, at the end of fiscal year 2010, the Cancer Center had not exceeded its indirect cost allowance for this award.

Additionally, **based on review of the population of subgrants, auditors identified 9 other federal awards for which the Cancer Center overcharged a total of $255,528 in indirect costs.** In each of these instances, the overcharge was due to the Cancer Center including subgrant expenditures exceeding $25,000 in the modified total direct cost base it used to calculate indirect cost charges. To help ensure that it does not include subgrant expenditures exceeding $25,000 in the direct cost base it uses to calculate indirect costs, the Cancer Center establishes separate account codes for the first $25,000 in subgrant expenditures and any subgrant expenditures exceeding $25,000. The Cancer Center then manually allocates expenditures to these two separate account codes when it receives invoices for subgrant expenditures. However, for the 9 grants for which it overcharged $255,528 in indirect costs, the Cancer Center did not correctly distribute subgrant expenditures to the two different accounts.

CFDA	Award Number	Award Year
93.397	5 P50 CA127001 02	September 1, 2008 to August 31, 2013
93.000	1 29XS143 01	June 26, 2009 to May 14, 2012
93.701	2 R01 CA069425 08 A2	February 25, 1999 to August 31, 2011
93.701	5 RC2 MD004783 02	September 27, 2009 to July 31, 2011
93.395	5 R21 CA137633 02	June 15, 2009 to May 31, 2011

93.397	5 P50 CA083639 10	September 30, 1999 to August 31, 2010
93.000	N01-CN-35159 07	September 30, 2003 to September 29, 2012
93.396	5 R01 CA069480 13	June 21, 1999 to July 31, 2011
12.420	W81XWH-07-1-0306 04	June 1, 2007 to June 30, 2011
93.393	5 R01 CA119215 05	September 25, 2006 to July 31, 2011

Recommendations:

The Cancer Center should ensure that it does not included subgrant expenditures in excess of $25,000 in the direct cost base it uses to charge indirect costs to federal awards.

Management Response and Corrective Action Plan 2010:

Allowable Costs/Cost Principles

The Cancer Center has reviewed and corrected the subgrant expenditures to exclude these from the direct cost base. In addition, the Cancer Center will proactively review requisitions and subcontract invoices to ensure that subgrant expenditures in excess of $25,000 are not included in the direct cost base.

Management Response and Corrective Action Plan 2011:

The Cancer Center continues to proactively review and correct subgrant expenditures to exclude these from the direct cost base. In addition, the Cancer Center will proactively review requisitions and subcontract invoices to ensure that subgrant expenditures in excess of $25,000 are not included in the direct cost base.

Implementation Date: December 2011

Responsible Person: Claudia Delgado

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, period of availability of federal funds, program income, and special tests and provisions – key personnel, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Cancer Center did not have sufficient change management controls for the Geac general accounting system that its administrative and financial services staff use. Specifically, the Cancer Center has not segregated duties for personnel who make Geac programming changes and migrate those changes to the production environment. Two programmers have access to migrate code to the production environment. This increases the risk of unintended programming changes being made to Geac, which the Cancer Center uses to administer research and development.

Additionally, the Cancer Center did not have sufficient user access controls for the Effort Certification (ECRT) system servers that its administrative and financial services staff use. Specifically, six inappropriate user accounts with system administrator level access were found on the ECRT servers in the production environment. Furthermore, the Cancer Center does not perform periodic reviews of user accounts with high profile access on the production ECRT servers. A lack of a periodic review increases the risk that users can access the ECRT servers without Cancer Center management knowledge. In this case, the level of access for the users who should not have had access was system administrator access, which is a high level of access.

Corrective Action:

Corrective action was taken.

Reference No. 11-177
Reporting

Research and Development Cluster
Award year – March 1, 2010 to March 31, 2013
Award number – CFDA 12.420 W81XWH-10-1-0074
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Defense

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients should use the standardized financial reporting forms or such other forms as may be authorized by the Office of Management and Budget (OMB) (Title 2 Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Although the CFR has not been updated to include the new form, recipients use the Federal Financial Report (FFR), Form SF-425, as a standardized format to report the financial status of their federal awards and, when applicable, cash status (OMB Circular A-133 Compliance Supplement, June 2010, Part 3, Section L, 3-L-1 to 3-L-8).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) prepares and inputs information for the FFR using a manual process. **For 1 (3 percent) of 33 reports reviewed, the Cancer Center incorrectly input data into key FFR fields related to the indirect cost base and the indirect costs charged.** These errors resulted in the Cancer Center understating total disbursements by $388 for the quarter ending June 30, 2010 ($252 in base expenses for indirect charges and $136 for indirect charges). The Cancer Center's review and approval of the report did not detect and correct the error.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Cancer Center did not have sufficient change management controls for the Geac general accounting system that its administrative and financial services staff use. Specifically, the Cancer Center has not segregated duties for personnel who make Geac programming changes and migrate those changes to the production environment. Two programmers have access to migrate code to the production environment. This increases the risk of unintended programming changes being made to Geac, which the Cancer Center uses to administer research and development.

Additionally, the Cancer Center did not have sufficient user access controls for the Effort Certification (ECRT) system servers that its administrative and financial services staff use. Specifically, six inappropriate user accounts with system administrator level access were found on the ECRT servers in the production environment. Furthermore, the Cancer Center does not perform periodic reviews of user accounts with high profile access on the production ECRT servers. A lack of a periodic review increases the risk that users can access the ECRT servers without Cancer Center management knowledge. In this case, the level of access for the users who should not have had access was system administrator access, which is a high level of access.

Corrective Action:

Corrective action was taken.

Reference No. 11-178

Special Tests and Provisions - Indirect Cost Limitation

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency

Initial Year Written: 2010
Status: Partially Implemented

U.S. Department of Defense

According to the Department of Defense Appropriations Act (Act) of 2010, none of the funds made available under the Act may be used to pay negotiated indirect cost rates on a contract, grant, or cooperative agreement (or similar arrangement) entered into by the Department of Defense and an entity in excess of 35 percent of the total cost of the contract, grant, or agreement (or similar arrangement). The Act states that this limitation shall apply only to contracts, grants, or cooperative agreements entered into after the date of enactment of the Act using funds made available in the Act for basic research (Department of Defense Appropriations Act, 2010, Title VIII General Provisions, Section 8101).

This indirect cost limitation requirement was first included in the Department of Defense Appropriations Act of 2008, which applied to new awards made on or after November 14, 2007, using fiscal year 2008, fiscal year 2009, or fiscal year 2010 Department of Defense basic research funds, as well as funding modifications using the same funds (Office of Management and Budget Circular A-133, Part 5, Research and Development Cluster, Section N).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) does not have a process to identify and monitor Department of Defense grants that include an indirect cost limitation. Without this process, the Cancer Center could exceed the indirect cost rate limitation.

Recommendation:

The Cancer Center should develop and implement a process to identify and monitor grants with indirect cost limitations.

Management Response and Corrective Action Plan 2010:

The Cancer Center has developed and implemented a process to identify and monitor grants with the indirect cost limitation.

Management Response and Corrective Action Plan 2011:

The Cancer Center has corrected the set up of the grant to reflect the correct indirect cost limitation. In addition, the Cancer Center will develop a process to identify and monitor grants with the indirect cost limitation.

Implementation Date: February 2012

Responsible Person: Claudia Delgado

Reference No. 11-179

Special Tests and Provisions – R3 - Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years – See below
Award numbers – See below
Type of finding – Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

Initial Year Written: 2010
Status: Implemented

U.S. Department of Health and Human Services

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office (Title 2, Code of Federal Regulations, Section 176.210).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not identify Recovery Act information to 16 (100 percent) of 16 subrecipients at the time of disbursement of funds, and it does not have a procedure to do so. For fiscal year 2010, this affected subaward expenditures totaling $2,093,720. Failure to notify subrecipients about Recovery Act information at the time of disbursement may result in inaccurate reporting of Recovery Act funds by subrecipients.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
93.701	5 R01 CA 124782 04 (ARRA)	July 1, 2009 to June 30, 2011
93.701	3 R01 CA093729 08 S1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	3 R01 CA121197 03 S1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	1 R21 CA129671 01 A1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	5 R01 CA131327 02 (ARRA)	August 12, 2009 to July 31, 2011
93.701	1 RC2 ES018789 01 (ARRA)	September 24, 2009 to July 31, 2011
93.701	1 RC2 DE020958 01 (ARRA)	September 25, 2009 to August 31, 2011
93.701	5 RC2 MD004783 02 (ARRA)	September 27, 2009 to July 31, 2011
93.701	1 RC2 AR059010 01(ARRA)	September 29, 2009 to August 31, 2011
93.701	1 RC2 CA148263 01 (ARRA)	September 30, 2009 to August 31, 2011

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 10-131

Reporting

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Health and Human Services
National Institutes of Health
National Aeronautics and Space Administration

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271 (Title 45, Code of Federal Regulations, Section 74.52).

FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

The U.S. Department of Health and Human Services' Grants Policy Statement Part II states that the FSR generally is required annually, unless otherwise indicated in the notice of award. If an FSR is required annually and the award is operating under an authorized no-cost extension, an FSR must be submitted for each 12 months of activity, regardless of the overall length of the extended budget period. When required annually, the FSR must be submitted for each budget period no later than 90 days after the close of the budget period or applicable 12-month period.

The National Aeronautics and Space Administration (NASA) requires that grant and cooperative agreement recipients submit all final reports listed in the "Required Publications and Reports" section of the grant award document be submitted to NASA within 90 days after the expiration date of the grant or cooperative agreement.

The Office of Management and Budget (OMB) granted an extension to institutions affected by Hurricanes Katrina and Rita. The extension stated "Agencies may allow the grantee to delay submission of any pending financial, performance and other reports required by the terms of the award for the closeout of expired projects, providing that proper notice about the reporting delay is given by the grantee to the agency. This delay in submitting closeout reports may not exceed one year after the award expires." The National Institutes of Health (NIH) sent an email to the University of Texas Medical Branch at Galveston (Medical Branch) in September 2008 stating that the OMB granted the same extension to institutions affected by Hurricane Ike.

The Medical Branch did not submit required financial reports in a timely manner. Specifically, the Medical Branch submitted 25 (63 percent) of 40 reports tested between 1 and 375 days after their due date. Of those 25 reports, 16 were filed more than 90 days late. The Medical Branch asserts that for 21 (53 percent) of the 25 late reports, the Medical Branch was operating under an extension from the OMB for institutions affected by Hurricane Ike to file the reports up to a year late. However, the Medical Branch did not provide evidence that it notified the awarding agencies of the reporting delay as the OMB extension required.

This issue affected the following awards:

CFDA	Award Number	Award Years
93.865	5K12HD05592902	September 25, 2007 to August 31, 2008
93.856	5 R21 AI063235-02	March 1, 2006 to January 31, 2009
93.855	1 R21 AI066999-01A2	September 30, 2006 to August 31, 2008

93.113	5T32ES00725417	September 1, 2007 to June 30, 2008
93.855	5 K08 AI055792-04	February 1, 2007 to July 31, 2008
93.279	5T32DA00728712	July 1, 2007 to June 30, 2008
93.855	1R01AI07330101A1	April 1, 2008, January 5, 2009
93.859	5T32GM008256-17	July 1, 2007 to June 30, 2008
93.859	2R01GM062882-06A2	May 15, 2008 to September 30, 2008
93.853	5 P01 NS011255-31	April 1, 2007 to March 31, 2008
93.838	5 U10 HL074206-05	April 15, 2007 to July 31, 2008
93.866	5 T32 AG000270-09	May 1, 2007 to April 30, 2008
43.001	NNA05CV50G	October 1, 2005 to September 30, 2008
93.273	5 R01 AA013171-05	August 1, 2006 to July 31, 2008
93.821	5 R01 GM064855-04	August 1, 2005 to July 31, 2008
93.837	5R01HL05563011	January 1, 2007 to December 31, 2008
93.847	5T35DK07851902	July 1, 2007 to June 30, 2008
93.398	5T32CA11783403	July 1, 2007 to June 30, 2008
93.856	3 U01 AI032782-13S3	January 1, 2004 to March 31, 2008
93.855	5T32AI06539604	August 1, 2007 to July 31, 2008
93.848	5 T32 DK007639-15	July 1, 2007 to June 30, 2008
93.865	5T32HD00753907	May 1, 2007 to April 30, 2008
93.855	5U19AI04003513	July 1, 2007 to June 30, 2008
93.242	5U01MH064850-06	January 1, 2008 to December 31, 2008
93.856	5T32AI060549-05	July 1, 2007 to June 30, 2008

Corrective Action:

This finding was reissued as current year reference number: 12-179

University of Texas Southwestern Medical Center at Dallas

Reference No. 11-187
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions – Awards with ARRA Funding
Special Tests and Provisions – Indirect Cost Limitation

Research and Development Cluster
Research and Development Cluster – ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Cash Management

Initial Year Written: 2010
Status: Implemented

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest-bearing accounts. For those entities to which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to the U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(L)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) received scheduled payments on grants funded by the U.S. Department of Defense. According to its records, the Medical Center had 32 active projects during fiscal year 2010 with terms that included scheduled payments. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds. **The Medical Center did not calculate or remit to the federal government interest on funds it received in advance of expenditures for these awards.**

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, special tests and provisions – awards with ARRA funding, and special tests and provisions – indirect cost limitation, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.

- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Corrective Action:

Corrective action was taken.

Reference No. 11-188

Equipment and Real Property Management

Research and Development Cluster
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Equipment Inventory Records

Initial Year Written: 2010
Status: Partially Implemented

U.S. Department of Health and Human Services

A recipient's equipment records for equipment acquired with federal funds and federally-owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number or other identification number, the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not maintain complete equipment property records for 21 (53 percent) of 40 equipment items tested. Specifically:

- For three equipment items, the Medical Center recorded an incorrect serial number for the equipment in its property records.

- For 18 equipment items, the Medical Center did not record the serial number for the equipment in its property records.

The Medical Center has a process to track serial numbers as it enters information about equipment into its inventory management system; however, it did not always enter the serial numbers into its inventory management system. Not maintaining complete and accurate inventory records could result in non-traceable missing, lost, or stolen equipment.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.

- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Corrective Action:

This finding was reissued as current year reference number: 12-186

Reference No. 11-189
Reporting

Research and Development Cluster - ARRA
Award year – September 15, 2009 to September 14, 2010
Award number – CFDA 93.701 3R01NS049517-05S1 (ARRA)
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

U.S. Department of Health and Human Services

Section 1512 of the American Recovery and Reinvestment Act (Recovery Act) requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of Recovery Act funds received; (2) the amount of Recovery Act funds received that were expended; (3) a detailed list of all projects or activities for which Recovery Act funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (Recovery Act, Section 1512(c)).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not always accurately report the amount of Recovery Act funds expended in the quarterly reports required by Section 1512 of the Recovery Act. For 1 (3 percent) of 35 Section 1512 reports tested for the quarter ended June 30, 2010, the Medical Center inaccurately reported the total amount expended for the award. The Medical Center reported the total amount expended was $221,268; however, the Medical Center's accounting records show the total amount expended was $242,201, a difference of $20,933.

The Medical Center does not have a formal, documented process, such as a review and approval of Section 1512 reports, to ensure that the Recovery Act information it reports is accurate and complete. Quarterly reports are submitted to the federal government to comply with Recovery Act Section 1512 reporting requirements and provide transparency regarding Recovery Act funds spent. When the Medical Center submits an inaccurate report, this decreases the reliability of the information intended for the federal government and the general public.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.

- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Corrective Action:

Corrective action was taken.

Reference No. 11-190

Subrecipient Monitoring
Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster
Research and Development Cluster - ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2010
Status: Implemented

Federal Agencies that Provide R&D Awards

Pre-award Monitoring

The University of Texas Southwestern Medical Center at Dallas (Medical Center) is required by Office and Management and Budget (OMB) Circular A-133, Section .400, to monitor subrecipients to ensure compliance with federal rules and regulations, as well as the provisions of contracts or grant agreements.

The Medical Center did not properly identify all required federal award information and compliance requirements to its subrecipients at the time of award. Specifically, for 45 (100 percent) of 45 subrecipient awards tested, the Medical Center's subrecipient award agreement did not contain the Catalog of Federal Domestic Assistance (CFDA) title. The subrecipient agreement and contract template the Medical Center used did not include language that states the CFDA title. Therefore, this issue applies to all of the Medical Center's subrecipient awards. Additionally, 2 (4 percent) of 45 subrecipient award agreements tested did not contain the CFDA number.

Subrecipients of Recovery Act Funding

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, the CFDA number, and the amount of Recovery Act funds; and (3) require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Recipients of Recovery Act awards are also required to ensure that the subrecipients that receive Recovery Act funds maintain active registrations in the Central Contractor Registration (CCR) and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number (Title 2, Code of Federal Regulations, Section 176.50, and Recovery Act, Section 1512(h). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the U.S. Government Accountability Office.

For 7 (100 percent) of 7 Recovery Act subrecipient awards tested, the Medical Center:

- **Did not, at the time of award, notify the subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs.**

- **Did not, at the time of award, ensure that subrecipients were registered with the CCR.**

- **Did not separately identify to each subrecipient, and document at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.**

The Medical Center's Recovery Act subrecipient agreement and contract template did not have language that notified subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs. Additionally, the Medical Center did not have a process to ensure that subrecipients were registered with the CCR at the time of award of Recovery Act funds or to notify its subrecipients of the required Recovery Act information at time of disbursement of Recovery Act funds. As a result, these issues affect all of the Medical Center's Recovery Act subrecipient awards.

Corrective Action:

Corrective action was taken.

Reference No. 11-191

Special Tests and Provisions – Key Personnel

Research and Development Cluster
Award year – September 1, 2009 to August 31, 2010
Award number – CFDA 93.397 5 P50 CA091846 09
Type of finding – Significant Deficiency

Key Personnel Effort

Initial Year Written: 2010
Status: Implemented

National Institutes of Health

For federal awards issued by the National Institutes of Health (NIH), the grantee is required to notify the grant management office in writing if the principal investigator or key personnel specifically named in the Notice of Grant Award (NOGA) will withdraw from the project entirely, be absent from the project during any continuous period of 3 months or more, or reduce time devoted to the project by 25 percent or more from the level that was approved at the time of award (for example, a proposed change from 40 percent effort to 30 percent effort or less). NIH must approve any alternate arrangement proposed by the grantee, including any replacement of the principal investigator or key personnel named in the NOGA. The requirements to obtain NIH prior approval for a change in status pertain only to the principal investigator and those key personnel NIH names in the NOGA, regardless of whether the grantee designates others as key personnel for its own purposes (NIH Grants Policy Statement (December 2003) Part II: Terms and Conditions of NIH Grant Awards Subpart A: General). Federal grantors other than NIH have similar requirements.

Based on completed effort certifications tested at the University of Texas Southwestern Medical Center at Dallas (Medical Center), 1 (7 percent) of 15 key personnel did not correctly report the minimum required effort on an NIH project. For this project, the NOGA required the principal investigator to commit a minimum of 5 percent of his effort to the project for fiscal year 2010, but the principal investigator certified no effort on the project for that time period. However, the progress report for the project and other preliminary effort information indicated that the principal investigator was involved with the grant during the time period as required. **This indicates that the Medical Center should strengthen its monitoring of key personnel effort commitment and certification.**

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.

- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Corrective Action:

Corrective action was taken.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Research and Development Cluster of federal programs, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster of federal programs.

Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster of federal programs from September 1, 2010, through August 31, 2011. The audit work included control and compliance tests at one agency and six higher education institutions across the State.

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was material to the Research and Development Cluster of federal programs at each agency and higher education institution audited. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data provided by each agency and higher education institution audited and determined that the data provided was sufficiently reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster of federal programs. Auditors evaluated data related to research and development expenditures and revenues at each agency and higher education institution audited to ensure that the data (1) was reasonable when compared to data for the prior year, (2) was consistent with data available from third-party sources, and (3) represented all federal research and development expenditures within the fiscal year being audited.

Information collected and reviewed included the following:

- Agency and higher education institution expenditure, procurement, equipment, reporting, cash draw, required matching, program income, and subrecipient data.
- Federal notices of award and award proposals.
- Transactional support related to expenditures, procurement, and revenues.
- Agency and higher education institution reports and data used to support reports, revenues, and other compliance areas.
- Information system support for agency and higher education institution assertions related to general controls over information systems that support the control structure related to federal compliance.

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing using samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of controls to assess the sufficiency of each agency and higher education institution control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

- The Code of Federal Regulations.
- Office of Management and Budget Circulars A-21, A-102, A-110, and A-133.
- The American Recovery and Reinvestment Act.
- Federal notices of award and award proposals.
- Agency and higher education institution policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.

Project Information

Audit fieldwork was conducted from September 2011 through January 2012. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following members of the State Auditor's staff performed the audit:

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- James Timberlake, CIA (Audit Manager)

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Boards, Chancellors, and Presidents of the Following Agency and Higher Education Institutions

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The University of Texas at Brownsville
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The University of Texas Medical Branch at Galveston
The University of Texas Southwestern Medical Center at Dallas